

Research Update:

Danmarks Skibskredit 'BBB+/A-2' Ratings Affirmed On Announced Sale To Magellan Holding; Outlook Stable

June 10, 2024

Overview

- On June 10, Danish shipping lender Danmarks Skibskredit A/S announced that regulators have approved its sale to Magellan Holding, via U.K.-based Magellan Capital Holding Ltd., which intends to issue senior secured notes to partly fund the transaction; the Danish Maritime Fund will retain its current 10% stake in Danmarks Skibskredit.
- We acknowledge the buyer's intention to preserve Danmarks Skibskredit's dedicated strategy, which is based on cautious client selection and prudent underwriting and, in our view, provides mitigation against material concentrations in a highly cyclical industry.
- We also note the buyer's commitment to maintain Danmarks Skibskredit's robust capitalization with a common equity tier 1 (CET1) ratio in excess of 19% after discretionary shareholder capital distributions.
- We therefore affirmed our 'BBB+/A-2' ratings on Danmarks Skibskredit and assigned 'BBB-/A-3' preliminary issuer credit ratings to Magellan Holding and Magellan Capital Holding; we also assigned a preliminary 'BBB-' rating to the senior secured notes to be issued.
- The stable outlooks reflect our anticipation that Danmarks Skibskredit will continue to operate with robust capitalization and contained credit losses while retaining strong liquidity buffers against adverse developments.

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Rating Action

On June 10, 2024, S&P Global Ratings affirmed its 'BBB+/A-2' long- and short-term issuer credit ratings on Danish shipping lender, Danmarks Skibskredit A/S. The outlook is stable.

We also assigned preliminary 'BBB-/A-3' long- and short-term issuer credit ratings to holding company Magellan Holding Ltd., and intermediate holding company Magellan Capital Holding Ltd. We subsequently assigned our preliminary 'BBB-' issue rating to the senior secured notes.

We expect to finalize the preliminary ratings once Magellan completes the acquisition of

Danmarks Skibskredit and launches its bond issue. We currently expect this to occur over the next few weeks. If the acquisition does not go through or the terms depart materially from the plan presented to us, we reserve the right to withdraw or revise our preliminary ratings.

Rationale

The rating actions follow Danmarks Skibskredit's announcement that regulators have approved its sale to Magellan, financed through a mix of shareholder equity and debt. The buyer will acquire Danmarks Skibskredit through a multistep process from its three current major shareholders, private equity fund Axcel and pension funds PFA and PKA. The Danish Maritime Fund will retain its 10% stake.

In our view, the proposed transaction will have limited implications for Danmarks Skibskredit's operating model. We believe Danmarks Skibskredit will continue to operate as an independent, regulated entity and we also acknowledge the buyer's intention to maintain the lender's prudent underwriting and dedicated focus on reputable top-tier ship owners. In our opinion, this is a necessary offset to Danmarks Skibskredit's significant concentration risks in a highly cyclical and volatile industry.

We expect Danmarks Skibskredit's capital buffers will reduce in tandem with extraordinary dividend payments over 2024-2025. However, we forecast the risk-adjusted capital (RAC) ratio will remain at about 20% after 24.3% in 2023, still well above the 15% threshold for our very strong assessment. Supporting our projections is the buyer's explicit commitment to keep the institution's CET1 ratio higher than 19% after discretionary shareholder capital distributions.

Under the outlined transaction terms, we expect the buyer will finance the acquisition through an equity injection of about €147 million (including €17 million for the minority stake held by Axcel to be acquired within two years after deal closing), €325 million of senior secured notes (final size to be determined), and special dividends of €200 million upstreamed from Danmarks Skibskredit over 2024-2025.

Therefore, in line with our group rating methodology, we now consider Danmarks Skibskredit to be part of a wider group and we have determined a group credit profile (GCP) of 'bbb+' based on the new group structure. A GCP is not a rating, but a component of a rating that represents our opinion of a group's creditworthiness as if it were a single legal entity. Given that Danmarks Skibskredit is the only operating entity and contributes close to 100% of the consolidated group's assets, we view it as a core group entity and equalize the issuer credit rating on Danmarks Skibskredit with the GCP.

We expect Danmarks Skibskredit will maintain strong operating performance over the next two years, underpinned by overall favorable shipping market conditions and high, albeit gradually decreasing, interest rates that will continue to provide net interest income tailwinds. We project net profits will be in the range of Danish krone (DKK) 450 million-DKK470 million (€60 million-€63 million) in 2024 and approximately DKK330 million- DKK 380 million in 2025-2026. This incorporates our expectation of rebounding loan growth as shipping markets normalize and that credit losses will remain minimal in 2024 but successively increase to approximately 15 basis points-30 basis points per year over the remainder of our forecast horizon.

Our preliminary ratings on Magellan Holding and Magellan Capital Holding are based on the companies' roles as nonoperating holding companies (NOHCs), holder of the majority stake in Danmarks Skibskredit, and the issuer of the senior secured notes. Under our group rating methodology for NOHCs, our issuer credit rating on an NOHC is typically one notch below the GCP if the latter is 'bbb-' or higher. This is to reflect the NOHC's structural subordination, that is, its

reliance on discretionary distributions from a prudentially regulated operating company to meet its own obligations. However, we consider leverage in the proposed transaction to be significant. This is reflected in double leverage at the NOHC estimated at 225% at closing, albeit reducing to about 180% through 2025 and 2026, which is far higher than the typical 120% maximum we see at most other rated banking groups' NOHCs. Therefore, we deduct a further notch for additional default risk.

That said, we see the NOHC's projected liquidity, including its one-year debt-service reserve buffer with mandatory replenishment, as adequate to service its obligations, although insufficient to fully mitigate refinancing risks associated with the senior secured notes.

Outlook

Danmarks Skibskredit A/S

The stable outlook reflects our view that Danmarks Skibskredit's high-quality underwriting policy will allow it to continue navigating cycles in the various shipping segments, with robust capitalization underpinned by predictable earnings, and contained credit realized losses in the next 24 months.

We expect Danmarks Skibskredit will also maintain its prudent client selection, underwriting, and investment strategy. Moreover, we anticipate continued prefunding of lending and strong liquidity buffers against adverse scenarios under its new majority owner.

Downside scenario: We could downgrade Danmarks Skibskredit if its risk profile were to deteriorate. This could follow increased risk appetite with lowered standards for new underwriting, a looser provisioning policy, or materially increased risk-taking in investments and liquidity management, for example. A negative rating action could also follow a weakening of the group's consolidated capitalization below the threshold for our very strong assessment or a significant deterioration of global shipping market conditions, to which Danmarks Skibskredit would not be immune.

Upside scenario: We consider a positive rating action on Danmarks Skibskredit to be remote at this stage. This is because we see limited upside to our assessment of its business model, given its business concentration.

Magellan Holding Ltd. and Magellan Capital Holding Ltd.

The stable outlooks on the preliminary issuer credit ratings mirror that on the operating entity Danmarks Skibskredit. Therefore, our ratings and outlooks on the two NOHCs would typically move in tandem with those on Danmarks Skibskredit.

We could also lower our ratings on the NOHCs if we see their default risk relative to that of the operating company as materially higher than assumed under our base case. This could stem from far weaker upstreaming of capital than expected. Our assessment would be guided by two metric thresholds: if at year-end 2026 double leverage remains higher than 200%, or interest coverage (including the reserve) is not higher than 2.5x.

Ratings Score Snapshot

Danmarks Skibskredit A/S

Issuer credit rating	BBB+/Stable/A-2
Stand-alone credit profile	bbb+
Anchor	bbb+
Business position	Constrained (-2)
Capital and earnings	Very strong (+2)
Risk position	Adequate (0)
Funding and liquidity	Adequate (0)
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit Conditions Europe Q2 2024: Credit Heals, Defense Shields, March 27, 2024
- EMEA Financial Institutions Monitor 1Q2024: Banks Adapt To The Increased Economic Turbulence, Feb. 19, 2024

- Nordic Banks In 2024: Ploughing On Through Tough Terrain, Feb. 7, 2024
- Banking Industry Country Risk Assessment: Denmark, Dec. 7, 2023
- Danmarks Skibskredit, June 1, 2023
- Global Shipping 2023: Containerships And Tankers Part Ways, Feb. 7, 2023

Ratings List

***** Magellan Capital Holding Ltd. *****

New Rating

Magellan Capital Holding Ltd.

Senior Secured	BBB- (prelim)
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New Rating

Magellan Capital Holding Ltd.

Issuer Credit Rating	BBB-(prelim)/Stable/A-3 (prelim)
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Ratings Affirmed

Danmarks Skibskredit A/S

Issuer Credit Rating	BBB+/Stable/A-2
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***** Magellan Holding Ltd. *****

New Rating

Magellan Holding Ltd.

Issuer Credit Rating	BBB-(prelim)/Stable/A-3 (prelim)
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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