

Research Update:

# Sagicor Upgraded To 'BB+' From 'BB' On Consistently Stronger Capital Adequacy, Outlook Stable

November 25, 2020

## Overview

- We're upgrading Sagicor group (Sagicor) because we think its capitalization will remain strong in the next few years following the capital injection from its new shareholders after the group completed the business combination transaction with Alignvest in December 2019.
- Sagicor's total adjusted capital has improved, and we expect it to remain above our 'A' benchmark in 2020-2022 despite the hit to earnings this year and the planned acquisition of the CLICO and BAT portfolios. As a result, we're revising the group credit profile (GCP) upward to 'bbb' from 'bbb-'.
- Consequently, we raised by one notch to 'BB+' from 'BB' the ratings on non-operating holding company (NOHC) SFC and its financing vehicle SF15. We also raised our issue-level rating on SF15's \$320 seven-year senior unsecured notes due 2022 to 'BB+' from 'BB'.
- The outlook is stable, which reflects our expectation that the group will maintain its credit fundamentals in the next two years, despite the challenging conditions.

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## Rating Action

On Nov. 25, 2020, S&P Global Ratings raised its issuer credit ratings on Bermuda-based NOHC, Sagicor Financial Co. Ltd. (SFC) and on its Cayman Islands-based financing vehicle, Sagicor Finance (2015) Ltd. (SF15) to 'BB+' from 'BB'. The issuer credit ratings have a stable outlook. We also raised our issue-level rating on SF15's \$320 million seven-year senior unsecured notes due 2022 to 'BB+' from 'BB'.

## Rationale

Sagicor has concluded the business combination transaction agreement with Alignvest Acquisition II Corp., a special purpose acquisition company (SPAC) that raised capital in the

Canadian markets. As a result, Sagicor's shareholders base is now partially composed of several international institutional investors. The resulting entity is now named Sagicor Financial Company Ltd. (SFC), and its shares are listed on The Toronto Stock Exchange. Following the close of the transaction, the Sagicor group obtained over \$450 million of net cash and is now strongly capitalized. Sagicor is using part of the capital injection to fund growth initiatives in the U.S. and the Caribbean. For example, the group has agreed to acquire the insurance portfolios of both Colonial Life Insurance Co. (Trinidad) Ltd. (CLICO) and British American Insurance Co. (Trinidad) Ltd. (BAT); the transaction is still pending regulatory approvals. Separately, Sagicor and the Bank of Nova Scotia (BNS) mutually agreed not to proceed with the acquisition of Scotiabank's life insurance operations in Jamaica and Trinidad and Tobago (T&T).

As of the end of 2019, Sagicor's total adjusted capital (TAC) rose significantly and now meets our 'AAA' benchmark following the capital injection of \$450 million. However, we estimate capital adequacy will decrease moderately in the next few years, primarily due the incorporation of the assets and liabilities of CLICO and BAT insurance portfolios, if the acquisitions conclude. Capital adequacy will also decrease somewhat due to lower earnings resulting from the effects of the pandemic and because of the rapid business growth the group expects in 2021-2022. Thus, we believe the group will consistently retain TAC levels above our 'A' rating category benchmark in 2020-2022. Consequently, we're revising the GCP upwards to 'bbb' from 'bbb-'.

We rate SFC and SF15 two notches below Sagicor's GCP because of the companies' structural subordination to the policyholder obligations of the group's operating companies. The issue-level rating on SF15's \$320 million senior unsecured notes due in 2022 is the same as that on its issuing entity SF15 because of the notes' seniority. SFC is the ultimate parent at the top of the Sagicor group's structure and SF15's purpose is to provide financing to the group.

### **Sagicor's Group Credit Profile Key Fundamentals:**

The GCP on SFC reflects its solid brand recognition in the Caribbean, as well as its sound business and geographic diversification. Moreover, we believe the group's focus on efficient growth and conservative underwriting policies will continue supporting stable earnings, with a return on equity (ROE) above 8% in the next few years once the effects of the pandemic have dissipated. The GCP also captures our Insurance Industry Country Risk Assessment (IICRA), which assesses the economic, regulatory, and operating conditions for the industries and countries where the group bases its insurance operations. We expect Sagicor to maintain premiums in the U.S. representing about 40% in the next two years, which, combined with relatively stable share of businesses in Jamaica and Barbados, preserves our overall country and industry weightings per our IICRA assessment.

The COVID-19 pandemic is straining the global economy and industries. For example, it's resulting in temporary drawbacks for insurers, such as pushing down their premiums growth, increasing claims in the health and life insurance segments, and pressuring investment gains amid volatile capital markets in the first half of this year, all of which will ultimately take a toll on profits. Although the pandemic is a global event, we believe Sagicor's excellent capitalization and liquidity, along with its business and geographic diversification, will enable it to withstand shocks better than smaller and less diversified insurers.

Our assessment of Sagicor's creditworthiness also incorporates its strong capitalization per our risk-based capital, good investment and insurance portfolio diversification, and its ability to manage debt. We expect sound and growing earnings, along with stable debt, to continue improving our financial leverage ratio to about 25% and fixed-charge coverage to about 8x in the next few years. Our assessment also reflects the group's track record of active capital deployment

in new businesses, including recent rapid growth in the U.S. and external acquisitions of insurance assets in Jamaica and T&T, which could pressure the strong capitalization level beyond our current expectations.

Our ratings also incorporate our expectations of continued high liquidity levels and satisfactory corporate governance standards. Our base-case scenario assumes that Sagicor's business strategy and risk appetite will remain largely unchanged after the recent changes in the stakeholder base, focusing on markets and products where the group has a track record.

## **Outlook**

The stable outlook reflects our expectation that Sagicor will maintain a TAC above our 'A' category benchmark in the next two years, as well as stable debt. We also expect SFC and SF2015 to continue benefiting from dividends from multiple subsidiaries based in different regulatory jurisdictions (primarily from non-U.S. countries) in order to meet their financial needs.

## **Downside scenario**

We could lower the ratings in the next 24 months if the group's TAC consistently falls below our 'A' category benchmark. This could happen if, for example, Sagicor experiences unexpected internal or external growth, leading to higher risk-based capital requirements, lower loss-absorbing capital, or a combination of both. We would also lower the ratings if the group's financial leverage ratio increases above 40% or if its relative exposure to high-risk sovereigns grows beyond our expectation.

## **Upside scenario**

An upgrade of Sagicor is unlikely in the following 24 months given its still high concentration in non-investment grade assets. An upgrade would simultaneously require the credit quality of its financial assets to further improve and the group's prospective TAC to regularly remain at levels comparable with our 'AA' category benchmark; while all other credit fundamentals remain unchanged.

## **Ratings Score Snapshot**

Business Risk Profile: Satisfactory

- Competitive position: Strong
- IICRA: Moderately high risk

Financial Risk Profile: Satisfactory

- Capital and earnings: Satisfactory
- Risk exposure: Moderately low
- Funding structure: Neutral

Anchor: bbb

Modifiers

- Governance: Neutral
- Liquidity: Exceptional
- Comparable ratings analysis: 0

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Related Research

- Sagicor Upgraded To 'BB' From 'BB-' On Recent Group Developments, Outlook Positive, Nov. 15, 2019

## Ratings List

### Upgraded; CreditWatch/Outlook Action

	To	From
<b>Sagicor Financial Company Ltd.</b>		
<b>Sagicor Finance (2015) Limited</b>		
Issuer Credit Rating	BB+/Stable/--	BB/Positive/--
<b>Sagicor Finance (2015) Limited</b>		
Senior Unsecured	BB+	BB

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