FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms ALD at 'BBB+'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 13 Sep 2022: Fitch Ratings has affirmed ALD S.A.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook and Short-Term IDR at 'F1'. ALD's senior unsecured debt rating of 'BBB+' has been maintained on Rating Watch Positive (RWP).

The rating actions are part of Fitch's periodic peer review of fleet management companies, comprising seven publicly rated firms.

Fitch has withdrawn ALD's Support Rating of '2' as it is no longer relevant to the agency's coverage following the publication of its updated "Non-Bank Financial Institutions Rating Criteria" dated 31 January 2022. In line with the updated criteria, we have assigned ALD a Shareholder Support Rating (SSR) of 'bbb+'.

KEY RATING DRIVERS

ALD's Long-Term IDR is driven equally by support from its shareholder, Societe Generale S.A. (SocGen; A-/Stable) and its standalone credit profile. The Stable Outlook mirrors that on the parent. ALD's Short-Term IDR of 'F1' corresponds to the higher of two options mapping to a 'BBB+' Long-Term IDR and is based on support from SocGen.

Fitch considers ALD as strategically important for SocGen, given its majority ownership and high share in funding, which is reflected in the 'bbb+' SSR. The one-notch difference between the IDRs of ALD and SocGen reflects our view that ALD is a strategically important but not a core subsidiary of SocGen.

The planned acquisition of LeasePlan Corporation N.V. (LeasePlan; BBB+/Stable) would lead to a reduction in SocGen's stake to 53% or 51% depending on warrant execution, potentially suggesting lower propensity to support ALD. This is offset by SocGen's public commitment to retain a majority stake in ALD, increased contribution of the combined entity to SocGen's earnings, and planned inclusion of ALD in SocGen's recovery and resolution perimeter as a regulated financial holding company.

ALD's standalone credit profile benefits from its established franchise, experienced management and sound earnings. This is balanced against a monoline business model with a focus on operational leasing, exposure to residual value (RV) risk and reliance on SocGen for funding. In the short term, Fitch views the acquisition of LeasePlan as neutral for ALD's standalone credit profile, with execution risk being offset by stronger franchise and a more diversified funding structure.

Strong Profitability: Pre-tax income/average asset ratio increased to 5.8% in 1H22 from 4.3% in 2021. Profitability was supported by an exceptional used cars sales result of EUR433 million in 1H22 (1H21: EUR125 million) and fleet value adjustments of EUR116 million, including for hyperinflation in Turkey and loss in Ukraine. The leasing contract and services margins increased by 4.6% compared with 1H21, excluding one-offs. Cost/income ratio (excluding used car sales result) was 50.2% in 1H22, only marginally up from 49.1% in 1H21.

RV Risk Well Managed: RV risk has historically been well managed, reflected by positive used car sales results, particularly strong in recent periods due to high prices. Asset quality risk is mitigated by a sound risk management framework and diversification of leases by individual exposures, industries, geographies and car brands. Impairment charges have been below 0.3% of gross revenue generating assets. An increase in electric vehicles could lead to increasing RV risk but the gradual speed of introduction should allow for ongoing refinement of RV models.

Acceptable Leverage: ALD's gross debt/tangible equity ratio stood at 4.5x at end-1H22, unchanged from end-2021 and slightly down from 5.0x at end-2020. Fitch expects the leverage ratio to worsen on closing of the LeasePlan acquisition due to considerable goodwill generated by the planned transaction. However, Fitch's assessment of ALD's capitalisation and leverage profile also considers its adequate risk-weighted capitalisation (common equity Tier 1 ratio of 13% at closing) and access to ordinary capital support from SocGen.

Reasonably Diversified Funding: ALD's funding profile remains reliant on SocGen (68% of funding at end-1H22). The remainder is represented by bonds (18%), securitisations (10%) and other loans (5%). Liquidity risks are mitigated by ALD's strong cash generation and undrawn credit facilities with SocGen (EUR3.7 billion at end-1H22). Post-acquisition, the funding profile should become more diversified, with SocGen funding accounting for 30% of the combined entity's funding, and bond issuances and deposits adding 25% each.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Inability to execute the LeasePlan acquisition in line with current projections, in particular if leading to materially higher restructuring costs, revenue attrition or materially higher leverage, in conjunction with a downgrade of SocGen's Long-Term IDR (or wider notching), could result in a downgrade of ALD's Long-Term IDR.

- A one-notch downgrade of SocGen's Long-Term IDR would not automatically lead to a one-notch downgrade of ALD's Long-Term IDR.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade of SocGen would lead to an upgrade of ALD's Long-Term IDR and senior unsecured debt ratings, provided SocGen's propensity to support ALD remains unchanged.

- A material increase in SocGen's ownership stake to above 75%, increased strategic relevance of ALD for SocGen and ALD remaining part of SocGen's resolution perimeter could lead to an equalisation of SocGen's and ALD's Long-Term IDRs.

- Successful integration of LeasePlan in line with current projections could lead to an improved Business Profile assessment, driving an upgrade of ALD's Long-Term IDR.

- Materially lower leverage could put upward pressure on ALD's Long-Term IDR.

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

ALD's senior unsecured debt ratings, including the euro medium term note (EMTN) programme ratings, are aligned with its IDRs, as in Fitch's view there is a strong correlation between the likelihood of default on the senior unsecured notes and a default of ALD.

The RWP on ALD's senior unsecured debt reflects the expectation that as a financial holding company, following the planned acquisition of LeasePlan, ALD will be subject to MREL requirements, with most of the requirements being met by debt provided by

SocGen. As a result, ALD should have a sufficient senior non-preferred plus junior debt buffer (in excess of 10% of the risk-weighted assets of the combined entity) to support an uplift of its senior unsecured debt rating by one notch from its Long-Term IDR.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

- Expectation that ALD will after closing of the transaction build-up a senior non-preferred plus junior debt buffer sustainably in excess of 10% of risk-weighted assets would likely lead to an upgrade of ALD's senior unsecured debt rating to 'A-'.

- ALD's senior unsecured debt rating could be affirmed if after closing ALD's senior non-preferred plus junior debt buffer is insufficiently large to warrant a one-notch uplift. In addition, the rating is sensitive to a downgrade of ALD's Long-Term IDR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

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 IDRs are linked to SocGen'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. For more information on Fitch's ESG Relevance Scores, visitwww.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
ALD S.A.	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Stable
	ST IDR	F1	Affirmed	F1
	Support	WD	Withdrawn	2
	Shareholder Support	bbb+	New Rating	
senior unsecured	LT	BBB+ Rating Watch Positive	Rating Watch Maintained	BBB+ Rating Watch Positive
senior unsecured	ST	F1	Affirmed	F1

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 31 Jan 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

ALD S.A.	EU Issued, UK Endorsed

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Non-Bank Financial Institutions Europe France