FitchRatings

FITCH COMPLETES COMMERCIAL FLEET LESSORS PEER REVIEW: AFFIRMS RATINGS; OUTLOOK STABLE

Fitch Ratings-Chicago-17 April 2014: Fitch Ratings has completed its peer review of two rated commercial fleet lessors, resulting in affirmations of its long-term and short-term Issuer Default Ratings (IDRs). The Rating Outlook for both issuers is Stable.

Fitch has affirmed LeasePlan Corporation N.V.'s (LeasePlan) long-term and short-term IDRs at 'A-/F2'.

Fitch has also affirmed Wheels, Inc.'s (Wheels) long-term and short-term IDRs at 'A/F1'.

Company-specific rating rationales are described below, and a full list of rating actions is provided at the end of this release.

Fitch's outlook for commercial fleet lessors remains Stable. Operating performance is sensitive to overall economic conditions, and will continue to be driven by customer demand for vehicles. Fitch views key profitability drivers in the near-to-medium term will continue to be ancillary revenue growth and product penetration rate. Recent portfolio growth has reflected a continued shift by companies opting to outsource its fleet management to third parties due to required technology investments, rising vehicle maintenance costs, fuel prices and regulations. Fitch believes earnings generation in the medium-to-longer term will continue to be driven by the lessor's franchise and market strength and its ability to win and retain clients, as well as its ability to generate incremental revenues through ancillary product offerings and service.

Commercial fleet lessors continue to benefit from strong used vehicle price, which helps to mitigate residual value (RV) exposure on closed-end leases. However, used vehicle prices have moderated from historical highs experienced over the last several years due to increased vehicle production rates and greater retail lease penetration boosting supply. Fitch believes these levels will continue to exhibit strength in 2014, but begin to normalize into 2015. Fitch notes that Wheels has minimal RV exposure, as its portfolio is almost entirely comprised of open-end leases, which effectively transfers RV risk to the lessee.

Asset quality is expected to remain solid given the diversity and strength of the underlying customer profile for commercial fleet lessors. In addition, the essential business use of the vehicle fleet means that customers will continue to make timely payments under its leases, even in times of stress. Should a customer default on its lease obligation, lessors can recover and dispose of its assets quickly to maximize asset values and to minimize the loss severity. Historically, losses have been minimal and vehicles have generally been disposed of at gains.

Liquidity levels are expected to remain strong for commercial fleet lessors given their level of operating cash flow generation and/or consistent capital markets access. Refinancing risk is carefully managed through a matched funding profile, but funding is generally fairly diversified across different sources, which helps provide some stability in times of market or industry stress. Capital levels are expected to remain relatively consistent, and Fitch expects cash flow and balance sheet leverage to remain stable or improve modestly as earnings growth will potentially offset additional funding needs for additional capital spending.

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 VR.

LeasePlan's VR reflects its global market-leading vehicle leasing franchise, resilient business model, prudent liquidity and strong risk management and a solid capital. 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 large leasing-related products offering (such as insurance, fleet management and maintenance) has also strengthened the group's global franchise and they provide it with diversified income sources, compared to other commercial leasing companies. LeasePlan reported solid performance in 2013, supported by solid flow of recurring earnings, the recovery in second-hand car market and the benefits of RV risk mitigation measures.

Refinancing risk of the group is cautiously managed through a matched funding profile, relatively large amount of cash (representing around 5% of total assets at end-2013, compared to the average 2% of its peers at end-1H13), and committed contingent liquidity lines amounted to EUR2.6 billion at end-2013. Being licenced as a bank has enabled LeasePlan to achieve a more diversified funding profile than peers through the gathering of retail savings in the Netherlands (30% of funding mix at end-2013). Reliance on wholesale funding remains but LeasePlan has maintained good access to the unsecured debt capital and interbank markets. In addition, LeasePlan's banking licence also offers potential access to central bank refinancing operations, which is beneficial to its liquidity.

LeasePlan is regulated by the Dutch banking regulator and hence must abide by minimal regulatory requirements. Reported capital ratios are strong (17% of Tier 1 capital ratio at end-2013), but LeasePlan's leverage is higher than leasing peers. LeasePlan has a relatively large exposure to RV risk (EUR8.1 billion at end-2013) due to its large proportion of operating leases in its portfolio (around 80% of total lease contracts at end-2013). While RV 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. The group continued to demonstrated efforts to increase its RV risk mitigants, such as charging clients for unfair wear and tear, mileage deviations from contract and recalculation of RVs in case of usage outside contract parameters.

Asset quality of the group has proved adequate to date. The group's leasing portfolio is well diversified by geography, client profile is also well diversified by industry and has moderate concentration (top 20 leasing counterparties represented 14% of leasing portfolio at end-2013).

RATING SENSITIVITIES - IDRS, VR AND SENIOR DEBT

Negative rating pressure on LeasePlan's IDRs, VR and senior debt ratings would 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 set back in LeasePlan's cautious approach to liquidity management, although unexpected, would also cause downward pressure on its ratings.

Upward pressure is limited given 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 SENSITIVITES - SUPPORT RATING

LeasePlan's Support Rating 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.

KEY RATING DRIVERS AND SENSITIVITES - STATE GUARANTEED DEBT

LeasePlan's state-guaranteed debt securities (maturing in May 2014) are rated 'AAA', reflecting the Dutch sovereign guarantee and the rating assigned to them is therefore sensitive to any changes in the Netherlands' rating ('AAA'/Outlook Negative).

Wheels, Inc.

KEY RATING DRIVERS - IDRs

Wheels' IDRs and commercial paper ratings are supported by the strength of its franchise 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 the inherent cyclicality in the commercial fleet leasing business, reliance on predominantly secured funding, and compared to other finance and leasing companies, Wheels has modestly higher balance sheet leverage. In Fitch's view, Wheels' ratings are differentiated from its peers due to the predominately open-end lease portfolio, which shifts RV risk to the lessee and minimizes loss severity in the event of customer bankruptcy.

Operating performance has remained stable for full-year 2013 and during the first quarter of 2014 (1Q'14). Earnings were modestly lower in 2013 but were the company's second highest record year. Fitch expects profitability to remain stable in the near term as Wheels increases product penetration to existing clients and continues to sign new clients and add vehicle backlog.

Historically, 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 good credit quality. The top 10 clients have an average credit rating of 'A-'. Some industry concentrations exist however this is largely mitigated by the strong underlying credit quality within these concentrations. In addition, the open-end lease structure and 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 has the flexibility to minimize its capital expenditures and redirect cash flows toward debt reduction, if necessary, should another market stress event occurs.

The company's funding profile is predominately 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 having access to the public equity markets. However, Fitch acknowledges 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, the company has a substantial pool of unencumbered assets, which could provide additional financial flexibility in times of market stress.

Overall, Fitch views Wheels' leverage, on a balance sheet basis, as modestly higher than other leasing companies but remains consistent with other 'A' rated peers. Leverage, on a total debt to equity basis, has averaged around 7x over the last several years and consistent with management's intention to manage its balance sheet responsibly. From a cash flow perspective, on the basis of total debt to EBITDA, leverage has remained relatively stable at around 2x as of 1Q14. Fitch believes that Wheels' minimal loss experience and the open-end lease structure helps to offset the modestly higher balance sheet leverage.

RATING SENSITIVITIES - IDRs

Fitch believes Wheels' ratings are likely capped in the 'A' category given the company's monoline business strategy, secured funding profile and sensitivity to general economic conditions. Upward rating movement within the 'A' category could potentially be driven by Wheels maintaining its competitive position, continuing to generate consistent operating profitability, operating with appropriate liquidity and funding levels.

Conversely, negative rating actions would be driven by significant client departures, which would negatively impact overall lease revenues that could ultimately hurt 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.

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 a top-three position in most markets where it operates. LeasePlan's fleet totalled 1.4 million vehicles at end-2013.

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 1Q'14, the company had approaching 300,000 vehicles under management.

Fitch has affirmed the following ratings:

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

The Rating Outlook is Stable.

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

The Rating Outlook is Stable.

Contact
Primary Analyst - LeasePlan
Philippe Lamaud
Director

+331 4429 91 26
Fitch France S.A.S.
60 rue de Monceau
75008 Paris

Secondary Analyst - LeasePlan
Eris Huang
Analyst
+44 20 3530 1493

Primary Analyst - Wheels
Johann Juan
Director
+1-312-368-3339
Fitch Ratings, Inc.
70 West Madison Street
Chicago, IL 60602

Secondary Analyst - Wheels
Brendan Sheehy
Director
+1-212-908-9138

Committee Chairperson
Julie Solar
Senior Director
+1-312-368-5472

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

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

Applicable Criteria and Related Research:
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