FitchRatings

RATING ACTION COMMENTARY

Fitch Revises LeasePlan's Outlook to Negative; Affirms at 'BBB+'

Mon 20 Apr, 2020 - 12:49 PM ET

Fitch Ratings - Frankfurt am Main - 20 Apr 2020: Fitch Ratings has revised LeasePlan Corporation N.V.'s (LeasePlan) and Lincoln Financing Holdings Pte Limited's (LFHPL) Outlook to Negative from Stable on increasing coronavirus-related risks. At the same time, Fitch has affirmed LeasePlan's and LFHPL's Long-Term Issuer Default Ratings (IDRs) at 'BBB+' and 'BB-', respectively. LeasePlan's Short-Term IDR was downgraded to 'F2' from 'F1'. A full list of rating actions is detailed below.

The rating actions reflect Fitch's view that the coronavirus-related negative impact on LeasePlan's main European markets will negatively affect a number of LeasePlan's financial profile metrics, notably earnings, profitability and asset quality. In particular, Fitch believes that residual value and customer-credit risks will remain elevated in the medium-term and that lockdown measures will put pressure on LeasePlan's revenue generation in the short- to medium-term.

KEY RATING DRIVERS

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LEASEPLAN - IDRs, VR, SENIOR UNSECURED DEBT AND SUPPORT RATING

The Negative Outlook on LeasePlan's Long-Term IDR reflects Fitch's view that the rating could be downgraded if the economic and financial market disruption arising from the pandemic is likely to reach a level that places sustained pressure on LeasePlan's financial profile, in particular on asset quality (including residual value risk) and profitability. However, Fitch also believes that while downside risks have increased, LeasePlan has headroom to emerge from the crisis with its ratings intact due to the relative strength of its financial profile at its rating level.

The downgrade of LeasePlan's Short-Term IDR reflect Fitch's view that while the company's funding and liquidity profile remains robust in the current challenging market environment, it is no longer perceived to be exceptionally strong for the current rating level.

The affirmations of LeasePlan's IDRs, Viability Rating (VR) and senior debt and programme ratings are underpinned by the company's established market position as a leading global vehicle leasing company with a presence in over 30 countries worldwide and a fleet of around 1.9 million vehicles, its status as a regulated bank under the supervision of the De Nederlandsche Bank (DNB), its well-diversified funding profile and sound liquidity position.

The ratings also reflect LeasePlan's exposure to residual value risk arising from the company's closed-end operating lease business model (albeit historically prudently managed). They further factor in Fitch's view that LeasePlan's capital management (including dividend upstream) is potentially more aggressive than peers' due to the company's private equity owners' requirements to service Lincoln Financing S.a.r.l's (LF) sizeable senior secured debt (EUR1.85 billion).

LeasePlan's status as a regulated bank is fairly unique among fleet lessors, which in Fitch's view enhances its overall credit profile. LeasePlan's capitalisation remained adequate at end-2019 with a common equity Tier 1 (CET1) ratio at 17.7% (2018: 18.3%) and a total capital ratio at 20.4% (2018: 18.3%). LeasePlan maintains a prudent buffer above minimum requirements, which was bolstered by the DNB decision in March 2020 to temporarily suspend capital buffer requirements.

Unweighted leverage is somewhat elevated for LeasePlan, with the gross debt-to-tangible equity ratio reported at around 6x at end-2019 (2018: 6.7x) but is mitigated by a materially stronger net leverage position and the relative stickiness of its retail deposit base.

LeasePlan's funding profile is diversified by type, with retail deposits (largely within national deposit guarantee scheme limits) accounting for 33% of non-equity funding at end-2019, senior unsecured debt issuance at 40%, secured funding (largely ABS) at 11% and bank lines and other sources at 16%. While Fitch expects wholesale funding access to remain more costly in the medium-term, LeasePlan has continued to access wholesale markets by issuing a EUR500 million green bond in early April 2020.

For 2019, LeasePlan reported net income of EUR403 million (2018: EUR424 million), with the yoy reduction in net income predominantly due to the discontinuation of developments on its core leasing IT system, which resulted in a EUR92 million impairment charge. However, core earnings from leasing operations (excluding non-recurring impairment changes) remained sound. Fitch expects profitability to come under pressure in 2020 due to deferred fleet investments by clients, pressure on lease extension rates and material pressure on its net disposal result.

LeasePlan's Support Rating of '5' indicates Fitch's view that while institutional support from the company's shareholders is possible, it cannot be relied upon.

In light of LeasePlan's banking status and deposit-taking activities, Fitch used its Bank Rating Criteria to assess 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 LF's SENIOR SECURED NOTES

The Negative Outlook on LFHPL's Long-Term IDR reflects Fitch's view that LeasePlan's ability to upstream dividends - while sound - has incrementally weakened as reflected in the Negative Outlook on LeasePlan's Long-Term IDR.

The affirmation of LFHPL's Long-Term IDR and LF's bond rating reflect Fitch's view that LFHPL's interest coverage (notably its one-year upstream dividend and interest income/one year's holdco interest expense ratio) remains commensurate with the 'BB-' rating. The ratings also remain supported by covenants of the senior secured notes, including the requirement for LF to maintain an interest reserve account targeting a cash balance that corresponds to a minimum of 2.5 years of coupon payments on the senior secured notes.

LeasePlan continues to represent LFHPL's only significant asset, and neither LFHPL nor LF are expected to have any material source of income other than dividends from LeasePlan. There are no cross-guarantees of debt between LF and LeasePlan, and the ratings reflect the structural subordination of LFHPL's and LF's creditors to those of LeasePlan. In Fitch's view, debt issued by LF is sufficiently isolated from LeasePlan so that failure to service it, all else being equal, would have limited implications for LeasePlan's creditworthiness. Consequently, the instrument rating is based on the standalone profiles of LF and LFHPL as the issuance guarantor.

RATING SENSITIVITIES

LEASEPLAN's IDRS, VR AND SENIOR DEBT

The most immediate rating downside risk for LeasePlan is the economic and financial market fallout arising from the coronavirus outbreak as this represents a clear risk to our assessment of its asset quality and earnings.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

-A material increase in residual-value risks leading to net losses from fleet disposals materially negatively affecting profitability;

-A material drop in operating lease income, in particular if beyond 3Q20;

-A sharp increase in impairment charges on loans and receivables; or

-Inability to maintain its currently adequate liquidity and funding profile due to increased refinancing risks.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

The Outlook on the Long-Term IDR could be revised back to Stable if the impact of the pandemic on LeasePlan's main markets is short and the recovery relatively fast, given LeasePlan's currently strong profitability and sound track record in managing residual-value risks;

In the event LeasePlan is able to withstand rating pressure arising from the pandemic, the most likely trigger for an upgrade would be a more favourable assessment of the capitalisation and leverage score, for instance as a result of a material reduction in LF's debt, reducing the need to upstream sizeable dividend;

-An upgrade of LeasePlan's Short-Term IDR would either require an upgrade of LeasePlan's Long-Term IDR or a more favourable assessment of the funding and liquidity score.

LEASEPLAN'S SUPPORT RATING

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

LFHPL's IDR AND LF's SENIOR SECURED NOTES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

-LFHPL's Long-Term IDR and the notes' rating are sensitive to any significant depletion of liquidity close to covenanted levels that would affect its ability to continue 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 or externally imposed restrictions on dividend payments.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

-Positive rating action would likely require the accumulation of significant additional cash within LFHPL, accompanied by the expectation of its retention, as this would reduce the dependence of 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.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

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RATING ACTIONS

ENTITY/DEBT	RATING		
LeasePlan Corporation N.V.	LT IDR	BBB+	Affirmed
	ST IDR	F2	Downgrade
	Viability	bbb+	Affirmed
	Support	5	Affirmed
• senior unsecured	LT	BBB+	Affirmed
• senior unsecured	ST	F2	Downgrade

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

LeasePlan Corporation N.V.	EU Issued
Lincoln Financing Holdings Pte. Limited	EU Issued
Lincoln Financing S.a.r.l	EU Issued

management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.
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