FitchRatings

FITCH COMPLETES COMMERCIAL FLEET LESSOR PEER REVIEW: AFFIRMS RATINGS; OUTLOOKS STABLE

Fitch Ratings-Chicago-14 October 2014: Fitch Ratings has completed its commercial fleet leasing peer review, resulting in affirmations of the Long-term and Short-term Issuer Default Ratings (IDRs) of LeasePlan Corporation N.V. (LeasePlan) at 'A-/F2' and Wheels, Inc. at 'A/F1'. The Rating Outlooks for both issuers are Stable. Company-specific rating rationales are described below, and a full list of rating actions is provided at the end of this release.

LeasePlan Corporation N.V.

KEY RATING DRIVERS - IDRS, VR AND SENIOR DEBT

LeasePlan's IDRs and senior debt ratings are driven by the bank's intrinsic creditworthiness and are therefore equalised with its Viability Rating (VR). LeasePlan's VR continues to reflect its global market-leading vehicle leasing franchise, resilient business model, prudent liquidity and strong risk management and a solid capital. The VR also encompasses a relatively large exposure to residual value risk, but Fitch believes this risk is well-managed by LeasePlan.

Being the largest fleet and vehicle management company in the world, the group holds top market positions in most of the countries it operates in. This geographic diversification offsets LeasePlan's monoline business mix and enables the group's performance to be less susceptible to economic downturn in a certain market. Moreover, its leasing-related product offerings(such as insurance, fleet management and maintenance) have also strengthened the group's global franchise and provide the group with relatively more diversified income sources, compared to other commercial leasing companies. This healthy business profile has allowed LeasePlan to consistently report a return on equity above 10% throughout different economic cycles (15.5% for 1H14). Fitch believes LeasePlan's profitability will continue to be supported by strong recurring earnings from diversified income sources and adequate risk management.

Unlike most other leasing companies, LeasePlan is licensed as a bank and is therefore supervised by the Dutch banking regulator. This means that LeasePlan must abide by minimum capital regulatory requirements (as well as liquidity and funding requirements when the Liquidity Coverage Ratio and Net Stable Funding Ratio come into effect in the coming years). Being a bank also gives LeasePlan potential access to European Central Bank (ECB) refinancing operations, if ever needed.

LeasePlan's banking status allows it to achieve a more diversified funding profile than peers through the gathering of retail savings in the Netherlands (23% of total balance sheet at end-June 2014). On the back of the growth in retail savings, reliance on wholesale funding has reduced over recent years. Nevertheless, LeasePlan has maintained good access to both secured and unsecured debt capital market. Liquidity and refinancing risk are cautiously managed through a matched funding profile and running available liquidity (including committed contingent liquidity lines) that largely exceeds the annual interbank and wholesale refinancing needs for the coming years. Virtually all the retail deposits are eligible to the Dutch deposit guarantee scheme which supports their stability.

Reported regulatory risk-weighted capital ratios are strong (Basel III Common Equity Tier 1 ratio of 17.9% at end-June 2014), but LeasePlan's debt to tangible equity leverage is higher than leasing peers. LeasePlan has a relatively large exposure to residual value risk (EUR8.2 billion at end-June 2014) due to its large proportion of operating leases in its portfolio (around 85% of total lease contracts at end-June 2014). While residual value risk cannot be entirely eliminated, as it depends on external factors outside of the group's control (such as second-hand car prices), an efficient and pro-active risk management has allowed it to remain well under control historically. The group seeks to reduce residual value risk by charging clients for unfair wear and tear, mileage deviations from contract and recalculation of residual values in case of usage outside contract parameters.

RATING SENSITIVITIES - IDRS, VR AND SENIOR DEBT
Negative rating pressure on LeasePlan's ratings could arise from sustained and material pressure on its earnings and risk profile, most likely due to a deep and prolonged depressed second-hand car market or/and a vast fundamental deterioration of the creditworthiness of its corporate client book. Any perceived reduction in LeasePlan's cautious approach to liquidity management, although unexpected, would also cause downward pressure on its ratings.

Upward rating momentum is limited given LeasePlan's current rating levels as well as the company's monoline business strategy, the cyclicality inherent in the commercial fleet leasing business, and reliance on wholesale funding although the latter has been reduced with the growth of retail savings.

KEY RATING DRIVERS AND SENSITIVITIES - SUPPORT RATING

LeasePlan's Support Rating of '5' indicates Fitch's view that institutional support from its shareholders, if ever required, may be possible but cannot be relied upon in its ratings. Fitch currently does not envisage any changes to LeasePlan Support Rating given the current shareholder structure.

LeasePlan is the largest vehicle leasing and fleet management company in the world. It has a global franchise with operations in 32 countries across Europe, North and South America and the Asia/ Pacific region. The group has top-three positions in most markets where it operates. LeasePlan's fleet totaled 1.4 million vehicles at end-2013.

Wheels, Inc.

KEY RATING DRIVERS - IDRs AND COMMERCIAL PAPER

Wheels' IDRs and commercial paper ratings are supported by the company's position as a leading provider of fleet leasing and management services in North America, as well as its solid portfolio performance and consistent operating cash flow generation over time. The ratings also factor in the inherent cyclicality in the commercial fleet leasing business, reliance on predominantly secured funding, and modestly higher balance sheet leverage, compared to other leasing companies.

Operating performance has been stable, reflecting modest revenue growth and stable earnings over the last several years. During the third quarter of 2014 (3Q'14), earnings were modestly lower year-over-year compared to 3Q'13 but the company has remained solidly profitable. Fitch expects operating performance to remain stable in the near to medium-term as Wheels increases product penetration to existing clients and continues to sign new clients and add vehicle backlog.

Asset quality has been excellent and Wheels has not experienced a significant loss during its 75 year operating history. The overall portfolio is well diversified by customer and is of good credit quality. The top 10 customers have an average credit rating of 'A-', based on a composite of Nationally Recognized Statistical Rating Organization (NRSRO) and Wheels' internal ratings. Some industry concentrations exist however this is largely mitigated by the strong underlying credit quality within these concentrations and the focus on industry sectors and sub-sectors for which the continued use of commercial fleet leasing is more essential to their business models. Fitch notes that overall portfolio concentrations and credit quality have remained relatively consistent over time.

The portfolio is comprised predominantly of open-end leases, which transfer residual value risk of the vehicles to the lessees. The essential business use of the vehicles leased by Wheels' customers also helps to mitigate the probability and severity of lessee default under the leases. As a result, net losses have been minimal over time. Given Wheels' historical loss experience, Fitch believes current credit reserves are more than adequate and appropriate.

Wheels' liquidity is solid given its core operating cash flow generation, which has been consistent over various economic and capital market cycles. While operating cash flow is generally redeployed to purchase additional fleet assets, Fitch believes Wheels can minimize its capital expenditures and redirect cash flows toward debt reduction, if necessary, should another market stress event occurs. Wheels has never used this tactic in the past.

The company's funding profile is predominantly secured, which has helped to achieve match-funding from a rate, spread and duration perspective, but remains a rating constraint in Fitch's view. Generally, Fitch believes the company's funding flexibility is somewhat limited due to the lack of unsecured financing in the debt mix and access to the public equity markets. That said, Fitch acknowledges that Wheels' funding is well diversified across its various sources, and the company has maintained solid access to funding throughout various economic downturns and disruptions to the capital markets. In addition, overcollateralization of secured funding facilities could potentially provide additional financial flexibility in times of market stress.

Fitch views Wheels' leverage as modestly higher than other leasing companies. Leverage, on a total debt to tangible equity basis, was 6.6x as of 3Q'14 and consistent with the historical average of around 7x. From a cash flow perspective, on the basis of total debt to EBITDA, leverage has remained relatively stable at around 2x in 3Q'14. Fitch believes that Wheels' minimal loss experience and the open-end lease structure helps to offset the modestly higher leverage relative to peers.

RATING SENSITIVITIES - IDRs

Upward rating momentum is viewed as limited given Wheels' current rating levels as well as the company's monoline business strategy, secured funding profile and sensitivity to general economic conditions.

Conversely, negative rating actions could be driven by significant client departures, which would negatively impact overall lease revenues, and ultimately, cash flow generation. Loss of competitive position, material increases in losses from client bankruptcies, and/or substantial increase in leverage from current levels could also put negative pressure on Wheels' ratings.

Based in Des Plaines, Illinois, Wheels is one of the largest vehicle leasing and fleet management companies in North America. Wheels is a private company and 100% owned by Frank Consolidated Enterprises. As of the end of 3Q'14, the company had approaching 300,000 vehicles under management.

Fitch has affirmed the following with Stable Rating Outlooks:

LeasePlan Corporation N.V.
--Long-term IDR at 'A-';
--Short-term IDR at 'F2';
--Viability rating at 'a-';
--Support rating at '5';
--Senior unsecured notes at 'A-/F2';
--Commercial paper at 'F2'.

Wheels, Inc.
--Long-term IDR at 'A';
--Short-term IDR at 'F1';

--Commercial paper at 'F1'.

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Applicable Criteria and Related Research:
--Global Financial Institutions Criteria (Jan. 31, 2014);
--Finance and Leasing Companies Criteria (Dec. 11, 2012).

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Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397
Finance and Leasing Companies Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696720