FitchRatings

Fitch Affirms LeasePlan at 'BBB+'; Off RWP; Outlook Stable

Fitch Ratings-London-15 October 2018: Fitch Affirms LeasePlan at 'BBB+'; Off RWP; Outlook Stable

Fitch Ratings has affirmed LeasePlan Corporation N.V.'s (LeasePlan) Long-Term Issuer Default Rating (IDR) at 'BBB+' and Viability Rating (VR) at 'bbb+' and removed them from Rating Watch Positive (RWP). Fitch has also 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-'. 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 Rating Action Commentary.

The rating actions follow LeasePlan's statement on 11 October 2018 that its shareholders have decided not to proceed at present with the planned initial public offering (IPO) it announced on 4 October 2018, on account of market conditions.

KEY RATING DRIVERS

LEASEPLAN's IDRS, VR, SENIOR DEBT AND SUPPORT RATING

The removal of the RWP reflects the reduced near-term likelihood of LeasePlan's financial flexibility improving, as Fitch had expected from an IPO. Since early 2016, LeasePlan has been ultimately owned by a private equity-led investor consortium, via LFHPL, a holding company outside LeasePlan's regulatory ring fence. To support the 2016 purchase LFL, a financing subsidiary of LFHPL, issued around EUR1.65 billion of senior secured notes, which have been reliant on upstreamed dividends from LeasePlan for their servicing. Fitch had expected an IPO to move LeasePlan to a more diversified ownership structure, subject to reduced risk of aggressive capital management.

The affirmations of LeasePlan's IDRs, VR and senior debt ratings 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 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 (common equity Tier 1 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 support their stability. LeasePlan also has a long-established 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 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. At end-1H18, LFHPL had accumulated material additional cash outside the interest coverage and interest reserve accounts, but is not required by covenant to retain it.

RATING SENSITIVITIES
LEASEPLAN's IDRS, VR AND SENIOR DEBT
Repayment of LFL's debt issuance, via an IPO or other means, would have positive implications for LeasePlan's ratings, as it would improve financial flexibility by removing the residual need to upstream dividends with which to service LFL's obligations.

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.

LEASEPLAN'S SUPPORT RATING
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, a 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.

The rating actions are as follows:
LeasePlan
--Long-Term IDR: affirmed at 'BBB+', off RWP, Outlook Stable;
--Short-Term IDR: affirmed at 'F2', off RWP;
--Viability Rating: affirmed at 'bbb+', off RWP;
--Support Rating: affirmed at '5';
--Long-Term senior unsecured debt rating: affirmed at 'BBB+', off RWP;
--Short-Term senior unsecured debt and commercial paper rating: affirmed at 'F2', off RWP.
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. 12 Oct 2018) (https://www.fitchratings.com/site/re/10044408)
Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018) (https://www.fitchratings.com/site/re/10044407)

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