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Research Update:

Ratings On GFNZ Group Ltd. Lowered To 'CC' On Funding And Liquidity Uncertainties; Off CreditWatch; Outlook Negative

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Overview

- On Aug. 6, 2012, New Zealand finance company GFNZ Group Ltd. (GFNZ) received less-than-anticipated new funding to shore up its liquidity position.
- Although the finance company was able to repay half of its September scheduled debt repayment obligations on Aug. 17, 2012, a delay or reduction in the level of additional new external funding secured by GFNZ through August and September 2012 could result in GFNZ defaulting on its debt obligations.
- GFNZ has experienced ongoing delays around a range of funding initiatives (which have been discounted in our liquidity analysis for the finance company), and prevailing uncertainty around receipt of new external funding bring into question GFNZ's ability to meet it liquidity needs through the period to and beyond March 2013.
- Over the next few months, GFNZ will remain highly reliant on securing new external funding to meet its liability obligations and receipt of some new funding is not expected to support upward rating prospects.

Rating Action

On Aug. 22, 2012, Standard & Poor's Rating Services lowered its long-term issuer credit ratings on New Zealand finance company GFNZ Group Ltd. (GFNZ) and GFNZ's wholly owned insurance subsidiary, Quest Insurance Group Ltd., to 'CC' from 'CCC-'. The ratings are removed from CreditWatch with negative implications, where they were placed on June 4, 2012. The outlook is negative.

Rationale

The rating action reflects Standard & Poor's heightened concerns that GFNZ could default in the next few months if it is unsuccessful in securing new additional external funding, with the possibility of default extending through the period to March 2013 if the receipt of proceeds from planned funding initiatives is delayed.

GFNZ has experienced some delays in securing planned new external funding which has reduced our confidence that sufficient funds will be received before the end of September 2012 for it to meet scheduled debt obligation payments. GFNZ's ability to meet its scheduled repayment on its bank facility and debentures is heavily reliant on successful progression of the finance company's efforts to secure funds from other funding initiatives, which might include a planned rights issue and the potential issuance of new debentures.

GFNZ announced on Aug. 14, 2012, that the four-for-one rights issue--generating NZ$1.4 million in net proceeds--has been deferred to at least October 2012, which adds to heightened sensitivity around the finance company's ability to meet its debt obligations in September 2012. Also deferred are other funding initiatives that include the issuance of new debentures (GFNZ had no debenture prospectus on issue since June 2011). Although debenture funding secured in early months was only anticipated to be small amounts, delay on this more sustainable source of funding further hampers our view of GFNZ's ability to accumulate sufficient funds to meet future repayment needs and support its business prospects.

In our opinion, GFNZ management's key focus for the next 12 months will continue to be on funding and liquidity--the factor that underpins our rating rationale for GFNZ. Notwithstanding this, we recognize there has been an improvement in year-on-year performance despite a reported after-tax loss of NZ$1.6 million at March 2012 (compared to a loss of NZ$8.6 million for fiscal 2011). This improvement is driven by good performance on the new ledger business and improving credit loss stability on the old ledger business. At June 30, 2012, new ledger loans represent 44% of the total loan portfolio, with 89% of loan receivables making timely payments. A challenge for GFNZ is its ability to grow the new ledger business under constraining funding and liquidity factors--again highlighting the importance of this to the rating. As previously noted, should GFNZ be able to secure significant and stable funding sources over the longer term, there is scope to better recognize any improvements in overall loan quality.

Liquidity

GFNZ's liquidity position is weak and delicately balanced, with a high risk that the finance company could have insufficient funds to meet its debt obligations through the period to March 2013.

GFNZ has prepaid half of the next scheduled repayment on Aug. 17, 2012. The repayment of the other half, consisting of NZ$1.21 million in repayments to debenture holders and NZ $1.25 million in bank-facility reduction, is, in our view, significantly reliant on GFNZ receiving new external funding.

GFNZ has to meet NZ$2.4 million in debenture repayments and a NZ$ 2.5 million bank facility reduction every six months to March 2014. Consequently, both the debenture-holder repayment and bank-facility reduction will double until these debts are fully satisfied by March 2015. This liquidity risk could be partially mitigated if GFNZ was successful in securing new funding. Liquidity pressure could also mitigate liquidity pressures by cutting back new lending; however, we understand this lever would only be used as last resort, and exercised sufficiently prior to the repayment date to accumulate sufficient funds.

Following this, GFNZ would need to meet another NZ$4.9 million scheduled repayment in March 2013. A mitigating factor is GFNZ's debtor receipts, which is expected to average NZ$2.1 million per month, plus cutbacks on new lending, which is to be used as last resort.

Outlook

The negative outlook reflects GFNZ's ongoing funding and liquidity challenges in meeting scheduled debt repayments, including enduring delays and deferral of new funding sources that increases the risk of default over the next six months.

We believe that GFNZ would default on its credit if it failed to secure new external funding as planned through August and September 2012. Although there is some prospect that GFNZ will secure additional funding to support its September 2012 repayment obligations, this success would not itself support any upward revision of the finance company's rating from the 'CC' level. This view reflects our concern about GFNZ's ability to meet substantial scheduled debenture repayments and bank-facility reductions through to March 2013. Longer term, the GNFZ rating could move upward if the company were successful in securing sufficient funding to supports its ability to meet debt obligations for a 12-month period.

Related Criteria And Research

- Group Rating Methodology And Assumptions, Nov. 9, 2011
- How Standard & Poor's Uses Its 'CCC' Rating, Dec 12, 2008
- Rating Finance Companies, March 18, 2004

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
GFNZ Group Ltd.		
Counterparty Credit Rating	CC/Negative/--	CCC-/Watch Neg/--
Quest Insurance Group Ltd.		
Counterparty Credit Rating		
Local Currency	CC/Negative/--	CCC-/Watch Neg/--
Financial Strength Rating		
Local Currency	CC/Negative/--	CCC-/Watch Neg/--

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