Moody's

Rating Action: **Moody's assigns first-time issuer and senior unsecured debt ratings of A1 to ALD SA; outlook stable**

23 May 2023

Paris, May 23, 2023 -- Moody's Investors Service ("Moody's") today assigned long-term local and foreign currency issuer and local currency senior unsecured debt ratings of A1 to ALD SA ("ALD"). The agency also assigned short-term local and foreign currency issuer ratings of Prime-1. The outlook on the long-term issuer and senior unsecured debt ratings is stable. Concurrently, Moody's assigned a Baseline Credit Assessment (BCA) of baa3 and an Adjusted BCA of baa2.

The ratings and assignments reflect ALD's creditworthiness following the acquisition of LeasePlan Corporation N.V. ("LeasePlan", Baa1 deposits and senior unsecured, positive outlook, baa3 BCA) announced by Société Générale (A1 deposits, stable outlook, baa2 BCA) on 6 January 2022.

RATINGS RATIONALE

ALD's long-term issuer and senior unsecured debt ratings of A1 reflect (1) the group's BCA of baa3, (2) a very high probability of affiliate support from its majority shareholder Société Générale, resulting in an Adjusted BCA of baa2, (3) three notches of uplift under Moody's Advanced Loss Given Failure (LGF) analysis based on the resolution perimeter of Société Générale, reflecting the extremely low loss rate that senior debtholders are likely to incur in case of failure, (4) a moderate probability of government support for ALD's senior debtholders, resulting in one notch of uplift for the issuer and senior unsecured debt ratings.

ALD's baa3 BCA reflects (1) the strong franchise and leading position of the combined ALD/LeasePlan group in the European car leasing market, (2) its strong ability to generate revenue across the mobility chain, (3) its large structural exposure to residual value risk on used vehicles, (4) its solid overall capitalisation following the acquisition of LeasePlan and (5) its diversified funding profile which will benefit from the ongoing support of Société Générale and its adequate liquidity.

Given the complexity involved with a cross-border acquisition that will double ALD's size, Moody's believes that operational risks are elevated.

Lastly, Moody's applies a negative one-notch adjustment for business diversification, given ALD's narrow franchise, as is the case for similar monoline issuers in the car financing business.

ALD's strong asset quality is supported by (i) its focus on large international corporate clients, which account for more than two thirds of its lease portfolio, (ii) its diversified client base across various industries and (iii) its footprint in many countries throughout Western Europe. The cost of risk, which is currently moderate (20 basis points (bps) for ALD and 6 bps at LeasePlan in 2022), is expected to modestly increase by 2025 as a consequence of ALD's higher exposure to the retail sector (small and mid-sized enterprises and private individuals).

The group is structurally exposed to substantial residual value risk, which arises from the uncertainty surrounding the future market value of vehicles upon the lease contract termination compared with their book value. Moody's believes that the rapid evolution of technologies in the automotive industry could challenge ALD's ability to adequately estimate residual values. Nonetheless, ALD's multi-brand fleet and its proven track record of residual value management mitigate the risk of losses.

ALD will report a rather modest post-closing Common Equity Tier 1 (CET1) ratio of approximately 12%, calculated under the Standardized Approach. Nevertheless, Moody's expects its Total Capital ratio, including Additional Tier 1 (AT1) securities and Tier 2 debt, will exceed 16%. Société Générale plans to maintain ALD's CET1 ratio at around 12% and Total Capital ratio at around 16% going forward, with a dividend pay-out ratio target of 50%. The leverage ratio, which Moody's calculated as Tangible Common Equity divided by Tangible Assets, is close to 12% post-closing.

ALD's steady profitability is supported by its strong capacity to generate revenue across the mobility chain. The group' revenue benefits from comfortable financial margins from the leasing business, profits generated by additional services and end-of-contract results. Although the sale of used cars upon lease termination materially boosted profitability in 2021 and 2022, Moody's expects this source of revenue to progressively normalize and net profitability to decrease going forward. Consequently, pro forma net income should be closer to 2% of tangible assets in the coming years, in Moody's opinion, from around 4% in 2022. ALD identified annual pre-tax cost synergies of €440 million to be delivered by 2025 for a total investment of €475 million, implying a cost-to-income ratio of 46-47%, excluding profits from used car sales.

ALD has a highly diversified funding profile, benefiting from Société Générale's ongoing support, which will continue post-closing. ALD's funding will broadly consist of a third of funding provided by Société Générale (€15 billion), a quarter of online retail deposits raised by LeasePlan, a quarter of Euro Medium-Term Notes (EMTNs) and the remainder equally spread among securitization and loans from financial institutions. Société Générale will downstream senior non-preferred debt, Tier 2 debt and AT1 securities, which will form part of ALD's capital and long-term funding profile.

Although on-balance sheet liquidity is modest, ALD's actual liquidity is adequate. ALD's assets and liabilities are matched-funded, enabling liquidity to remain always positive in a runoff scenario. On-balance sheet liquidity will increase post-acquisition because of liquidity requirements at LeasePlan linked to deposit funding and Liquidity Coverage Ratio constraints.

Moody's believes that there is a very high probability of extraordinary support by Société Générale viewing its high stake in the new group (53%), all the more so since ALD's activities are due to become one of Société Générale's three strategic pillars. This translates into one notch of affiliate support and an Adjusted BCA of baa2, in line with that of Société Générale.

ALD is subject to the European Union's Bank Recovery and Resolution Directive and is included in Société Générale's resolution scope. Therefore, Moody's applies Société Générale's Advanced LGF analysis to ALD's senior creditors, which results in extremely low loss given failure for senior creditors, translating in a three-notch uplift from the Adjusted BCA of baa2.

Moody's assumed a moderate probability of government support in favour of ALD's senior creditors, resulting in a one-notch uplift and long-term issuer and senior unsecured debt ratings of A1. In Moody's opinion, ALD's senior creditors would benefit from the government support that could be provided to its parent Société Générale in view of its systemic importance.

The assigned ratings also incorporate ALD's environmental, social and governance (ESG) considerations, as per Moody's General Principles for Assessing Environmental, Social and Governance Risks Methodology. Moody's assessment of ALD's exposure to governance risks is neutral-to-low and is reflected in a governance issuer profile score (IPS) of G-2. This assessment is supported by ALD's solid track record of strong financial performance and good management of residual value risk, despite significant execution challenges involved in its large-scale acquisition of LeasePlan. ALD is majority owned by Société Générale, but the regulation and supervision to which the group is submitted mitigate risks from its relatively concentrated ownership structure and limited board independence.

STABLE OUTLOOK

The outlook on ALD's long-term issuer and senior unsecured debt ratings is stable, reflecting Moody's expectation that the group's creditworthiness will remain sound despite weakened macroeconomic conditions and declining profits on used vehicle sales.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

ALD's BCA could be upgraded if operational risks linked to the integration of LeasePlan decreased and if Moody's believed that high residual value risk in the context of rapidly evolving mobility technologies and regulations were to subside. ALD's Adjusted BCA and long-term ratings would be upgraded if Société Générale's BCA and long-term ratings were upgraded.

ALD's BCA could be downgraded if its financial profile were to weaken, possibly owing to (1) the failure to adequately manage residual value risks, resulting in lower capitalisation and profitability; (2) any evidence of deterioration in the bank's funding and liquidity profiles, for example because of wider-than-expected liquidity gaps; or (3) a structural deterioration in profitability.

ALD's Adjusted BCA and long-term ratings would be downgraded in the case of a downgrade of Société Générale's BCA. They could also be downgraded if Moody's assumed a lower probability of affiliate support resulting from lesser strategic importance of ALD for Société Générale, although unlikely at present. In addition, ALD's long-term ratings would be downgraded if the rating uplift benefiting Société Générale's senior unsecured debt rating under Moody's LGF analysis were to be lowered.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Guillaume Lucien-Baugas
Vice President - Senior Analyst
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Alain Laurin
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454