SCOPE Scope Ratings

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Scope assigns AAA(SF) to Class A1 notes issued by Alba 12 SPV S.r.l. – Italian Lease ABS

Scope Ratings has assigned final ratings to the notes issued by Alba 12 SPV S.r.l., a static cash securitisation of a EUR 1,104m pool of lease receivables originated by Alba Leasing S.p.A. to Italian SMEs, individuals and large corporates.

Rating action

The rating actions are as follows:

Class A1, EUR 474.7m (ISIN IT0005466112): rated AAA_{SF}

Class A2, EUR 225.2m (ISIN IT0005466120): rated AAA_{SF}

Class B, EUR 238.4m (ISIN IT0005466138): rated $BBB+_{SF}$

Class J, EUR 175.1m (ISIN IT0005466146): not rated

The latest information on the ratings, including rating reports and related methodologies, is available on this LINK.

Transaction overview

The transaction is a static true-sale cash securitisation of Italian lease receivables originated by Alba Leasing S.p.A. (Alba). The portfolio comprises leases mainly granted to Italian SMEs (80.9%), and smaller amounts to larger corporate borrowers (11.3%) and individual entrepreneurs (7.8%)* used to finance transportation assets (20.7%), equipment (49.7%), real estate properties (28.0%) and air, naval & rail assets (1.6%). This transaction is not exposed to residual value risk because the assets' residual value is not securitised.

The current portfolio is subject to certain credit-positive eligibility restrictions such as the exclusion of loans that have been in arrears for more than 30 days or are under active moratorium. Leases in the current portfolio were originated between 2010 and 2021, with 85% originated from 2020 onwards. The portfolio has a weighted average seasoning of 1.8 years and a weighted average remaining time to maturity of 5.9 years.

The structure comprises four classes of notes with fully sequential principal amortisation: senior class A1 and A2, mezzanine class B, and junior class J. All the classes of notes will pay a floating rate, based on three-month Euribor, plus a margin. The sum of three-month Euribor and the relevant margin is floored at zero.

Rating rationale

The ratings reflect the notes' protection against portfolio losses, provided by the quality of the underlying collateral and by the transactions legal and financial structure. The ratings are mainly driven by the securitised portfolio's characteristics and its expected performance as well as the servicer's abilities and incentives. Scope accounted for the current macro-economic scenario, taking a forward-looking view on the macro-economic developments.

Class A1 and A2 notes are protected by their senior position and benefit, respectively, from 57.0% and 36.6% of credit enhancement from subordination (excluding the class J portion funding the cash reserve). Class B notes benefit from

15.0% of credit enhancement (excluding the class J portion funding the cash reserve). Furthermore, a debt service reserve provides liquidity support to all rated notes.

The ratings also reflect the subordination of class B interest payments to class A principal if cumulative portfolio defaults exceed 35.0%. All rated notes benefit from a mechanism linked to cumulative portfolio defaults, which traps excess spread to ensure sufficient collateralisation.

The ratings address exposures to the key transaction counterparties. To assess the issuer's exposure to credit counterparty risks Scope considered counterparty substitution provisions in the transaction, counterparty ratings from Scope, when available, or public ratings.

Key rating drivers

Static portfolio (positive). The portfolio will start to amortise immediately after closing, reducing the risk of performance volatility compared to revolving transactions.[1,2]

Back-up servicer (positive). The transaction benefits from back-up servicer Banca Finanziaria Internazionale S.p.A., which can take over within 30 business days if needed. Banca Finanziaria Internazionale S.p.A. cooperates with two other back-up servicers, Agenzia Italia S.p.A. and Trebi Generalconsult S.r.l.[2]

No residual value risk (positive). Investors are not exposed to the risk that obligors do not exercise the residual option, or to the possible loss of residual value upon the originator's liquidation. The issuer benefits from interest paid on the residual value during the life of each lease contract, which gradually increases the excess spread available to cover defaults and losses.[2,3]

Short lifetime exposure (positive). The portfolio of lease receivables has a relatively short remaining weighted average life of 3 years as of the cut-off date assuming 0% CPR and 0% defaults.[1]

No set-off risk (positive). No borrowers have any deposits or derivative contracts with Alba.[1,2]

Liquidity reserve (negative). The debt service reserve provides limited liquidity to support Class A coupon payments. Under the stressed assumptions of 1% servicer costs and a three-month Euribor at 2.5%, the reserve will only cover around three months of interest for Class A notes. However, Scope does not anticipate a rapid rise in interest rates over the expected life of Class A. The combined waterfall gives additional support to interest payments on the notes and senior costs because principal collections can be used to pay such items in the waterfall.[2]

Unsecured recoveries (negative). Scope has relied on unsecured recoveries from obligors and guarantors because there is no guarantee that Alba's bankruptcy estate will include asset sale proceeds from defaulted lessees.[3]

Claw-back risk (negative). Claw-back risk related to repurchased receivables is high compared to peer transaction rated by Scope as the originator is entitled to buy back up to 17% of the portfolio on cumulative basis and 2% on quarterly basis. 9% out of the total 17% can only be related to the repurchase of leases subject to renegotiation pursuant to law. [2]

Upside rating-change drivers

Significantly better performance than expected, e.g. significantly lower defaults or significantly higher recoveries than expected fuelled by strong macroeconomic conditions, could lead to an upgrade of the notes.

Downside rating-change drivers

Italian macroeconomic uncertainty in relation to the global slowdown. Covid-19 impacts may weigh negatively on collateral pool performance, as an economic downturn may affect the capacity of lessees to fulfil their payment obligations and could push default rates significantly higher than expected.

Quantitative analysis and assumptions

Scope has performed a cash flow analysis considering the portfolio characteristics and the main structural features. Scope applied its large homogenous portfolio approximation approach when analysing the highly granular collateral pool and projecting cash flows over its amortisation period. The cash flow analysis considers the probability distribution of the portfolio's default rate, following an inverse Gaussian distribution, to calculate the expected loss of each rated

tranche. The analysis also provides the expected weighted average life of each tranche. Scope has considered asset and liability amortisation and the evolution in the pool's composition.

Scope analysed the transaction assuming three distinct asset segments: i) Transport & Air, Naval and Rail; ii) Equipment; and iii) Real Estate. The original pool included four portfolio segments: Transport, Equipment, Real Estate and Air, Naval & Rail. Scope adjusted the composition of the portfolio by grouping together the Transport segment with the Air, Naval & Rail segment.

For the three segments i) Transport & Air, Naval and Rail, ii) Equipment and iii) Real Estate, Scope assumed, respectively, mean default rates of 4%, 5% and 7% and coefficients of variation of 75%, 64% and 80%. The respective segments' base case recovery rates are 35%, 35%, and 15%. On an aggregate portfolio basis, the mean default rate is 5.3%, the coefficient of variation is 71.7% and the base case recovery rate is 29.4%.

Vintage data was provided until Q2 2021. However, Scope calibrated its assumptions on default rates and coefficients of variation using 2010-2019 vintage data for each portfolio segment, which reflects the performance of the lease book originated by Alba. Scope did not consider the later vintages since those were shaped largely by the moratorium in Italy, potentially underestimating default rates.

Scope considered the 2010-2019 vintage data period to be sufficiently long to cover more than one full economic cycle, as it includes the severe recessions which Italy suffered during 2012-2014. However, Scope adjusted the coefficients of variation upwards to capture post-moratorium economic uncertainties which could reflect negatively on the portfolio's performance.

Scope assumed an average recovery of 29.4% for the portfolio. This assumption was adjusted with rating-conditional haircuts resulting in average recovery assumptions of 17.6%, and 24.7% for the Class A1/A2 and B notes analysis, respectively. Recovery assumptions only consider unsecured recoveries from the lessees and guarantors.

Scope considered the assets' amortisation characteristics and assumed a default timing reflecting a constant default intensity. Scope incorporated around 80 bps margin and interest rate stresses in its cash flow analysis in order to address: i) lower excess spread via prepayments, amortisation and defaults; ii) flexibility available to the servicer to modify the lease; and iii) interest rate mismatches between assets and liabilities. In addition, Scope reduced the portfolio balance by 1% in order to account for potential commingling (0.4% reduction) and claw-back (0.6% reduction) losses.

Sensitivity analysis

Scope tested the resilience of the ratings against deviations of the main input parameters: the portfolio's mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the ratings to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the quantitative results change when the portfolio's expected mean default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively:

- Class A1: sensitivity to default rate, zero notches; sensitivity to recovery rate, zero notches.
- Class A2: sensitivity to default rate, minus two notches; sensitivity to recovery rate, zero notches.
- Class B: sensitivity to default rate, minus two notches; sensitivity to recovery rate, zero notches.

* Lessee classification based on the loan data tape provided by the originator and Scope's own calculations

Rating driver references
1. Loan-by-loan data tape of the securitised pool (confidential)
2. Transaction documents (confidential)
3. Originator's vintage data (confidential)

Stress testing
Stress testing was performed by applying Credit-Rating-adjusted recovery rate assumptions.

Cash flow analysis
Scope Ratings performed a cash flow analysis of the transaction with the use of Scope Rating's Cash Flow SF EL Model Version 1.1 incorporating default and recovery rate assumptions over the portfolio's amortisation period, taking into account the transaction's main structural features, such as the notes' priorities of payment, the notes' size and coupons. The outcome of the analysis is an expected loss and an expected weighted average life for the notes.

Methodology
The methodologies used for these Credit Ratings, (SME ABS Rating Methodology, 17 May 2021, Scope's General Structured Finance Rating Methodology, 14 December 2020; Methodology for Counterparty Risk in Structured Finance, 13 July 2021 are available on https://www.scoperatings.com/#!methodology/list.
The model used for these Credit Ratings is (Scope Cash Flow SF EL Model Version 1.1) available in Scope Ratings' list of models, published under: https://www.scoperatings.com/#!methodology/list.
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The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.
The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity, the Rated Entities’ Related Third Parties, third parties and Scope Ratings’ internal sources.
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Scope Ratings has received a third-party asset due diligence assessment/asset audit. The external asset audit was considered when preparing the Credit Ratings and it has no impact on the Credit Ratings.
Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and the principal grounds on which the Credit Ratings are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures
These Credit Ratings are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings are UK-endorsed.
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