

RATING ACTION COMMENTARY

Fitch Upgrades ALD and LeasePlan Senior Unsecured Debt to 'A-'; Affirms IDRs at 'BBB+' / Stable

Mon 22 May, 2023 - 12:54 PM ET

Fitch Ratings - Frankfurt am Main - 22 May 2023: Fitch Ratings has upgraded ALD S.A.'s and LeasePlan Corporation's N.V. (LeasePlan) senior unsecured long-term debt ratings to 'A-' from 'BBB+' and removed them from Rating Watch Positive (RWP).

At the same time, Fitch has affirmed ALD's and LeasePlan's Long-Term Issuer Default Rating (IDR) at 'BBB+' with Stable Outlook. Fitch also assigned a Viability Rating (VR) of 'bbb+' to ALD and affirmed LeasePlan's VR at 'bbb+'. A full list of rating actions is detailed below.

The rating actions follow ALD's announcement of the closing of its LeasePlan acquisition on 22 May and ALD being granted the status of a regulated financial holding company. In view of the latter Fitch now uses its Bank Rating Criteria to assess certain aspects of ALD's standalone profile, such as operating environment (in particular, the regulatory framework), capitalisation and leverage and funding and liquidity.

The upgrade of ALD's and LeasePlan's senior unsecured debt ratings reflects Fitch's expectation that the two issuers' external senior creditors will benefit from the protection available from resolution debt buffers raised at the level of Societe Generale, S.A. (SG, A-/Stable). This is based on the subsidiaries' inclusion in SG's single point of

entry resolution perimeter, following ALD's new status and LeasePlan becoming a subsidiary of ALD.

KEY RATING DRIVERS

Group Ratings: We expect LeasePlan to be a core and highly integrated subsidiary of ALD with the integration process to be finalised by 2025. Given its size (about 50% of the combined group's fleet), Fitch has assigned 'group' ratings to ALD and LeasePlan to reflect that the parent's and the subsidiary's credit profiles are significantly correlated. Their failure risk is substantially the same given high integration in management and systems, as well as fungibility of balance sheets. ALD's and LeasePlan's Long-Term IDRs are based on both institutional support from the majority shareholder SG and the combined entity's standalone creditworthiness.

The assignment of a 'bbb+' VR to ALD follows its change to a prudentially regulated status and the deposit franchise acquired from its combination with LeasePlan. LeasePlan's VR has been affirmed at 'bbb+', mirroring that of ALD in line with the 'group' ratings approach.

Standalone Strength: Fitch views the transaction as broadly neutral for ALD's VR in the short term, with benefits from a strengthened franchise and more diversified funding structure (with about 25% of funding sourced from deposits at LeasePlan) offset by integration-related execution risk.

The combination with LeasePlan will allow ALD to become a leading global multi-brand fleet lessor with a total fleet of 3.3 million vehicles and leading market shares in most large European markets. In the longer term, subject to the smooth integration of LeasePlan, ALD's stronger franchise could lead to an improved assessment of its business profile.

Profitability to Moderate: We expect ALD's profitability to moderate in the short- to-medium term with its pre-tax income at 2%-3% of average assets. This is based on the 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) will be achieved by 2025.

Rating Notching from Parent: The affirmation of ALD's Shareholder Support Rating at 'bbb+' reflects our view that increased strategic importance of the combined entity for SG (in particular with regards to earnings generation) will be offset by dilution of the ownership stake to 53% or 51% depending on the exercise of its warrants.

SG's commitment to retain a majority stake in ALD (with a 40-month lock-up period post-closing), material funding commitments and the inclusion of ALD in SG's resolution perimeter supports our view that extraordinary capital or liquidity support would be highly likely. In the medium term, about 30% of ALD's funding will be provided by SG (about EUR15 billion).

ALD's and LeasePlan's Short-Term IDRs of 'F1' correspond to the higher of two options mapping to a 'BBB+' Long-Term IDR and is based on support from SG.

RATING SENSITIVITIES

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

- 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
- A downgrade of SG's Long-Term IDR or weakening of its 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 both entities' group VR and their SSRs

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
- Increased strategic relevance of the combined leasing subsidiary for SG and a material increase in the ownership stake could lead to an equalisation of SSRs with SG's Long-Term IDR
- 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
- Successful integration of LeasePlan in line with management projections while maintaining or improving current financial profile metrics could in the medium term result in an upgrade of the group VR

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

We expect ALD to be subject to the minimum requirement for own funds and eligible liabilities (MREL) in the medium term and gradually build up a senior non-preferred plus junior debt buffer that will be placed with SG. ALD plans to issue EUR750 million of additional Tier 1 debt and EUR1.5 billion of Tier 2 debt to its parent at closing of the acquisition aimed at supporting compliance with prudential capital requirements. Post-closing, management forecasts ALD's common equity Tier 1 (CET1) ratio and total capital ratio at about 12% and 16%, respectively.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

ALD's and LeasePlan's long-term senior 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 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 MREL requirement with only senior non-preferred and more junior instruments.

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

The ratings of ALD and LeasePlan are linked to the ratings of SG.

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, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
LeasePlan Corporation N.V.	LT IDR	BBB+ Rating Outlook Stable		BBB+ Rating Outlook Stable
	Affirmed			
	ST IDR	F1	Upgrade	F2
	Viability	bbb+	Affirmed	bbb+
	Shareholder Support	bbb+	Upgrade	ns Rating Watch Positive
senior unsecured	LT	A-	Upgrade	BBB+ Rating Watch Positive
senior unsecured	ST	F1	Upgrade	F2 Rating Watch Positive
ALD S.A.	LT IDR	BBB+ Rating Outlook Stable		BBB+ Rating Outlook Stable
	Affirmed			
	ST IDR	F1	Affirmed	F1
	Viability	bbb+	New Rating	

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Ekaterina Zadonskaya

Associate Director

Primary Rating Analyst

+49 69 768076 277

ekaterina.zadonskaya@fitchratings.com

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Behruz Ismailov

Director

Primary Rating Analyst

+49 69 768076 116

behruz.ismailov@fitchratings.com

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Yavuz Levent Topcu

Director

Secondary Rating Analyst

+49 69 768076 157

yavuzlevent.topcu@fitchratings.com

David Pierce

Director

Secondary Rating Analyst

+44 20 3530 1014

david.pierce@fitchratings.com

Aslan Tavitov

Senior Director

Committee Chairperson

+44 20 3530 1788

aslan.tavitov@fitchratings.com

MEDIA CONTACTS

Matthew Pearson

London

+44 20 3530 2682

matthew.pearson@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

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

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

ALD S.A.

EU Issued, UK Endorsed

LeasePlan Corporation N.V.

EU Issued, UK Endorsed

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