

ALD S.A. And LeasePlan Corp. N.V. Ratings Placed On CreditWatch Positive On Proposed Acquisition

January 10, 2022

Overview

- ALD's proposed acquisition of LeasePlan could cause S&P Global Ratings to revise its ratings on both companies because as a regulated entity, the enlarged ALD group could enter Société Générale's resolution perimeter.
- If the deal closes, we expect to consider LeasePlan as a core member of the enlarged ALD group and align our ratings on the two entities.
- Therefore, we placed on CreditWatch with positive implications our 'BBB' long-term rating on ALD S.A. and our 'BBB-/A-3' long- and short-term ratings on LeasePlan Corp. N.V., as well as the related issue credit ratings.
- We expect to resolve the CreditWatch placement when the deal completes, likely by end-2022.

Rating Action

PARIS (S&P Global Ratings) Jan. 10, 2022--S&P Global Ratings said today that it took the following rating actions:

- We placed on CreditWatch positive our 'BBB' long-term issuer credit rating on ALD S.A. and our 'BBB' issue credit rating on its rated senior unsecured debt.
- We affirmed our 'A-2' short-term issuer credit rating on ALD S.A.
- We placed on CreditWatch positive our 'BBB-/A-3' long- and short-term issuer credit ratings on LeasePlan Corp. N.V. and our issue credit ratings on all of its rated instruments.
- We affirmed our 'BB+' long-term rating on the LeasePlan holding company, Lincoln Financing Holdings PTE Ltd. (LFHP). The outlook remains stable.
- We affirmed our 'BB+' issue rating on the senior secured notes issued via Lincoln Financing S.a.r.l.

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Rationale

ALD's proposed acquisition of LeasePlan could materially change our view of the credit strength of both companies. On Jan. 6, Société Générale (SG) and LeasePlan shareholders announced the signing of a memorandum of understanding for ALD to acquire 100% of LeasePlan. As part of the deal, ALD's parent, SG, would retain a majority ownership, initially of 53%. We understand that SG's ownership of the enlarged ALD group (NewALD) will not be diluted to less than 51% in future. We consider the deal to be a logical move in a consolidating car leasing industry. As a result of the deal, NewALD should benefit from major industry market trends, including changing customer preferences, digitalization, and electrification.

We expect to change our rating approach to NewALD. We currently rate ALD under our corporate rating methodology; post-transaction, we consider that our financial institution rating methodology would better capture the creditworthiness of NewALD. We already rate LeasePlan as a bank and we understand that, as a condition of the merger, NewALD would have to obtain European Central Bank regulated status as a financial holding company. In addition, although this has not yet been confirmed, we anticipate that NewALD could be brought inside SG's resolution perimeter and single point of entry bail-in-led resolution strategy because of its regulatory status, material size for the SG group, and funding linkages with the parent. Our expectation is supported by the prepositioning of bail-inable instruments in NewALD. Consequently, the senior preferred creditors of ALD S.A. and LeasePlan would be better protected in the event of nonviability. As a result, we would rate the NewALD entities by notching down from SG's 'a' group credit profile (GCP), rather than from its 'bbb+' group stand-alone credit profile (SACP). This gives more potential rating uplift for group support because it includes additional loss-absorbing capacity support.

The group status of ALD is unlikely to change in the short term. We see SG's support for the LeasePlan acquisition as a confirmation that it sees NewALD as important to meeting the group's strategic objectives. Nevertheless, the deal is unlikely to change our view of NewALD as a strategic important subgroup of SG; in the short term, we do not see its leasing activity as core to SG's identity as a French banking group, compared with its retail and corporate and investment banking businesses. We are also mindful that SG would hold only 53% of NewALD. NewALD's SACP is expected to be 'bbb', so we would apply at most three notches for potential group support, but cap the long-term issuer credit rating at one notch below the 'a' GCP on SG. This points to a maximum two-notch uplift.

Our rating action on LeasePlan reflects its expected strategic importance within NewALD. When the transaction closes, we expect to view LeasePlan as a core subsidiary of NewALD. It will comprise about 50% of the enlarged group's fleet and its operational integration will be central to the realization of synergies, especially cost-related ones. We also assume that LeasePlan will maintain its banking license, through which NewALD could continue to access customer deposits as one of its funding sources. As a result, we expect to align our ratings on LeasePlan with those on ALD.

We affirmed our ratings on LFHP because the entity is outside of the announced deal. LFHP is one of the nonoperating holding companies that comprise the wider LeasePlan group, and is the only one we rate. It stands outside the LP Group B.V., the entity that owns LeasePlan (OpCo) and which ALD intends to acquire. As such, it has been left out of the deal. Although LeasePlan group's

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shareholders have not confirmed their ultimate intention, we affirmed our 'BB+' long-term rating on LFHP and our 'BB+' issue rating on the €1.854 billion senior debt issued via Lincoln Financing and guaranteed by LFHP, in the expectation that the notes may be repaid once the deal completes. We see this transaction as reflecting the definition of the change-of-control clause, as specified in the notes' terms and conditions, according to which LFHP shall repurchase the notes at certain price conditions in case of disposal of all or substantially all of LFHP's assets, if not redeemed already.

CreditWatch

ALD S.A.

We expect to resolve the CreditWatch placement when the transaction completes, likely by end-2022, or sooner if the deal falls apart.

If the deal completes, we expect to raise our long-term rating by up to two notches to 'A-' to indicate that post-transaction, ALD will be a material part of the SG group and will be included within the parent's resolution perimeter.

If there are no other developments and the deal fails to complete, we could affirm the ratings and remove them from CreditWatch.

LeasePlan Corp. N.V.

We expect to resolve the CreditWatch placement when the transaction completes, likely by end-2022, or sooner if the deal falls apart.

If the deal completes, we expect to raise our long- and short-term ratings to 'A-/A-2' from 'BBB-/A-3' to indicate LeasePlan's role as a core subsidiary of NewALD, and its inclusion within SG's resolution perimeter. Although we would not see LeasePlan's subordinated creditors as likely to benefit from a resolution action, we would expect to raise the related issue credit ratings because LeasePlan could benefit from the support of a stronger group on a going-concern basis.

If there are no other developments and the deal fails to complete, we could affirm the ratings and remove them from CreditWatch.

Outlook

Lincoln Financing Holdings PTE Ltd.

The stable outlook on LFHP reflects our view that its double leverage will remain at its current elevated level over the next 12 months. At the same time, we expect cash flows from LeasePlan to remain supportive of Lincoln's debt servicing capacity. Lincoln is the guarantor of the notes issued by Lincoln Financing.

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

We consider an upgrade of LFHP as unlikely because we do not expect the stand-alone prospects of LeasePlan group to strengthen.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Operating Leasing Industry, Dec. 14, 2016
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Bulletin: Societe Generale's Subsidiary ALD Doubles Its Car Rental Fleet By Acquiring LeasePlan, Jan. 6, 2022

Ratings List

***** Lincoln Financing Holdings PTE Ltd. *****

Ratings Affirmed

Lincoln Financing Holdings PTE Ltd.

Issuer Credit Rating	BB+/Stable/--
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Lincoln Financing SARL

Senior Secured	BB+
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Ratings Affirmed; CreditWatch/Outlook Action

	To	From
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LeasePlan Corp. N.V.

Issuer Credit Rating	BBB-/Watch Pos/A-3	BBB-/Stable/A-3
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LeasePlan Corp. N.V.

Senior Unsecured	BBB-/Watch Pos	BBB-
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Junior Subordinated	B+/Watch Pos	B+
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***** Societe Generale *****

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
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ALD S.A.

Issuer Credit Rating	BBB/Watch Pos/A-2	BBB/Stable/A-2
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ALD S.A.

Senior Unsecured	BBB/Watch Pos	BBB
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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.

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