FITCH PUTS LEASEPLAN ON RATING WATCH POSITIVE; AFFIRMS LINCOLN

Fitch Ratings-London-05 October 2018: Fitch Ratings has placed LeasePlan Corporation NV's (LeasePlan) Long-Term Issuer Default Rating (IDR) of 'BBB+', Short-Term IDR of 'F2' and Viability Rating (VR) of 'bbb+' on Rating Watch Positive (RWP). At the same time, Fitch has affirmed the long-term rating of Lincoln Finance Ltd's (LFL) senior secured notes at 'BB-' and the Long-Term IDR of the notes' guarantor, Lincoln Financing Holdings Pte Limited (LFHPL), at 'BB-'. A full list of rating actions follows at the end of this commentary.

The rating actions follow completion of Fitch's commercial fleet leasing peer review, and LeasePlan's announcement on 4 October that the group intends to seek a listing of its shares on Euronext Amsterdam and Euronext Brussels. Details of the proportion of shares to be listed remain to be confirmed.

KEY RATING DRIVERS
LEASEPLAN's IDRS, VR, SENIOR DEBT AND SUPPORT RATING
The RWP on LeasePlan's IDRs and VR reflects Fitch's expectation that LeasePlan's financial flexibility will be improved following the IPO. Since early 2016, LeasePlan has been ultimately owned by a private equity led investor consortium, via a holding company, LFHPL, which is outside LeasePlan's regulatory ring-fence, and which issued debt of around EUR1.65 billion via its financing subsidiary, LFL, to support the purchase. Fitch downgraded LeasePlan at the time to 'BBB+' from 'A-' in view of the potential for the owners to apply more aggressive capital management to LeasePlan, and Fitch now expects the listing to reduce that risk and create a more diversified ownership structure.

The IDRs, VR and senior debt ratings of LeasePlan are driven by its franchise position as one of the world's leading vehicle leasing companies, its regulation as a deposit-taking bank by De Nederlandsche Bank (DNB) and its stable and diversified funding profile. The ratings also take into account its sizeable (but historically well-managed) exposure to residual value risk, and the presence of holding company debt in addition to LeasePlan's own direct obligations.

LeasePlan manages approximately 1.8 million vehicles, across over 30 countries, in many of which it holds leading market positions. This geographic diversification counterbalances the group's monoline business model and renders the group's performance less susceptible to economic downturn in any individual market.

LeasePlan's regulated bank status is unusual among lessors, and risk-weighted capital ratios are sound (CET1 ratio of 17.3% at end-June 2018). Its banking licence has also allowed LeasePlan to achieve a more diversified funding profile than peers via the gathering of retail savings in the Netherlands and Germany. At end-June 2018 these totalled 28% of non-equity liabilities, consistent with a year earlier, and most are eligible for regulatory deposit guarantee schemes, which supports their stability. LeasePlan also has a long-established track record in raising finance in wholesale markets, and, as a bank, potential access to European Central Bank refinancing operations, if needed.

Residual value risk arises via the large proportion of closed-end operating leases in LeasePlan's portfolio, and cannot be entirely eliminated, as it depends on external factors such as second-hand car prices. However, efficient risk management has historically allowed LeasePlan to avoid material losses from this source, and in most years to record net gains on sale as a supplement to its core earnings. Net vehicles sales revenue fell in 2017 to EUR157 million (2016: EUR186 million), but this was more than offset by growth in lease services and other associated revenue streams. Fitch expects continued near-term pressure on used vehicle values, but that the impact on LeasePlan's earnings will be manageable given the group's other more stable income streams.

LeasePlan's Support Rating of '5' indicates Fitch's view that while institutional support from the group shareholders might be possible, it cannot be relied upon in its ratings.

In light of LeasePlan's banking status and deposit-taking activities, Fitch used its "Bank Rating Criteria" dated 22 June 2018 to help inform its assessment of certain aspects of LeasePlan's standalone profile, such as operating environment (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 have material sources of income other than its upstreamed dividends. There are no cross-guarantees of debt between LFL and LeasePlan, and LeasePlan's regulator could prohibit or restrict dividend distributions. In Fitch's view, debt issued by LFL is sufficiently isolated from LeasePlan to limit the implications for LeasePlan's own creditworthiness if it fails to service it. Consequently, the senior secured notes' rating is based on the standalone profiles of LFL and LFHPL as guarantor, rather than on notching from LeasePlan.

LFHPL holds an interest reserve account and an interest coverage account, which totalled EUR311 million at end-1H18, equivalent to 3x the annual interest expense of the senior secured notes. LFHPL is also covenanted to maintain at least 2.5 years' cash coverage in the interest reserve account, providing additional near-term visibility over debt service cover.

RATING SENSITIVITIES
LEASEPLAN's IDRS, VR AND SENIOR DEBT
If the IPO is completed as anticipated, Fitch expects to upgrade LeasePlan's Long-Term IDR and VR by one notch to 'A-' and 'a-' respectively, reflecting LeasePlan's likely improved financial flexibility. However, should the IPO not proceed, or LeasePlan's structure following it entails material servicing obligations within remaining holding companies, Fitch would be likely to affirm LeasePlan's IDRs and VR at current levels.

The RWP on LeasePlan's Short-Term IDR takes into account that Short-Term IDRs for issuer with a Long-Term IDR of 'A-' can correspond to either 'F2' or 'F1'. Should LeasePlan's Long-Term IDR be upgraded to 'A-' then its Short-Term IDR could be upgraded to 'F1' depending on the strength of LeasePlan's liquidity profile following the IPO.

Negative rating pressure could develop from material deterioration in the group's capitalisation or leverage, which could result from less effective management of residual value risk amid a fall in used vehicle prices. Demonstration of an increased risk appetite or a less conservative approach towards liquidity management would also be negative for the ratings.

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

LFHPL's IDR AND LFL's SENIOR SECURED NOTES
LFHPL's IDR and LFL's notes' rating are not directly notched from LeasePlan's IDR. However, as LeasePlan represents LFHPL's principal asset and source of income, material change in LeasePlan's financial strength represents a key sensitivity for LFHPL's IDR and LFL's notes' rating.

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.

Fitch has taken the following rating actions:

LeasePlan
Long-Term IDR 'BBB+' placed on Rating Watch Positive
Short-Term IDR 'F2' placed on Rating Watch Positive
Viability Rating 'bbb+' placed on Rating Watch Positive
Support Rating affirmed at '5'
Long-term senior unsecured debt rating 'BBB+' placed on Rating Watch Positive
Short-term senior unsecured debt and commercial paper rating 'F2' placed on Rating Watch Positive

LFHPL
Long-Term IDR affirmed at 'BB-', Outlook Stable.

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

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Applicable Criteria
Bank Rating Criteria (pub. 22 Jun 2018)
https://www.fitchratings.com/site/re/10034713
Non-Bank Financial Institutions Rating Criteria (pub. 22 Jun 2018)
https://www.fitchratings.com/site/re/10034715

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