

Rating Action: Moody's affirms LeasePlan's long-term ratings of Baa1 with a stable outlook

17 Dec 2019

BCA affirmed at baa3

Paris, December 17, 2019 -- Moody's Investors Service (Moody's) today affirmed the Baa1 long-term deposit, issuer and senior unsecured ratings of LeasePlan Corporation N.V. (LeasePlan). The outlook is stable. Moody's also affirmed LeasePlan's baseline credit assessment (BCA) of baa3 and its Adjusted BCA of baa3.

Moody's also affirmed all other ratings and assessments, including Lincoln Financing S.a.r.l.'s senior secured notes rating.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

BCA

LeasePlan's lease portfolio's credit quality is robust, reflecting the bank's focus on large international corporate clients that are well diversified across sectors and countries, as well as the low level of losses on its operating lease contracts. Nonetheless LeasePlan bears significant "residual value risk" on its operating lease portfolio, which is inherent to its business and partly offsets the portfolio's strong credit quality in Moody's assessment of the bank's asset risk. Moody's also believes that LeasePlan has set "residual values" in a higher and therefore less conservative manner between the end of 2015 and mid-2018, the negative effect of which will likely materialize in asset impairments or lower end-of-contract results (e.g. profits stemming from the disposal of cars coming off leasing contracts in the secondary markets) over the coming two to three years.

LeasePlan's revenue generating capacity is high, reflecting its strong franchise and leading position in the European car leasing market. In addition to comfortable interest margins, the bank draws substantial revenues from related services. Despite good business momentum, Moody's expects the decrease in end-of-contract results and higher operating expenses due to investments in CarNext.com and IT system to weigh on the bank's bottom-line profit over the coming two years. The upgrade of the IT system needs to be started anew since LeasePlan decided to discontinue its Core Leasing System (CLS) in June 2019 after a development phase of more than two years, and to write down this investment in its books accordingly.

The bank's reliance on confidence-sensitive wholesale funding is high. The risks of a temporary lack of access to funding, however, are mitigated by the matched funded structure of its balance-sheet, its diversified funding sources which included 34% of retail deposits at end-June 2019, and a comfortable liquidity buffer.

Moody's still considers that the governance of LeasePlan in place since the leveraged buy-out of the company by a consortium of pension funds, sovereign wealth funds and private equity funds in 2016 creates a tension between the respective interests of LeasePlan's creditors and its shareholders. The main risk is that of a corporate strategy which favours short-term profits at the expense of the operating company's long-term creditworthiness and sustainability. The lack of stability in the bank's management team since mid-2018 is also negative.

The risks of an overly aggressive financial policy are partly mitigated by the bank's high capitalisation and its status as a regulated credit institution. The rating agency's one-notch negative adjustment for corporate behaviour reflects the above factors as well as the residual risk of the need to upstream substantial profit which could lead to changes in the company's direction and risk profile, or constrain earnings retention and capital, reducing financial flexibility in case of unexpected shocks.

Moody's also continues to apply a negative one-notch adjustment given Leaseplan's focus on a narrow product suite, as for similar monoline issuers.

LEASEPLAN'S RATINGS

The Baa1 long-term deposit and senior unsecured debt ratings reflect: (1) the bank's BCA of baa3; and (2) two notches of uplift under Moody's Advanced Loss Given Failure (LGF) analysis, reflecting the very low loss rate that senior debtholders and depositors are likely to incur in a resolution scenario, given the large volume of senior unsecured debt issued by the bank.

The analysis shows a high loss-given-failure for LeasePlan's AT1 securities, corresponding to one notch below the bank's Adjusted BCA of baa3. The rating agency incorporates two additional downward notches in order to reflect coupon suspension risk ahead of failure, leading to an assigned rating of Ba3(hyb), three notches below the Adjusted BCA.

Moody's expects only a low probability of government support for LeasePlan's debts, given its relatively small size, resulting in no additional uplift.

The stable outlook on LeasePlan's long-term debt and deposit ratings reflects Moody's expectation that there will be no significant changes in the bank's fundamentals nor in its liability structure that could affect the ratings over the outlook horizon.

LINCOLN FINANCING S.A.R.L. (LINCOLN)

The B1 rating of Lincoln's senior secured notes is driven by: (1) the baa3 BCA of LeasePlan; (2) the deeply subordinated position of the instrument and high expected loss-given-failure; and (3) the fact that LeasePlan, as a regulated bank, could be constrained in its ability to pay dividends, which could impair Lincoln's ability service its debt. The B1 rating is therefore four notches below LeasePlan's baa3 BCA, reflecting the structural subordination of the senior secured notes and the significant double leverage incurred at Lincoln, which results in additional default risk.

WHAT COULD CHANGE THE RATINGS UP/DOWN

An upgrade of LeasePlan's BCA is unlikely in the foreseeable future, considering that the owners are private equity investors who are expected to constrain any further material improvement in the bank's solvency, and that profitability, in the near-term, is under pressure. An upgrade could nonetheless be triggered by a substantial improvement in capital or in its funding profile.

LeasePlan's BCA and long-term ratings may be downgraded if the shareholders were to implement a more aggressive financial policy at the bank. In addition, the BCA could be downgraded as a result of: (1) the failure of risk-mitigation techniques, recurring earnings or capital resources to adequately cover higher-residual-value risk; (2) an evidence of deterioration in the bank's liquidity and funding profiles, resulting from increased reliance on wholesale funding or worse-than-expected liquidity gaps; or (3) a structural deterioration in profitability or the diversity of income streams. A downgrade of LeasePlan's BCA would result in a downgrade of the bank's long-term ratings.

The ratings could also be downgraded if there were a significant and sustained decline in the debt loss-absorption capacity, resulting in higher loss-given-failure for one or more instrument classes.

LIST OF AFFECTED RATINGS

Issuer: LeasePlan Corporation N.V.

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed A3

....Short-term Counterparty Risk Ratings, affirmed P-2

....Long-term Bank Deposits, affirmed Baa1, outlook remains Stable

....Short-term Bank Deposits, affirmed P-2

....Short-term Deposit Note /CD Program, affirmed P-2

....Long-term Counterparty Risk Assessment, affirmed A3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-2(cr)

...Long-term Issuer Rating, affirmed Baa1, outlook remains Stable
...Baseline Credit Assessment, affirmed baa3
...Adjusted Baseline Credit Assessment, affirmed baa3
...Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook remains Stable
...Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1
...Preferred Stock Non-cumulative, affirmed Ba3(hyb)
...Backed Commercial Paper, affirmed P-2
...Other Short Term, affirmed (P)P-2

..Outlook Action:

...Outlook remains Stable

Issuer: LeasePlan Australia Limited

..Affirmations:

...Backed Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1
...Backed Commercial Paper, affirmed P-2
...Backed Other Short Term, affirmed (P)P-2

..Outlook Action:

...Outlook changed to No Outlook from Stable

Issuer: LeasePlan Finance N.V. (DUBLIN BRANCH)

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed A3
...Short-term Counterparty Risk Ratings, affirmed P-2
...Long-term Counterparty Risk Assessment, affirmed A3(cr)
...Short-term Counterparty Risk Assessment, affirmed P-2(cr)
...Backed Commercial Paper, affirmed P-2

..Outlook Action:

...Outlook changed to No Outlook from Stable

Issuer: Lincoln Financing S.a.r.l.

..Affirmations:

...Backed Senior Secured Regular Bond/Debenture, affirmed B1, outlook remains Stable

..Outlook Action:

...Outlook remains Stable

PRIMARY METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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