FitchRatings

Fitch Affirms LeasePlan at 'BBB+' & Lincoln Finance at 'BB-'; Outlook Stable

Fitch Ratings-London-11 October 2016: Fitch Ratings has affirmed LeasePlan Corporation NV's (LeasePlan) Long-Term Issuer Default Rating (IDR) at 'BBB+' and Viability Rating (VR) at 'bbb+' following the completion of its fleet leasing peer review. Fitch has also affirmed Lincoln Finance Ltd's (LFL) senior secured notes Long-term rating at 'BB-' and their guarantor's, Lincoln Financing Holdings Pte Limited's (LFHPL), Long-Term IDR at 'BB-'. The Rating Outlooks on LeasePlan and LFHPL's Long-Term IDRs are Stable.

A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS
LEASEPLAN's IDRS, VR, SENIOR DEBT AND SUPPORT RATING
LeasePlan's IDRs, VR and senior debt ratings are driven by the company's global, market-leading vehicle leasing franchise, strong risk management and sound funding and liquidity profile. The ratings also factor in the company's sizeable - albeit well-managed - exposure to residual value risk, its modestly higher than peers' tangible leverage, and the effects of its acquisition in March 2016 by a consortium of long-term investors.

The change of ownership was partly funded by LFL's issue of EUR1.25 billion and USD0.4 billion senior secured notes, guaranteed by new holding company, LFHPL. None of the acquisition-related debt is LeasePlan's own direct responsibility, but Fitch believes the revised group structure could still somewhat reduce LeasePlan's financial flexibility through the need to upstream dividends to service it, as LFHPL presently has no other source of income. At the same time Fitch recognises that the extent of this potential negative influence on internal capital generation is contained by LeasePlan's status as a regulated bank, as supervisor De Nederlandsche Bank (DNB) can exercise the power to prohibit or restrict upstream dividend distributions.

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

As the world's largest fleet and vehicle management company, LeasePlan holds leading market positions in most of its 32 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 gains on used vehicle sales in excess of the longer-term trend, with pre-tax return on average assets reaching 2.8% in 1H16, but the underlying operating performance has also remained strong. Fitch expects used vehicle values to begin to normalize, which will likely create modest but manageable earnings pressure on LeasePlan along with other fleet lessors.

LeasePlan's banking regulatory risk-weighted capital ratios are strong (CET1 ratio of 18.1% at end-June 2016) and improving. However, its debt-to-tangible equity leverage (6.0x at end-June 2016) is modestly higher than broader leasing peers'. The group has a significant exposure to residual value risk via the large proportion of closed-end 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. This, together with the short-term nature of LeasePlan's assets and hence strong cash flow generation capability, partly mitigates the risk of higher balance sheet leverage.

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 in the Netherlands and, since 2015, in Germany (in total 28% of end-June 2016 non-equity liabilities). Most of these deposits are eligible for the Dutch deposit guarantee scheme, which supports the deposits' stability. Wholesale funding is mostly unsecured through a range of instruments, but LeasePlan also maintains access to the securitisation market. Liquidity and refinancing risk are prudently managed.

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 light of LeasePlan's banking status and deposit taking activities Fitch used 'Global Bank Rating Criteria' dated July 15, 2016 to help inform its assessment of certain aspects of LeasePlan's standalone profile, such as operating environment (and in particular, the regulatory framework), company profile, capitalisation and leverage, and funding and liquidity.

LFHPL's IDR AND LFL's SENIOR SECURED NOTES
LeasePlan represents LFHPL's only significant asset, and neither LFHPL nor LFL will have material sources of income other than dividends from LeasePlan, while LeasePlan's regulator could prohibit or restrict upstream dividend distributions. There are no cross-guarantees of debt between LFL and LeasePlan. In Fitch's view, debt issued by LFL is sufficiently isolated from LeasePlan so that failure to service it, all else being equal, may have limited implications for the creditworthiness of LeasePlan. Consequently, the instrument rating is based on the standalone profile of LFL and the guarantor.

LFHPL commenced ownership of LeasePlan with an interest reserve account containing cash covering 2.6 years of LFL's coupon payments on the senior secured notes, and an interest coverage account covering an additional 1.8 years. This eases LFL's initial debt service pressure and potential upstream dividend demands placed up LeasePlan. LFHPL is also covenanted to maintain at least this same level of cash coverage in the interest reserve account thereafter. However, replenishment of this cash will be dependent both on LeasePlan's ongoing ability to generate profits and on DNB approval for their distribution in dividend form.

RATING SENSITIVITIES
LEASEPLAN's IDRS, VIABILITY RATING 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.

Fitch currently does not expect changes to LeasePlan's Support Rating.

LFHPL's IDR AND LFL's SENIOR SECURED NOTES
Both the IDR of LFHPL and the rating of LFL's notes are correlated with the ratings of LeasePlan. The ratings would also be negatively affected by significant depletion of liquidity within LFHPL which affects its ability to service its debt obligations. This would most likely be prompted by a material fall in earnings within LeasePlan restricting its capacity to pay dividends.

Positive rating action would likely stem from an accumulation of significant additional cash within LFHPL, accompanied by expectation of its retention there, as this would reduce the dependence of ongoing debt service on future LeasePlan dividends.

The ratings could also be sensitive to the addition of new liabilities or assets within LFHPL, but the impact would depend on the balance struck between increasing LFHPL's debt service obligations and diversifying its income away from reliance on LeasePlan dividends.

Fitch has affirmed the following ratings:

LeasePlan
--Long-term IDR at 'BBB+', Outlook Stable;
--Short-term IDR at 'F2';
--Viability Rating at 'bbb+';
--Support Rating at '5';
--Senior unsecured debt Long-term rating at 'BBB+';
--Senior unsecured debt and commercial paper short-term rating at 'F2'.

LFHPL
--Long-term IDR at 'BB-', Outlook Stable.

LFL
--Senior secured notes long-term rating at 'BB-'.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 15 Jul 2016) (https://www.fitchratings.com/site/re/884135)
Global Non-Bank Financial Institutions Rating Criteria (pub. 15 Jul 2016) (https://www.fitchratings.com/site/re/884128)

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