MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms Ayvens' long-term issuer and senior unsecured debt ratings at A1; outlook changed to negative from stable

07 Jun 2024

Paris, June 07, 2024 -- Moody's Ratings (Moody's) today affirmed Ayvens' long-term issuer and senior unsecured debt ratings at A1 and the short-term issuer ratings at Prime-1. The outlook on the long-term issuer and senior unsecured debt ratings was changed to negative from stable. Moody's also affirmed Ayvens' Baseline Credit Assessment (BCA) of baa3 and Adjusted BCA of baa2, as well as its senior unsecured Medium-Term Note programme of (P)A1.

Concurrently, Moody's affirmed LeasePlan Corporation N.V.'s ("LeasePlan") long-term deposit, issuer and senior unsecured debt ratings at A1 and the short-term deposit ratings at Prime-1, its BCA of baa3, its adjusted BCA of baa2, its long-term and short-term Counterparty Risk Ratings of A1/Prime-1 and its long-term and short-term Counterparty Risk Assessments of A1(cr)/Prime-1(cr). The outlook on the long-term deposit, issuer and senior unsecured debt ratings was changed to negative from stable.

RATINGS RATIONALE

The change of outlook to negative from stable on Ayvens' long-term issuer and senior unsecured ratings reflects the recent change in outlook on these ratings of its majority shareholder Societe Generale (SG, A1 deposits and senior unsecured debt, negative outlook, baa2 BCA) on 31 May 2024. Ayvens' ratings are largely driven by SG's ratings because Moody's believes that there is a very high probability of extraordinary support given SG's high stake (53%) and the strategic importance of Ayvens in SG's mobility business activities. This translates into one notch of affiliate support from Ayvens' baa3 BCA and an Adjusted BCA of baa2, in line with SG's BCA.

The affirmation of Ayvens' baa3 BCA reflects (1) the strong franchise and leading position of the 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, (5) its diversified funding profile which benefits from SG's ongoing support and (6) its modest on-balance sheet liquid assets in line with its match-funded profile. Moody's believes that operational risks remain elevated in the context of the complex cross-border acquisition of LeasePlan, although the integration is already well underway. Lastly, Moody's applies a negative one-notch adjustment for business diversification, given Ayvens' narrow franchise, as is the case for similar monoline issuers in the car financing business.

Ayvens' strong asset quality is supported by (i) its focus on large international corporate clients, which account for 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 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. As expected, used car sales results are currently normalizing after a period of extraordinary profits. Ayvens' profitability was down significantly as a result, with net income representing 1.3% of tangible assets in 2023 versus 4.1% in 2022. In 2024, profits will be affected by restructuring charges and lower used car sales results, but the stabilization of margins of leasing contracts and services, as well as the progressive ramp up of post-acquisition synergies, will help profitability rebound in 2025 and to a greater extent in 2026 as per the company's forecast.

Ayvens reported solid capitalisation overall, with a Common Equity Tier 1 (CET1) ratio of 12.3%, calculated under the Standardized Approach, as of 31 March 2024 and a leverage ratio measured by Moody's as Tangible Common Equity divided by tangible assets of 10.9% at year-end 2023. SG plans to maintain Ayvens' CET1 ratio at around 12% and its Total Capital ratio at around 16% going forward, with a dividend pay-out ratio target of 50%. Lastly, Ayvens benefits from a highly diversified funding profile, benefiting from SG's ongoing support, and modest on-balance sheet liquid assets in line with its match-funded balance sheet.

Ayvens' 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 SG, resulting in an Adjusted BCA of baa2, (3) three notches of uplift under Moody's Advanced Loss Given Failure (LGF) analysis, based on the application of SG's resolution perimeter and reflecting the extremely low loss rate that senior debtholders are likely to incur in case of failure, and (4) a moderate probability of support from the Government of France (Aa2, stable outlook) for Ayvens' senior debtholders resulting in one notch of further uplift.

NEGATIVE OUTLOOK

The outlook on Ayvens' long-term issuer and senior unsecured debt ratings is negative, reflecting the outlook on the ratings of its majority shareholder SG.

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

Ayvens' BCA could be upgraded if operational risks linked to the integration of LeasePlan decreased and if the prospects of high residual value risk in the context of rapidly evolving mobility technologies and regulations were to subside, also resulting in a sustainably higher profitability level.

Ayvens' 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.

Ayvens' Adjusted BCA and long-term ratings would be downgraded in the case of a downgrade of SG's BCA. They could also be downgraded if Moody's assumed a lower probability of affiliate support resulting from lesser strategic importance of Ayvens for SG, although unlikely at present. In addition, Ayvens' long-term ratings would be downgraded if the rating uplift benefiting SG'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 March 2024 and available at https://ratings.moodys.com/rmc-documents/409852 . 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 .

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The person who approved Ayvens credit ratings is Alain Laurin, Associate Managing Director, Financial Institutions Group, JOURNALISTS: 44 20 7772 5456, Client Service: 44 20 7772 5454. The person who approved LeasePlan Corporation N.V. credit ratings is Olivier Georges Renaud Panis, Senior Vice President, Financial Institutions Group, JOURNALISTS: 44 20 7772 5456, Client Service: 44 20 7772 5454.

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