FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms ALD and LeasePlan at 'BBB+'/Stable on Announced LeasePlan Acquisition

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Fitch Ratings - Frankfurt am Main - 10 Jan 2022: Fitch Ratings has affirmed ALD S.A.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook following the announcement of its intention to acquire LeasePlan Corporation N.V. (LeasePlan). Fitch has also affirmed LeasePlan's Long-Term IDR at 'BBB+' with a Stable Outlook and Viability Rating (VR) at 'bbb+'. Fitch has affirmed Lincoln Financing S.a.r.l.'s (LF) senior secured notes' long-term rating at 'BB-' and the Long-Term IDR of the notes' guarantor, Lincoln Financing Holdings Pte Limited (LFHPL), at 'BB-' with a Stable Outlook.

Fitch has placed ALD's senior unsecured debt rating of 'BBB+' on Rating Watch Positive (RWP) reflecting its expectation that following transaction closing, ALD will have a sufficient senior non-preferred plus junior debt buffer in place to warrant notching the senior unsecured debt up from ALD's Long-Term IDR.

The rating actions follow ALD's announcement made on 6 January 2022 that it intends to acquire 100% of LeasePlan for a total consideration of EUR4.9 billion. The acquisition will be financed through a combination of EUR2.0 billion in cash (EUR1.3 billion rights issue in

4Q22, EUR0.7 billion surplus cash) and EUR2.9 billion in ALD shares (based on EUR12.12 per ALD share).

Following completion of the transaction, Societe Generale S.A.'s (SocGen, A-/Stable) stake in ALD is projected to reduce to around 53% (51% if warrants associated with the transaction are executed) from 79.8% currently. LeasePlan's current majority shareholders (a consortium led by private equity firm TDR Capital) will hold a stake of 30.75% in the combined entity (or 32.90% if warrants are executed).

The transaction, which is expected to close by end-2022, is subject to successful workers council consultations at LeasePlan and ALD, various regulatory clearances and antitrust approvals. If successful, the transaction would create a global leading multi-brand fleet lessor with a combined fleet size of around 3.5 million vehicles and leading market shares in most large European markets.

As part of the transaction, ALD intends to apply for regulated status and transition into a French financial holding company while LeasePlan will retain its status as a Netherlands-based deposit-taking bank. On closing, management expects the common equity Tier 1 (CET1) ratio of the combined entity to stand at around 13% and its total capital ratio between 15% and 16%. SocGen funding will account for around 30% of the combined entity's total funding structure with LeasePlan deposits and ALD and LeasePlan bond issues accounting for around 25% each. On closing, Fitch expects to assign a VR to ALD to reflects its status as a regulated financial holding company.

KEY RATING DRIVERS

ALD

The affirmation of ALD's Long-Term IDR reflects Fitch's view that following closing of the transaction, ALD's Long-Term IDR will continue to be based on both institutional support from its majority owner (SocGen) and its standalone creditworthiness.

Fitch currently notches ALD's Long-Term IDR once from SocGen's. Fitch considers ALD to be strategically important to SocGen, given its majority ownership and sustained high share in non-equity funding. In view of this, extraordinary capital or liquidity support, if ever required, would be highly likely, as reflected in ALD's Support Rating of '2'.

The planned transaction would lead to a material reduction in SocGen's stake (to 53% or 51% depending on warrant execution), potentially suggesting lower propensity to support

ALD. However, in our view, this is offset by SocGen's public commitment to retain a majority stake in ALD, the increased relevance of the combined entity for SocGen's own credit profile (in particular with regards to earnings generation), SocGen's ongoing material funding commitments and the planned inclusion of ALD in SocGen's recovery and resolution perimeter as a regulated financial holding company.

In the short term, Fitch views the transaction as broadly neutral for ALD's standalone credit profile, with considerable execution risk being offset by a much-enlarged franchise and more diversified funding structure.

Outside the respective home markets of France and the Netherlands, Fitch expects some client overlap. This is somewhat mitigated by differing client focusses, with LeasePlan having a stronger franchise among large corporate clients and ALD on SME and increasingly retail clients. Anticipated cost synergies (pre-tax run rate of around EUR380 million) are considerable, but in our view achievable, considering significant potential procurement synergies of the combined entity (which is projected to purchase more than 800,000 new vehicles per year). Pre-tax restructuring costs, largely incurred in 2023 and 2024, are projected to amount to around EUR475 million (or 1.25x of run-rate synergies).

Restructuring costs will weigh on ALD's pre-tax profitability in 2023 and 2024, but Fitch expects the combined entity's pre-tax income/average assets ratio to remain above 2% (the lower end of Fitch's 'bbb' range for finance and leasing company profitability in a 'aa' operating environment) in the medium term. ALD's cost/income ratio target of 45% by 2025 is ambitious, in our view, and largely relies on successfully executing the combined entity's annual fleet growth target and cost synergies.

Fitch expects ALD's gross debt/tangible equity ratio, Fitch's key leverage metric for finance and leasing companies, to worsen on closing, largely as a result of considerable goodwill generated by the planned transaction. However, Fitch's assessment of ALD's capitalisation and leverage profile also considers the company's adequate risk-weighted capitalisation (CET1 ratio of around 13%) and potential access to ordinary capital support from SocGen.

The RWP on ALD's outstanding senior unsecured debt reflect Fitch's view that as a financial holding company, post-closing ALD will be subject to MREL requirements, with most of the MREL requirement being met by debt provided by SocGen. As a result, we believe that ALD's MREL buffer on closing will be sufficiently large (in excess of 10% of the risk-weighted assets of the combined entity) to support an uplift of ALD's existing senior unsecured debt by one notch.

LEASEPLAN, LF AND LFHPL

Until closing of the transaction, Fitch expects LeasePlan's Long-Term IDR to remain based on its standalone creditworthiness, as expressed by its VR. The affirmation reflects the company's leading position in the auto leasing sector globally, with a vehicle fleet of around 1.85 million vehicles in 29 countries. Our assessment also recognises LeasePlan's status as a regulated bank, prudent risk appetite and sound financial profile. This is balanced against exposure to residual value (RV) risk arising from closed-end leasing, increased earnings volatility in recent years and our expectation of a material dividend upstream to service debt raised by LF outside the regulated group.

LeasePlan's Support Rating of '5' indicates Fitch's view that while institutional support from the company's shareholders is possible, it cannot be relied upon.

Given LeasePlan's status as a regulated and deposit-taking bank, Fitch used its Bank Rating Criteria to help inform its assessment of certain aspects of LeasePlan's standalone profile, such as operating environment (in particular, the regulatory framework), capitalisation and leverage and funding and liquidity.

LFHPL's Long-Term IDR and LF's bond rating remain supported by an adequate level of interest coverage, with liquidity reserves covering annual interest payments by more than 4x at end-2Q21. Our assessment is also supported by LF's requirement to maintain an interest reserve account cash balance covering coupon payments of the senior notes by at least 2.5 years.

LeasePlan continues to represent LFHPL's only significant asset. There are no cross-guarantees of debt between LF and LeasePlan, and the ratings reflect the structural subordination of LFHPL's and LF's creditors to those of LeasePlan. In Fitch's view, debt issued by LF is sufficiently isolated from LeasePlan so that failure to service it, all else being equal, would have limited implications for LeasePlan's creditworthiness. Consequently, the instrument rating is based on the standalone profile of LF and LFHPL as the issuance guarantor.

RATING SENSITIVITIES

ALD

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 approaching or exceeding 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 and assumptions (notably regarding the magnitude of any anti-trust measures) could lead to an improved Company Profile assessment, driving an upgrade of ALD's Long-Term IDR.

- Materially lower leverage combined with further growth in ALD's franchise could support a higher standalone credit profile, putting upwards pressure on its Long-Term IDR.

- 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-'.

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

- Absent any changes to our current notching, 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.

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

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

LEASEPLAN

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

- A sustained reduction in gross balance sheet leverage and a reduced need for continuous sizeable upstream dividends.

- An upgrade of LeasePlan's Short-Term IDR would either require an upgrade of LeasePlan's Long-Term IDR or a more favourable assessment of the company's funding and liquidity score.

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

- A material increase in RV risk, leading to sustained net losses from fleet disposals materially negatively impacting LeasePlan's earnings capabilities and profitability.

- A material and sustained decline in LeasePlan's core operating leasing income, arising in particular from a permanent reduction in the vehicle fleet amid constrained demand dynamics.

- A sharp increase in impairment charges on loans and receivables.

- An inability to maintain its currently adequate liquidity and funding profile due to increased refinancing risks.

- A reduction in capital adequacy regulatory headroom.

LF AND LFHPL

Fitch expects LF's outstanding debt to be redeemed on completion of the transaction but until the transaction has closed, LF AND LFHPL's ratings remain sensitive to the following factors:

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

- Positive rating action would likely require the accumulation of significant additional cash within LFHPL, accompanied by the expectation of its retention, as this would reduce the dependence of debt service on LeasePlan dividends.

- The ratings could also be sensitive to the addition of new liabilities or assets within LFHPL, but the impact would depend on the balance between increasing LFHPL's debt service obligations and diversifying its income from reliance on LeasePlan dividends.

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

- LFHPL's Long-Term IDR and the notes' rating are primarily sensitive to any significant depletion of liquidity close to covenanted levels that affected its continuing ability to service its debt obligations. This would most likely be prompted by a material fall in earnings within LeasePlan, which restricted its capacity to pay dividends, or externally imposed restrictions on dividend payments beyond current restrictions imposed by the ECB. Furthermore, a downgrade of LeasePlan's Long Term IDR (implying an incrementally weaker ability to upstream dividend) could undermine LFPHL's credit profile.

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.

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 Affirmed	BBB+ Rating Outlook Stable
	ST IDR F2 Affirmed	F2
	Viability bbb+ Affirmed	bbb+
	Support 5 Affirmed	5
senior unsecured	LT BBB+ Affirmed	BBB+
senior unsecured	ST F2 Affirmed	F2
Lincoln Financing Holdings Pte. Limited	LT IDR BB- Rating Outlook Stable Affirmed	BB- Rating Outlook Stable
ALD S.A.	LT IDR BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable
	ST IDR F1 Affirmed	F1
	Support 2 Affirmed	2
senior unsecured	LT BBB+ Rating Watch Positive Rating Watch On	BBB+

senior unsecured	ST	F1	Affirmed	F1
Lincoln Financing S.a.r.l				
senior secured	LT	BB-	Affirmed	BB-

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Ben Schmidt
Director
Primary Rating Analyst
+49 69 768076 115
ben.schmidt@fitchratings.com
Fitch Ratings – a branch of Fitch Ratings Ireland Limited
Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Christian Kuendig
Senior Director
Secondary Rating Analyst
+44 20 3530 1399
christian.kuendig@fitchratings.com

David Pierce
Director
Secondary Rating Analyst
+44 20 3530 1014
david.pierce@fitchratings.com

Mark Young
Managing Director
Committee Chairperson
+44 20 3530 1318
mark.young@fitchratings.com

MEDIA CONTACTS

Louisa Williams
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

Bank Rating Criteria (pub. 12 Nov 2021) (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
LeasePlan Corporation N.V.	EU Issued, UK Endorsed
Lincoln Financing Holdings Pte. Limited	EU Issued, UK Endorsed
Lincoln Financing S.a.r.l	EU Issued, UK Endorsed

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Non-Bank Financial Institutions   Asia-Pacific   Europe   Singapore   France   Jersey

Netherlands   Luxembourg
