

# ALD S.A. And LeasePlan Corp. N.V. Upgraded To 'A-' On Deal Closing; Lincoln Financial Holdings Ratings Withdrawn

May 26, 2023

## Overview

- ALD has closed its acquisition of LeasePlan, is now regulated by the European Central Bank as a financial holding company, and is part of Société Générale's resolution perimeter.
- As a result, we believe additional loss-absorbing capacity better protects ALD's senior preferred creditors in the event of nonviability.
- We view LeasePlan as a core subsidiary of ALD, and consequently align our ratings on the two entities.
- We raised our long-term issuer credit ratings on ALD and LeasePlan to 'A-' from 'BBB' and 'BBB-' respectively, and our short-term issuer credit rating on LeasePlan to 'A-2' from 'A-3', as well as taking corresponding rating actions on all issue ratings of both ALD and LeasePlan.
- All the ratings on ALD and LeasePlan and their debt were removed from CreditWatch Positive, where we had placed them on Jan. 10, 2022.
- We also withdrew our 'BB+' long-term rating on Lincoln Financing Holdings, LeasePlan's former holding company, at its request, and withdrew our 'BB+' issue rating on the senior secured notes issued via Lincoln Financing.
- The stable outlook on ALD and LeasePlan reflects ALD's enlarged and leading position in leasing and fleet management globally, expected adequate capitalization, and good management of risks including residual values, along with our expectation that it will remain a material and strategically important subgroup within the Société Générale banking group.

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## Rating Action

PARIS (S&P Global Ratings) May 26, 2023--S&P Global Ratings said today that it had taken the following rating actions:

- We raised our long-term issuer credit rating on ALD S.A. to 'A-' from 'BBB', assigned a stable outlook, and affirmed the 'A-2' short-term issuer credit rating.
- We raised our long- and short-term issuer credit ratings on LeasePlan Corp. N.V. to 'A-/A-2'

from 'BBB-/A-3' and assigned a stable outlook.

- We upgraded or affirmed all rated debt issuance of ALD and LeasePlan, in line with the above actions.
- We removed all the ratings on ALD and LeasePlan from CreditWatch with positive implications, where we placed them on Jan. 10, 2022.
- We withdrew our 'BB+' long-term rating on Lincoln Financing Holdings PTE Ltd., at its request, and also withdrew our 'BB+' issue rating on the senior secured notes issued via Lincoln Financing SARL, because that debt was repaid before the deal closing.

## **Rationale**

**ALD's acquisition of LeasePlan improves our view of the credit strength of both companies, thanks to additional group support.** On May 22, ALD finalized its acquisition of 100% of Dutch competitor, LeasePlan. The enlarged ALD subgroup becomes the largest multibrand fleet leasing company in the world with a total fleet exceeding 3.3 million vehicles. We consider the deal to be a logical move in a consolidating car leasing industry. As a result of the deal, ALD's increased scale and capability leaves it well prepared to grasp major industry market trends, including changing customer preferences, digitalization, and electrification. As part of the deal, ALD's parent, Société Générale, retains majority ownership, initially of 53%, and we understand it will not be diluted to less than 51% in the future. In addition, the ALD subgroup is now inside Société Générale's resolution perimeter and single point of entry bail-in-led resolution strategy because of its regulatory status, material size for the Société Générale group, and funding linkages with the parent. It is further supported by Société Générale's pre-positioning of bail-in-able instruments (additional Tier 1, Tier 2, and senior non-preferred debt) in ALD. Consequently, we consider the senior preferred creditors of ALD and LeasePlan to be better protected than before in the event of nonviability. As a result, we now rate the ALD entities by notching down from Société Générale's 'a' group credit profile, which includes uplift for additional loss-absorbing capacity (ALAC), rather than from its 'bbb+' group stand-alone credit profile (SACP).

**We now assess our SACP on ALD using our financial institutions rating methodology, and it remains at 'bbb' despite the different methodology.** We already rate LeasePlan as a bank. Now, given ALD's new European Central Bank regulated status as a financial holding company, we believe this methodology better captures the creditworthiness of the enlarged subgroup. Our unchanged assessment indicates that it has a modest business position compared with more diversified banks in Europe, but a leading position in the operational lease market; adequate capitalization on a sustainable basis; well-managed credit and residual value risks; and ongoing funding support from Société Générale, even in the case of potential market stress for ALD.

**Our 'bbb+' anchor for the combined entity, the starting point for the rating, reflects the geographically diversified profile and ALD having its headquarters in France.** We calculate the economic risk as a weighted average of our Banking Industry Country Risk Assessment economic risk scores corresponding to the countries where ALD is exposed. Although the weighted average is about 3.5, indicating ALD being potentially exposed to countries with higher credit risk, the company usually serves international blue chip corporates and has little to no exposure to private individuals or small and midsize enterprises in these higher risk geographies.

**We expect ALD to pursue its successful, albeit niche, business model compared with larger financial institutions.** Our moderate business position assessment captures its profitable nature and strong competitive position, although it is narrower in scope than for many of the larger banks that we rate, not least Société Générale itself, for which our assessment is adequate. The moderate business position also acknowledges potential challenges related to the integration of LeasePlan within the expected timeframe.

**We expect ALD to remain adequately capitalized over the medium term, with a risk-adjusted capital (RAC) ratio sustained above 7%.** This view is supported by management's target to maintain a regulatory common equity Tier 1 capital at about 12%. We estimate the RAC ratio was 8%-9% at closing. Moreover, our projections include continued strong profitability and we assume a dividend pay-out of 50%. We include in our forecasts fleet growth in line with the past years' average, revenue growth above fleet growth given higher average unit prices, and increasing costs for the next two years because of inflation and the integration process. Current profitability is boosted by an extraordinarily high second-hand car market, which we expect to gradually normalize in 2023-2024, following several years of increases on the back of supply chain disruptions.

**We view ALD's good control of its risks, including residual value risk, as neutral for the ratings.** As owners of vehicles during the term of the lease contracts, ALD is exposed to car price volatility in the second-hand market at resale. Although not a key concern today, given the buoyant second-hand car market, it remains a key risk when pricing new leases in case of important price drops in next three to four years. In our view, ALD and LeasePlan's conservative pricing policies and sound track record in fleet valuations continue to help mitigate this risk.

**ALD's funding mix is less resilient than that of traditional commercial banks, but the company enjoys ongoing support from Société Générale.** LeasePlan's deposit franchise improves the funding mix of the enlarged subgroup. However, ALD still relies on less stable funding sources than its bank peers, which have access to sticky customer deposits. In addition, as a nonbank entity, ALD has no direct central bank access. However, these weaknesses are balanced by the structural funding provided by Société Générale and our expectation that the large banking parent would provide a liquidity backstop. Although there is no committed credit line from the parent, we understand ALD is part of Société Générale's internal liquidity adequacy assessment process, meaning that the regulator expects Société Générale management to be responsible for ALD and LeasePlan's liquidity in a market stress.

**LeasePlan has become a core subsidiary of ALD, in our view.** This assessment reflects various factors, including LeasePlan being nearly 50% of the enlarged group, the integration plan and commercial vision that would see the two businesses becoming increasingly intertwined, and some capacity of ALD (itself or downstreamed from Société Générale) to provide support to LeasePlan in case of need.

**ALD remains a strategically important subgroup of Société Générale, in our view.** Following the LeasePlan acquisition, ALD becomes an even more sizable contributor to Société Générale group earnings and we understand that it benefits from some synergies with Société Générale's franchise. Société Générale's further investment in ALD, in terms of equity and bail-in instruments, as well as liquidity support, is in our opinion further evidence of its commitment to the business. Nevertheless, we remain mindful that ALD now faces a sustained period of restructuring and Société Générale owns only 53% of the business, with a 40-month lock-up

period. All else remaining equal, and if the business performs well and Société Générale retains or builds its stake, we could revise up our view of ALD's strategic importance to Société Générale, but it would not lead to rating actions on ALD or LeasePlan.

**We withdrew our ratings on Lincoln Financing Holdings and on the debt issued by Lincoln**

**Financing.** All debt issued by Lincoln Financing and guaranteed by Lincoln Financing Holdings has been repaid ahead of the deal closing. We consequently withdrew our issue ratings. We withdrew the issuer credit ratings on Lincoln Financing Holdings at the issuer's request.

## **Outlook**

The outlook on ALD and LeasePlan is stable because we believe the combined subgroup's leading position in leasing and fleet management globally will allow it, in the next two years, to successfully navigate the challenges that the mobility sector is experiencing, in particular, increased competition, electrification, and digitization. Furthermore, our stable outlook incorporates our expectation that the subgroup will remain material and strategically important within the Société Générale banking group, thus benefitting from both ongoing and extraordinary parental support. In this regard, we expect that the subgroup would be able to benefit from Société Générale's ALAC in a resolution scenario.

## **Downside scenario**

We could lower our ratings on ALD if we were to consider that its importance for Société Générale had diminished, or following a similar action on Société Générale itself. We could also lower our ratings on ALD if the integration of LeasePlan proves challenging, or if our current view on combined capitalization and balance-sheet risk weakens materially, compromising the entity's creditworthiness.

We could lower our ratings on LeasePlan if we lower those on ALD or, less likely, we see its strategic importance to ALD diminishing.

## **Upside scenario**

An upgrade on either entity is a remote prospect because we expect full integration to take some time, and it would depend on our opinion that ALD had become a core subgroup of Société Générale (from a material strategic subgroup currently).

## **Environmental, Social, And Governance**

ESG credit indicators: E-2, S-2, G-2

ESG factors are currently a neutral consideration in our credit rating analysis of ALD.

## **Ratings Score Snapshot**

<b>Issuer Credit Rating</b>	<b>A-/Stable/A-2</b>
SACP	bbb

Issuer Credit Rating	A-/Stable/A-2
Anchor	bbb+
Business position	Moderate (-1)
Capital and earnings	Adequate (0)
Risk position	Adequate (0)
Funding and liquidity	Adequate and adequate (0)
Comparable ratings analysis	0
Support	+2
ALAC support	0
GRE support	0
Group support	+2
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Ratings On LeasePlan Corp. N.V.'s U.S. Medium-Term Note Program Withdrawn At The Issuer's Request, Feb. 20, 2023
- ALD S.A. And LeasePlan Corp. N.V. Ratings Placed On CreditWatch Positive On Proposed Acquisition, Jan. 10, 2022

## Ratings List

\*\*\*\*\* Lincoln Financing Holdings PTE Ltd. \*\*\*\*\*

### Rating Withdrawn

	To	From
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### Lincoln Financing SARL

Senior Secured	NR	BB+
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	To	From
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### Lincoln Financing Holdings PTE Ltd.

Issuer Credit Rating	NR/--	BB+/Stable/--
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### Upgraded

	To	From
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### LeasePlan Corp. N.V.

Issuer Credit Rating	A-/Stable/A-2	BBB-/Watch Pos/A-3
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### LeasePlan Corp. N.V.

Senior Unsecured	A-	BBB-/Watch Pos
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Junior Subordinated	BB-	B+/Watch Pos
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\*\*\*\*\*ALD S.A.\*\*\*\*\*

### Upgraded

	To	From
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### ALD S.A.

Senior Unsecured	A-	BBB/Watch Pos
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### Upgraded; Ratings Affirmed

	To	From
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### ALD S.A.

Issuer Credit Rating	A-/Stable/A-2	BBB/Watch Pos/A-2
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NR – Not Rated

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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