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Fitch Upgrades Sul America S.A.'s Ratings

Ratings Endorsement Policy

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Fitch Ratings-Rio de Janeiro-08 May 2012: Fitch Ratings has upgraded the international and national ratings of Sul America S.A. (SASA) as follows:

--Foreign and Local Currency Long-Term Issuer Default Ratings (IDRs) upgraded to 'BBB-' from 'BB+', Outlook Stable;
--Foreign and Local Currency Short-Term IDRs upgraded to 'F3' from 'B';
--National Long-Term Rating upgraded to 'AA+(bra)' from 'AA(bra)', Outlook Stable;
--BRL500 million debentures due February 2017 National Long-Term Rating upgraded to 'AA(bra)' from 'AA-(bra)'.

Fitch has also affirmed SASA's National Short-Term Rating at 'F1+(bra)'.

The upgrade of the ratings reflects SASA's strong franchise led by a significant presence in the health and auto segments, its consistent and favorable operating performance throughout economic cycles, good liquidity, adequate and stable capitalization and the continued enhancements in its risk management practices.

A further upgrade of SASA's ratings will be limited in the near term and depend on its ability to further consolidate the recently expanded distribution network, to diversify its premium base and to lower its leverage as measured by the liabilities to capital ratio. A sustained deterioration of the company's operating performance, capitalization or a significant reduction on its liquidity may negatively affect the ratings depending on the materiality.

SASA, the holding company of the Brazilian insurance group Sul America Seguros (SAS), is a multi-line insurer, with a strong presence in the health and auto segments in Brazil, where it was the second and the fourth largest insurer as at December 2011. It has maintained its market share in both segments during 2011, despite the 2010 sale of its participation in Brasilveiculos Companhia de Seguros S.A. (Brasilveiculos), which contributed to 44% of auto premiums in 2009. The stable growth trend is expected to remain in place, even considering higher competition.

Although loss ratios have increased in both core segments in 2011 similar to a number of competitors in the market, SASA has reported adequate loss and combined ratios for the year at 74.7% and 99.6% respectively. Bottom line results, as exemplified by an ROA of 3.4%, were positively affected by increased efficiency and enhanced cost management, and also by the continuation of healthy financial income. Projections for 2012 point to a stable performance.

SASA's comfortable liquidity was further boosted in the first quarter of 2012 with the issue of five-year debentures worth BRL500 million. The proceeds were partially used to pay back the USD200 million Eurobonds, whose total outstanding value was approximately BRL350 million as at December 2011 and which expired in February 2012. SASA may use its liquidity to make acquisitions if and when opportunities arise. However, even in such a scenario, liquid assets are expected to remain adequate.

The capitalization of SASA is considered as adequate, although leverage ratios are slightly higher than peers. However, Fitch believes that leverage will be kept under control in the medium term, given the stable results and prudent dividend policy.

SASA adheres to a solid risk management framework based on best international practices. The conservative approach is reflected in the investment portfolio which is largely made up of government bonds, the stringent asset and liability management strategies, as well as the implementation of advanced techniques for capital and reserves adequacy calculations in the recent years.

SASA counts on a wide broker network through which the bulk of its premiums are written. Since 2010 it has also been strengthening the number of its partnerships, mainly with financial institutions and retailers allowing it to gradually and partially compensate for its lack of a proprietary banking distribution channel.

SASA is 32.8% controlled by Sulasapar Participacoes (Sulasapar), 21.2% by ING Insurance International BV (ING), 6.8% by individuals, 1.6% by the treasury of the company and a further 37.6% of the shares are in market float. In

2010, ING announced that as part of its review of its global business strategy, it would sell its insurance, pension and asset manager operations throughout the world. To this end, it has sold all its stakes in insurance companies based in Latin America, except Brazil, to Grupo Suramerica. Fitch is monitoring the progress of changes in SASA's shareholder composition and the possible impacts on its ratings, even though the benefit of ING's support has not been incorporated into the ratings.

Contact:

Primary Analyst:

Esin Celasun
Associate Director
+55-21-4503-2600
Fitch Ratings Brasil Ltda., Praca XV de Novembro, 20 - 401 B, Rio de Janeiro, RJ, Brazil

Secondary Analyst:
Maria Rita Goncalves
Senior Director
+55-21-4503-2600

Committee Chairperson:
Julie Burke
Managing Director
+1-312-368-3158

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

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Applicable Criteria and Related Research:
Insurance Rating Methodology

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