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Research Update:

Dutch Bank LeasePlan Outlook Revised To Stable From Positive; Ratings Affirmed

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Overview

- LeasePlan continues to display a solid operating performance in most markets where it operates, while executing its medium-term growth strategy.
- However, LeasePlan recently announced a material impairment charge in relation to its Turkish operations, slowing the pace at which consolidated capitalization is strengthening.
- We are therefore revising our outlook on LeasePlan to stable from positive, and affirming our 'BBB-/A-3' ratings on LeasePlan and our 'BB+' rating on intermediate nonoperating holding company Lincoln Financing Holdings PTE Ltd.
- The stable outlook on LeasePlan reflects our view that the group's ongoing successful growth strategy will continue to support its earnings capacity and capital building.
- The stable outlook on Lincoln reflects our view that double leverage will continue to reduce, albeit remaining relatively high over the next 12 months.

Rating Action

On Nov. 27, 2018, S&P Global Ratings revised its outlook on The Netherlands-based LeasePlan Corporation N.V. to stable from positive. At the same time, we affirmed our 'BBB-/A-3' long- and short-term issuer credit ratings on LeasePlan.

We also affirmed our 'BB+' long-term issuer credit rating on intermediate nonoperating holding company Lincoln Financing Holdings PTE Ltd. The outlook remains stable.

Rationale

We believe LeasePlan will continue to execute its medium term strategy, focused on solidifying its position in its core markets and improving efficiency. This strategic focus supports the group's current profitable business model and internal capital generation, in our view. Solid operating performance is key to enhancing the group's financial flexibility, but this is currently constrained by high double leverage at the ultimate holding company, and to gradually strengthening its consolidated capital position.

However, LeasePlan's underlying net result decreased by 13.6% in the first nine months of 2018, compared with the same period in 2017, mainly due to a €84 million additional impairment charge in relation to LeasePlan's Turkish fleet. The total impairment on the Turkish lease contracts as of Sept. 30 2018 was €87 million and the inventory write-down was €15 million. Due to the depreciation of the Turkish lira, LeasePlan is exposed to the risk that the cars' resale value will be lower than the initial estimate value. LeasePlan has indicated that its combined residual value and inventory balance sheet position in Turkey is about €500 million. We understand it represents less than 3% of its total exposure, which is manageable in our view. The only other country where LeasePlan is exposed to transactional foreign currency risk is Romania, and this exposure is much smaller.

We understand that common market practice in Turkey was to price lease contracts in euro, whereas vehicles at contract-end were sold in local currency. This is no longer possible following a change in local legislation. Correlation between inflation rates and foreign currency exchange rates tends to mitigate the transactional foreign currency risk, except when there is a more rapid depreciation of the local currency, which has been the case in recent times. We understand that LeasePlan is not experiencing a material deterioration of default risk in Turkey but we cannot exclude that the situation will deteriorate further, given our central economic scenario for the country.

Currently, overall asset quality indicators appear to be resilient. We note that the amount of credit-impaired lease receivables has increased only modestly since the beginning of the year, standing at about €34 million versus €29 million at year-end 2017.

In addition, revenues during the first nine months of the year increased by 2.4% compared with the same period in 2017, and the reported underlying return on equity was 14.3% (17.2% excluding impairment on the Turkish fleet). LeasePlan has indicated that it expects revenues from vehicle disposals will continue to decrease, compensated by the revenue stream from other business lines.

We base our rating on Lincoln on our view of it as a nonoperating holding company. We currently maintain a one-notch gap between our rating on Lincoln and our rating on LeasePlan to reflect Lincoln's reliance on dividends to meet its obligations. There is no further notching for structural subordination, since we consider that potential regulatory barriers to cash flows will exist only between LeasePlan as an operating company and LeasePlan's holding company, LeasePlan Group B.V. (The Netherlands). We do not consider that there will be further potential barriers to cash flows beyond LeasePlan Group B.V. to Lincoln.

We estimate that double leverage at Lincoln will remain above 120% over the next 12 months compared with just above 150% at present. Lincoln's cash interest coverage currently supports debt-servicing capacity and there is no short-term debt. However, Lincoln's liquid assets do not cover the absolute amount of double leverage, which could strain its liquidity over the medium term, especially since its cash inflow relies on ongoing profitability at LeasePlan and the regulator's approval of dividends. We believe these risks are consistent with our rating on Lincoln, with limited rating upside. We note that the €480 million mandatory exchangeable facility issued in March 2016 has a three year conversion feature. This is a neutral rating factor under our base case because we assume that in March 2019 it will either convert into equity or be replaced by an instrument with similar equity content.

Outlook

LeasePlan Corporation N.V.

The stable outlook on LeasePlan reflects our view that the group's ongoing successful growth strategy will continue to support its earnings capacity and capital building. This should contribute to the gradual reduction of double leverage at the ultimate holding company level, but remain a constraining factor for an upgrade. We also expect credit risk metrics will remain broadly supportive of the current rating, assuming a controlled situation in Turkey. Furthermore, we do not expect that the postponement of the IPO announced in October 2018 will result in a more aggressive financial policy or risk appetite.

We could raise our ratings on LeasePlan in the next 24 months if, combined with a prolonged track record of low credit losses, we continue to observe a stable risk appetite, satisfactory profitability, and financial capacity to reduce the currently high double-leverage ratio to below 120%.

We could lower our rating if LeasePlan's operating performance deteriorates significantly because of asset quality issues, which could put pressure on the group's ability to reduce double leverage. We could also lower the rating if its capital position weakens. This could result from acquisitive growth, which could entail increasing leverage, or a material upstreaming of dividends to the group's ultimate shareholders.

Lincoln Financing Holdings PTE Ltd.

The stable outlook on Lincoln reflects our view that double leverage will continue to reduce and debt servicing will remain supportive. However, over the next 12 months, we believe that double leverage will remain relatively high, thereby potentially constraining Lincoln's liquidity.

We could lower the ratings in the next 12 months if we observe an increase in double leverage, for example following further debt issuance at Lincoln, or if Lincoln's debt-servicing capacity reduces.

We consider an upgrade of Lincoln to be unlikely in the next 12 months.

However, we could raise the ratings if Lincoln's liquidity strengthens beyond our current expectations, or if double leverage diminishes to levels that reduce the potential liquidity risk for Lincoln.

Ratings Score Snapshot

LeasePlan Corporation N.V.

	To	From
Issuer Credit Rating	BBB-/Stable/A-3	BBB-/Positive/A-3
SACP	bbb-	bbb-
Anchor	bbb+	bbb+
Business position	Moderate (-1)	Moderate (-1)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding and Liquidity	Below average and (-1) Adequate	Below average and Adequate (-1)
Support	(0)	(0)
ALAC	(0)	(0)
GRE	(0)	(0)
Group	(0)	(0)
Sovereign	(0)	(0)
Additional factors	(0)	(0)

ALAC--Additional loss-absorbing capacity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And

Assumptions, Nov. 9, 2011

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
LeasePlan Corporation N.V.		
Issuer Credit Rating	BBB-/Stable/A-3	BBB-/Positive/A-3
Senior Unsecured	BBB-	BBB-

Ratings Affirmed

Lincoln Financing Holdings PTE Ltd.	
Issuer Credit Rating	BB+/Stable/--
Lincoln Finance Ltd.	
Senior Secured (1)	BB+

(1)Guaranteed by Lincoln Financing Holdings PTE Ltd.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.