Research Update:

Dutch Bank LeasePlan Corporation 'BBB-/A-3' Ratings Affirmed

April 24, 2020

Overview

- Despite governments' measures to contain the COVID-19 pandemic, European economies face an unprecedented challenge to manage the slowdown in corporate activity and global trade.
- We expect LeasePlan's asset quality and earnings generation capacity to be less exposed to the deteriorating macroeconomic environment than pure commercial banks, due to its main business focus on medium-term car fleet leasing to large blue chips.
- We are therefore affirming our ratings on LeasePlan (the operating company) and Lincoln Financing Holding (LFHP), one of its intermediate holding companies.
- The stable outlook on LeasePlan reflects our view that the bank's high-standing, sector-diversified customer base, and its prudent pricing, will likely continue to support its earnings generation capacity and capital building through the cycle.
- The stable outlook on LFHP reflects our view that cash flows from the operating company will continue to service its debt and help contain the group's double leverage, though this is likely to remain elevated.

PRIMARY CREDIT ANALYST

Letizia Conversano
Dublin
353 1 568 0615
letizia.conversano@spglobal.com

SECONDARY CONTACTS

Nicolas Hardy
Paris
(33) 1-4420-7318
nicolas.hardy@spglobal.com

Pierre Gautier
Paris
(33) 1-4420-6711
pierre.gautier@spglobal.com

Rating Action

As announced on April 23, 2020, S&P Global Ratings affirmed its 'BBB-/A-3' long- and short-term ratings on Dutch bank LeasePlan Corporation N.V. The outlook remains stable.

At the same time, we affirmed our 'BB+' ratings on holding company Lincoln Financing Holding (LFHP). The outlook is stable.

Rationale

The affirmation reflects our view that LeasePlan, a worldwide leader in fleet leasing to large corporates, could be less exposed to the current COVID-19 disruption than other European commercial banks. This is primarily because its customer base, 75% of which comprises large blue chips, should prove to be more resilient to the COVID-19-related macroeconomic shock than small and midsize enterprises (SMEs). We consider that our 'BBB-/A-3' ratings already capture the risks that pertain to LeasePlan's specific business focus and group structure.

With isolation strategies still very much in force, our economists expect sharp economic contraction in the second quarter of 2020, followed by a rebound starting in the third quarter. However, they are now more cautious on the strength of recovery through end-2020 and into 2021, envisaging a -7.3% GDP eurozone contraction in 2020 and 5.6% growth in 2021 (see "Europe Braces For A Deeper Recession In 2020," published April 20, 2020 on RatingsDirect). Even under this base case, the effects of COVID-19 will be evident for long after the crisis subsides.

In such a fragile context, we consider several factors that support LeasePlan's credit profile assessment. First, the unprecedented measures announced by European authorities, aimed at providing liquidity support to affected corporates/SMEs, individuals, and financial institutions, while potentially calming volatility in the capital markets. Second, the annuity-like features of its revenues--made up of three-to-five year contracts--and the secured nature of its business, which somewhat reduces the pressure on profitability, although we recognize that new business volumes will suffer.

We are acutely mindful that this base case remains subject to significant downside risks that relate to COVID-19.

Outlook

LeasePlan

The stable outlook on LeasePlan reflects our view that the bank's high-standing, sector-diversified customer base and prudent pricing will continue to support its earnings capacity, residual value risk management, and capital building through the cycle, despite the immediate weakening of the macroeconomic environment. However, we expect the amount of debt at the intermediate holding company level will continue to constrain the ratings on LeasePlan, whose cash flows are used to service this debt. The outlook also reflects our views that LeasePlan will maintain easy access to wholesale markets and continue to attract retail deposits.

We could lower our ratings if LeasePlan's operating performance deteriorates because of faster-than-expected declining residual values on its car fleet, which could strain the bank's ability to generate earnings and manage double leverage. We could also lower the ratings if LeasePlan's capital position weakens. This could result from a more material deterioration in the economic situation than we currently expect or a more aggressive financial policy, for instance a material upstreaming of dividends to the group's ultimate private equity owners.

The likelihood of an upgrade during our outlook period is remote, in our view. Although unlikely, we could raise our ratings on LeasePlan in the next 24 months if, combined with a material reduction in double leverage and a prolonged track record of low residual value risks, we continue to observe stable risk appetite, satisfactory profitability, a strengthening balance sheet, and financial capacity to service debt obligations higher up in the group structure.

Lincoln Financing Holdings (LFHP)

The stable outlook on LFHP reflects our view that double leverage will remain elevated over the next 12 months, at its current level. At the same time, we expect cash flows from the operating company to remain supportive and debt maturities to be long, so we do not anticipate deteriorating debt-servicing capacity in the next two-to-three years.

We could lower the ratings in the next 12 months if we observe an increase in double leverage or reduced debt-servicing capacity. In such a scenario, we would likely enlarge the notching differential between the operating bank and this holding company.

We consider an upgrade of LFHP unlikely in the next 12 months. An upgrade of the operating company would trigger a similar upgrade of the holding company only if double leverage reduces.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable/A-3
SACP	bbb-
Anchor	bbb+
Business Position	Moderate (-1)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and	Below Average and
Liquidity	Adequate (-1)
Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Negative Rating Actions Taken On Multiple Benelux Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Negative Rating Actions Taken On Various French Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Europe's AT1 Market Faces The COVID-19 Test: Bend, Not Break, April 22, 2020
- How COVID-19 Is Affecting Bank Ratings, April 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- The Coronavirus Will Shave 50 Basis Points Off Eurozone Growth, March 4, 2020
- LeasePlan Corporation Updates Group Debt Structure, Jan. 8, 2020
- LeasePlan Corporation N.V., Jan. 6, 2020

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 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.