FITCH DOWNGRADES LEASEPLAN TO 'BBB+'; OUTLOOK STABLE

Fitch Ratings-London-08 February 2016: Fitch Ratings has downgraded LeasePlan Corporation NV's (LeasePlan) Long-term Issuer Default Rating (IDR) and senior debt rating from 'A-' to 'BBB+' and its Viability Rating (VR) from 'a-' to 'bbb+', and removed them from Rating Watch Negative (RWN). The Outlook is Stable. A full list of rating actions is at the end of this rating action commentary.

The downgrade primarily reflects Fitch's view that prospective dividend payments to service non-recourse acquisition debt will somewhat reduce LeasePlan's financial flexibility. LeasePlan's IDRs and senior debt ratings are driven by the company's intrinsic creditworthiness, as expressed by its VR. The VR continues to reflect LeasePlan's global market-leading vehicle leasing franchise and strong risk management, while recognising the company's business model carries a sizeable exposure to residual value risk.

KEY RATING DRIVERS
IDRS, VR AND SENIOR DEBT
The rating actions follow receipt of regulatory clearance for LeasePlan's sale by current 100% shareholder Global Mobility Holding BV (a joint venture between Volkswagen Aktiengesellschaft and Fleet Investments BV) to a consortium of long-term investors. As part of the financing of the acquisition, EUR1.55bn of new debt will be guaranteed by Lincoln Financing Holdings Pte Ltd (LFHPL), a non-operating holding company between LeasePlan and the consortium in the ownership structure (see "Fitch Assigns Lincoln Finance Ltd's Proposed Senior Secured Notes 'BB-(EXP)' Rating" dated 3 February 2016 at www.fitchratings.com). LFHPL's sole source of income at this stage will be dividends from LeasePlan.

Fitch notes that none of the new debt is to be borrowed by LeasePlan itself, nor will LeasePlan be directly responsible for the repayment of such debt. Furthermore, holding a Dutch banking licence, LeasePlan acts under the supervision of De Nederlandsche Bank (DNB), which may have powers to prohibit or restrict dividend distributions. Nonetheless, Fitch considers the servicing of acquisition-related debt by upstreaming dividends from LeasePlan's operating companies could reduce LeasePlan's internal capital generation and thereby its financial flexibility.

As the world's largest fleet and vehicle management company, LeasePlan holds leading market positions in most of its countries of operation. This geographic diversification counterbalances the group's monoline business model and renders its performance less susceptible to economic downturn in any individual market. Since 2013, profits have been boosted by a level of gains on used vehicle sales in excess of the longer-term trend, but the underlying operating performance has also remained strong.

LeasePlan's banking status is unusual among leasing companies and gives it potential access to European Central Bank (ECB) refinancing operations, if needed. It has also allowed the company to achieve a more diversified funding profile than peers through the gathering of retail savings, which has reduced reliance on wholesale funding in recent years. Most of these are eligible for the Dutch deposit guarantee scheme, which supports the retail deposits' stability. Liquidity and refinancing risk are managed prudently.

Reported regulatory risk-weighted capital ratios are sound, though LeasePlan's debt-to-tangible equity leverage is higher than that of many leasing peers. The group has a significant exposure to residual value risk via the large proportion of operating leases in its portfolio. While residual value risk cannot be entirely eliminated, as it depends on external factors such as second-hand car prices, efficient risk management has historically allowed the group to avoid material losses. Additionally, LeasePlan's strong core profitability provides it a safety cushion against moderate unexpected declines in car prices.

The Stable Outlook reflects Fitch's expectation that the new ownership will not result in LeasePlan adopting a significantly different strategy to that employed at present.

RATING SENSITIVITIES
IDRS, VR AND SENIOR DEBT
Negative rating pressure could develop from a material deterioration of the group's capitalisation or leverage, which could result from a higher than expected use of LeasePlan in servicing the acquisition debt or from a less effective management of residual value risk amid a fall in used vehicle prices. Adoption of a riskier strategy or a less conservative approach towards liquidity would also be negative for the ratings.

Ratings could benefit in the medium term from improving leverage, without evidence of increased pressure from the new owners for upward dividend flow. A significant reduction of acquisition-related debt either as a result of partial repayment or from a build-up and retention of a dedicated cash cushion at the LFHPL level would be credit positive.

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's Support Rating.

The rating actions are as follows:

Long-term IDR: downgraded to 'BBB+' from 'A-', off RWN, Outlook Stable
Short-term IDR: affirmed at 'F2'
Viability Rating: downgraded to 'bbb+' from 'a-', off RWN
Support Rating: affirmed at '5'
Senior unsecured debt Long-term rating: downgraded to 'BBB+' from 'A-', off RWN
Senior unsecured debt/commercial paper Short-term rating: affirmed at 'F2'

Contact:
Primary Analyst
David Pierce
Director
+44 20 3530 1014
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Konstantin Yakimovich
Associate Director
+44 20 3530 1789

Committee Chairperson
Erwin van Lumich
Managing Director
+34 93 323 8403

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501
Global Non-Bank Financial Institutions Rating Criteria (pub. 28 Apr 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865351