FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms LeasePlan at 'BBB+'; Outlook Negative

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Fitch Ratings - Frankfurt am Main - 21 Sep 2020: Fitch Ratings has affirmed LeasePlan Corporation N.V.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' and Viability Rating (VR) at 'bbb+'. Fitch has also affirmed Lincoln Financing S.a.r.l (LF) senior secured notes' long-term rating at 'BB-' and the Long-Term IDR of the notes' guarantor, Lincoln Financing Holdings Pte Limited (LFHPL), at 'BB-'. LeasePlan's Short-Term IDR has been affirmed at 'F2'. The Outlooks on LeasePlan and LFHPL's Long-Term IDRs are Negative.

KEY RATING DRIVERS

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

The affirmation of LeasePlan's IDRs, VR and senior debt and programme ratings reflects its market leading position in the global vehicle leasing sector (with a vehicle fleet of around 1.8 million vehicles in more than 30 countries), its status as a regulated bank under the supervision of the De Nederlandsche Bank (DNB) as well as its sound financial profile. This is balanced against its exposure to residual value risk arising from its focus on closed-end operating leases as well as well as Fitch's view that LeasePlan's capital management (including dividend upstream) is potentially more aggressive than peers due to its private equity owners' requirements to service LF's sizeable senior secured debt (EUR1.85 billion).

The Negative Outlook on LeasePlan's Long-Term IDR reflects our view of prevailing risks to its financial profile arising from the coronavirus pandemic, in particular pressure on residual values and customer credit profiles potentially undermining asset quality and earnings generation over the short to medium term. However, Fitch also believes that pandemic related risks have been well managed to date and LeasePlan has a degree of financial headroom relative to its current rating.

Fitch's Global Economic Outlook published on 7 September 2020 forecast global GDP in 2020 to contract by 4.4%; improved from a 4.6% contraction forecast in June, noting that the initial phase of economic recovery from coronavirus-related lockdowns has been faster than expected. Even though the coronavirus has yet to be contained, Fitch's base case assumption assumes that major advanced economies will avoid renewed national lockdowns, but economic activity will not fully return to pre-coronavirus levels until late 2022 in the eurozone.

LeasePlan's ratings take into account its status as a regulated bank, which in our view enhances the company's overall credit profile. Aside from relatively cheap funding access via retail deposits (largely in Germany and the Netherlands), this pertains in particular to prudential regulatory requirements, most notably minimum capital ratios. At end-1H20, LeasePlan's common equity Tier 1 ratio and total capital ratio stood at 16.9% (end 2019: 17.7%) and 19.5% (end 2019: 20.4%), respectively, with the reduction caused by an increase in risk-weighted assets due to the transition to the standardised approach for operational risk effective 1 January 2020. Nevertheless, we consider both measures as adequate in the context of its business model.

Leverage is a relative weakness in LeasePlan's credit profile (scored 'bbb'), reflecting that capital generation may be more vulnerable to severe asset quality and market value shocks, particularly in the current environment. At end-1H20, the gross debt to tangible equity ratio stood at an elevated 7.2x (end 2019: 7.0x) and has been edging up in recent years, driven by both rising retail deposits and access to capital markets to fund ongoing fleet investments. Net leverage is notably stronger (5.3x in 1H 2020) and has been relatively stable in recent years, highlighting the company's prudent liquidity position, which remains underpinned by a reasonably sticky retail deposit base.

LeasePlan benefits from a well-diversified funding profile, comprising a mix of senior unsecured debt issuance (40% non-equity funding at end-2019), retail deposits (33%), secured funding (11% - largely ABS) and bank lines and other sources (16%). Funding visibility is sound, with no major upcoming debt maturities over the near term. Our assessment of funding also recognises LeasePlan's demonstrated capital market access in recent years, most recently the issuance of its second green bond of EUR500 million in early April 2020. LeasePlan's liquidity position remains robust, with its liquidity buffer of EUR8.55 billion as at end-1H20 comprising EUR7 billion is cash balances (placed with highly rated counterparties) and a EUR 1.5 billion committed revolving credit facility (entirely undrawn at end1H20).

For 1H20, LeasePlan reported a EUR114 million pre-tax profit, which was EUR76 million lower year-on-year. Earnings pressure stemmed in particular from impairments on inventory write-downs, provisions for anticipated future credit losses, as well as a EUR39 million net loss on the disposal of vehicles at lease maturity. Pre-tax margins have trended downwards in recent years, adversely affected by various one-off charges (including a EUR92 million impairment charge for the discontinuation of developments on its core leasing IT platform in 2019).

While LeasePlan's core earnings remain sound (benefiting from a large vehicle fleet, good relationships with reputable corporate clients and longstanding relations with automotive manufacturers), deferred fleet investments by clients, pressure on lease extension rates and sustained reductions in vehicle utilisation (on the back of supressed economic activity levels) adversely impact our profitability expectations over the short to medium term.

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.

Given LeasePlan's status as a regulated bank (with 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 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 remaining sound, has incrementally weakened, particularly in the context of the guidance by the DNB to regulated banks (including LeasePlan) to temporarily defer dividend distributions.

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. We also view positively the covenants pertaining to the senior secured notes, particularly the requirement of LF to maintain an interest reserve account that targets a cash balance that corresponds to a minimum of 2.5 years of coupon payments on the senior secured notes. Current levels of liquidity at LF comfortably cover this requirement.

LeasePlan continues to represent LFHPL's only significant asset, and neither LFHPL nor LF are expected to have any material sources 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 profile of LF and LFHPL as the issuance guarantor.

RATING SENSITIVITIES

LEASEPLAN's IDRS, VR AND SENIOR DEBT

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A material increase in residual value risks leading to sustained net losses from fleet disposals materially impacting negatively LeasePlan's earnings capabilities and profitability.

A material and sustained decline in LeasePlan's core operating leasing income, arising in particular from a permanent reduction in the vehicle fleet amidst constrained demand dynamics.

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

An 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 COVID-19 pandemic on LeasePlan's operations is well contained (most notably residual value risk and core business related impairments) and a recovery to normalised levels of business activity is reasonably swift.

In the event that LeasePlan is able to withstand current rating pressure arising from the pandemic, over the medium to long-term an upgrade would be subject to sustained reduction in gross leverage and a reduced need for continuous sizeable upstream dividends (for instance resulting from a material reduction in LF debt).

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 company's 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 primarily sensitive to any significant depletion of liquidity close to covenanted levels that affected its continuing ability to service its debt obligations. This would most likely be prompted by a material fall in earnings within LeasePlan, which restricted its capacity to pay dividends, or externally imposed restrictions on dividend payments beyond restrictions imposed by the DNB in 2020. Furthermore, a downgrade of LeasePlan's Long Term IDR (implying an incrementally weaker ability to upstream dividend) could undermine LFPHL's credit profile.

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 and Covered Bond 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

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
LeasePlan Corporation N.V.	LT IDR	BBB+ Rating Outlook Negative	Affirmed	BBB+ Rating Outlook Negative
	ST IDR	F2	Affirmed	F2
	Viability	bbb+	Affirmed	bbb+
	Support	5	Affirmed	5
• senior unsecured	LT	BBB+	Affirmed	BBB+
• senior	ST	F2	Affirme	F2

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions 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

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Non-Bank Financial Institutions Asia-Pacific Europe Singapore Netherlands

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