

## RATING ACTION COMMENTARY

# Fitch Affirms ALD and LeasePlan at 'BBB+' / Positive; Senior Preferred Debt at 'A-'

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Fitch Ratings - Frankfurt am Main - 06 Sep 2023: Fitch Ratings has affirmed ALD S.A.'s and LeasePlan Corporation N.V.'s (LeasePlan) Long-Term Issuer Default Ratings (IDRs) at 'BBB+' with Positive Outlook. ALD's and LeasePlan's group Viability Rating (VR) has been affirmed at 'bbb+' and senior unsecured debt ratings at 'A-'. A full list of rating actions is below.

## KEY RATING DRIVERS

ALD's and LeasePlan's Long-Term IDRs are based on both our assessment of shareholder support from ALD's majority shareholder Societe Generale S.A. (SG: A-/Positive), as reflected in the Shareholder Support Ratings (SSRs) of 'bbb+', and the combined entity's creditworthiness as expressed in the group 'bbb+' VR.

We view LeasePlan as a core and highly integrated subsidiary of ALD once its integration process is finalised by 2026. Given LeasePlan's size (about 50% of the combined group's fleet), group ratings reflect the close correlation between the parent's and the subsidiary's credit profiles and their substantially similar failure risk. The latter is underlined by future high integration in management and systems, as well as fungibility of balance sheets.

**Improving Ability to Support:** The Positive Outlook on the Long-Term IDRs reflects SG's improved ability to support ALD and LeasePlan, following the recent revision of the Outlook on SG's Long-Term IDR to Positive. We view that extraordinary capital or liquidity support would be highly likely. The acquisition of LeasePlan has increased strategic importance of the combined entity for SG, in particular with regard to earnings generation. The SSRs also factor in SG's commitment to retain a majority stake in ALD (with a 40-month lock-up period post-acquisition), material funding from SG and the inclusion of ALD in SG's single-point-of-entry resolution group.

**Notched Down Once:** The one-notch difference between ALD's, LeasePlan's and SG's Long-Term IDRs mainly reflects SG's diluted ownership stake (53%; or 51% in case of warrant exercise) and the presence of a large minority private-equity ownership following the LeasePlan acquisition.

**Standalone Strength:** We view the acquisition as broadly neutral for ALD's VR in the short term, with benefits from a strengthened franchise and a more diversified funding structure offset by integration-related execution risk. Post the acquisition, ALD has become a leading global multi-brand fleet lessor with a total fleet of 3.4 million vehicles and leading market shares in most large European markets. Over the longer term, subject to the smooth integration of LeasePlan, ALD's stronger franchise could lead to an improved assessment of its business profile.

**RV Risk Well-Managed:** The assessment of ALD's asset quality captures the group's focus on operational leasing and exposure to residual value (RV) risk, but also a strong record of managing RV risk through the cycle. This is reflected in positive net used car sales results, which have been particularly strong in recent periods due to high prices. Credit risk in the leasing portfolio is well-managed, supported by the secured nature of exposures, a sound risk management framework and diversification of leases by individual exposure, industry and geography.

**Profitability to Moderate:** We expect ALD's profitability to moderate in the short-to-medium term with a projected pre-tax income/average assets ratio of between 2% and 3%. This is based on our expectation of normalisation of used cars prices as well as about EUR350 million costs from LeasePlan's integration to be incurred in 2023-2024, while anticipated cost synergies (pre-tax profit of EUR440 million) could be achieved by 2026.

**Higher Leverage Post Acquisition:** ALD's gross debt/tangible equity ratio increased to 6.1x (including additional Tier 1 debt) post-acquisition, which generated EUR1.7 billion of provisional goodwill, from 4.4x at end-1H22. Our assessment of capitalisation and leverage also considers ALD's adequate common equity Tier 1 (CET1) ratio of 12.5% at end-1H23 and access to ordinary capital support from SG.

**Improved Funding Diversification:** Following an increase in external funding and its acquisition of LeasePlan, ALD's reliance on SG for funding decreased to 33% at end-1H23 from 69% at end-2022. Other sources of funding included bonds (24%), deposits (24%), securitisation (10%) and external bank funding (9%). Liquidity buffer was strong at end-1H23, including EUR5.3 billion of cash and equivalents and an undrawn committed revolving credit facility of EUR1.4 billion.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

A revision of the Outlook on SG's Long-Term IDR to Stable would result in a similar revision of ALD's and LeasePlan's Outlooks.

A weakening of SG's propensity to support the subsidiaries could result in a downgrade of ALD's and LeasePlan's SSRs.

A downgrade of ALD's and LeasePlan's Long-Term IDRs would require both a downgrade of the group VR and their SSRs.

Inability to integrate LeasePlan in line with projections, in particular if it leads to operational losses, materially higher restructuring costs or lower synergies, could result in a downgrade of the group VR.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

An upgrade of ALD's and LeasePlan's Long-Term IDRs would require an upgrade of the group VR or their SSRs.

An upgrade of SG would lead to an upgrade of ALD's and LeasePlan's SSRs, in the absence of significant weakening of SG's propensity to support the combined entity.

Increased strategic relevance of the combined entity for SG and a material increase in the ownership stake could lead to an equalisation of their SSRs with SG's Long-Term IDR.

Successful integration of LeasePlan in line with management projections, realised synergies leading to improving long-term profitability of the combined entity with a pre-tax income/average assets ratio sustained at or above 3.5%, while maintaining or improving other financial profile metrics could result in an upgrade of the group VR.

## **DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS**

**Senior Preferred Debt Notched Up:** ALD's and LeasePlan's senior preferred debt ratings of 'A-' reflect Fitch's expectation that the two issuers' external senior creditors will benefit from the protection available from resolution debt buffers raised by SG. This is based on the subsidiaries' inclusion within SG's single point-of-entry resolution group.

## **DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES**

ALD's and LeasePlan's long-term senior preferred debt ratings are primarily sensitive to changes in ALD's and LeasePlan's respective Long-Term IDRs. In addition, we would downgrade the long-term senior preferred debt ratings by a notch if Fitch no longer expects the issuers to benefit from large resolution debt buffers raised by SG, currently well in excess of 10% of group risk-weighted assets, or if we no longer expect SG to meet its minimum requirement for own funds and eligible liabilities with only senior non-preferred and more junior instruments.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

ALD's and LeasePlan's IDRs are linked to SG's IDR.

## ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
ALD S.A.	LT IDR	BBB+ Rating Outlook Positive		BBB+ Rating Outlook Positive
	Affirmed			
	ST IDR	F1	Affirmed	F1
	Viability	bbb+	Affirmed	bbb+

	Shareholder Support	bbb+	Affirmed	bbb+
senior unsecured	LT	A-	Affirmed	A-
senior unsecured	ST	F1	Affirmed	F1
LeasePlan Corporation N.V.	LT IDR	BBB+ Rating Outlook Positive		BBB+ Rating Outlook Positive
	Affirmed			
	ST IDR	F1	Affirmed	F1
	Viability	bbb+	Affirmed	bbb+
	Shareholder Support	bbb+	Affirmed	bbb+

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Corporate Hybrids Treatment and Notching Criteria \(pub. 12 Nov 2020\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 05 May 2023\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 01 Sep 2023\) \(including rating assumption sensitivity\)](#)

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## Dodd-Frank Rating Information Disclosure Form

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### Endorsement Policy

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ALD S.A.

EU Issued, UK Endorsed

LeasePlan Corporation N.V.

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