



## RATING ACTION COMMENTARY

# Fitch Affirms LeasePlan at 'BBB+'/Stable; Puts Senior Unsecured Debt on Rating Watch Positive

Wed 14 Sep, 2022 - 11:44 ET

Fitch Ratings - Frankfurt am Main - 14 Sep 2022: Fitch Ratings has affirmed LeasePlan Corporation N.V.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. At the same time, LeasePlan's senior unsecured debt rating of 'BBB+' has been placed on Rating Watch Positive (RWP).

The RWP reflects Fitch's expectation that it will upgrade the rating to 'A-' on completion of ALD S.A.'s (BBB+/Stable) acquisition of LeasePlan, which Fitch expects to occur by end-2022 (see 'Fitch Affirms ALD and LeasePlan at 'BBB+'/Stable on Announced LeasePlan Acquisition', dated 10 January 2022 on [www.fitchratings.com](http://www.fitchratings.com)).

Fitch has also affirmed Lincoln Financing S.a.r.l.'s (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-' with a Stable Outlook. The note holders have a change-of-control put option and we expect that LF's senior secured notes will be redeemed upon completion of LeasePlan's acquisition by ALD.

The rating actions are part of Fitch's periodic peer review of fleet management companies, comprising seven publicly rated firms.

Fitch has withdrawn LeasePlan's Support Rating of '5' as it is no longer relevant to the agency's coverage following the publication of its updated Non-Bank Financial Institutions Criteria on 31 January 2022. In line with the new criteria, we have assigned a Shareholder Support Rating (SSR) of 'ns' (no support) and placed it on RWP, with a view to upgrading the SSR to 'bbb+' on completion of LeasePlan's acquisition by ALD.

## KEY RATING DRIVERS

### LEASEPLAN - VR and IDRs

Until the completion of acquisition by ALD, LeasePlan's Long-Term IDR remains based on its standalone creditworthiness, as expressed by its 'bbb+' Viability Rating (VR).

The rating affirmation reflects the company's leading position in auto leasing globally, with a fleet of around 1.9 million vehicles in 29 countries at end-1H22. Our assessment also recognises LeasePlan's status as a regulated bank, its prudent risk appetite and sound financial profile. This is balanced against its exposure to residual value (RV) risk arising from closed-end leasing, increased earnings volatility in recent years and our expectation of a material dividend upstream to service debt raised by parent LF outside the regulated group.

Given LeasePlan's status as a regulated and deposit-taking bank, Fitch used its Bank Rating Criteria to assess certain aspects of its standalone profile, such as operating environment (in particular, the regulatory framework), capitalisation and leverage and funding and liquidity.

LeasePlan's pre-tax profit increased 68% in 1H22, supported by growing core earnings and controlled operating expenses, but also due to materially improved net used-car sales. Its pre-tax income/average assets improved to 5.2% in 1H22, considerably higher than its four-year average of around 2%. Supply constraints on new vehicles drove up demand for pre-owned vehicles considerably in 1H22 and we expect gains from used vehicles to normalise in 2023-2024, but for LeasePlan's profitability to remain sound.

LeasePlan's balance-sheet leverage remains high, with a gross debt/tangible equity of around 6x at end-1H22. Net leverage has historically been stronger (end-1H22: 4.5x), as the company maintains sizeable cash on its balance sheet. As a bank, LeasePlan is required to comply with prudential capital and liquidity requirements, which supports our capital and leverage assessment. At end-1H22, LeasePlan's common equity Tier 1 (CET1) ratio and total capital ratio stood at 15.1% and 17.2%, respectively, comfortably above regulatory requirements (including combined buffers) of 9.3% and 14.5%, respectively.

LeasePlan's funding profile is well-diversified and benefits from demonstrated capital-market access and fairly cheap deposit funding due to its online retail-deposit franchises in Germany and the Netherlands (EUR10.6 billion at end-1H22). Balance-sheet encumbrance is limited, with 85% of unsecured non-equity funding. Secured funding is limited to LeasePlan's established ABS programme (EUR2 billion at end-1H22). Liquidity is robust, supported by EUR6 billion in unencumbered cash balances at end-1H22 and a EUR1.4 billion committed revolving credit facility (entirely undrawn at end-1H22).

## **LEASEPLAN - SENIOR UNSECURED DEBT RATING**

The RWP on LeasePlan's short-term and long-term senior unsecured debt ratings reflects our expectation that following the acquisition of LeasePlan by ALD, the combined entity will have a sufficient buffer of senior non-preferred plus junior debt (sustainably in excess of 10% of risk-weighted assets (RWA) of the combined group), largely provided by ALD's majority shareholder, Societe Generale S.A. (A-/Stable/a-). This will lead to LeasePlan's long-term senior unsecured debt rating being notched up to 'A-', one level above its Long-Term IDR, in line with ALD's senior unsecured debt.

## **LFHPL and LF**

LFHPL's Long-Term IDR and LF's bond rating remain supported by an adequate level of interest coverage and liquidity reserves. Our assessment is also supported by LF's requirement to maintain an interest-reserve account covering coupon payments of the senior notes by at least 2.5 years.

LeasePlan continues to represent LFHPL's only significant asset. 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 issue guarantor.

## **RATING SENSITIVITIES**

### **LEASEPLAN - VR and IDR**

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

- A material increase in RV risk, leading to sustained net losses from fleet disposals materially negatively affecting 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 amid constrained demand dynamics
- A sharp increase in impairment charges on loans and receivables
- An inability to maintain its currently adequate liquidity and funding profile due to increased refinancing risks
- A reduction in capital adequacy regulatory headroom

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A sustained reduction in gross balance-sheet leverage and a reduced need for continuous sizeable upstreamed dividends
- 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 - SENIOR UNSECURED DEBT RATING**

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

- A senior non-preferred plus junior debt buffer at the combined ALD-LeasePlan entity of less than 10% RWAs post-acquisition with no credible path to restore it in the short-to-medium term could lead to Fitch removing the senior unsecured debt rating from RWP and affirming it at 'BBB+'
- Any indication that LeasePlan's senior unsecured debt would not benefit from the senior non-preferred plus junior debt buffer or would otherwise be structurally subordinated to ALD's senior unsecured debt could lead to Fitch removing the senior unsecured debt rating from RWP and affirming it at 'BBB+'
- A downgrade of LeasePlan's Long-Term IDR

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- The rating will be upgraded to 'A-' upon completion of LeasePlan's acquisition by ALD provided that the combined entity will maintain a senior non-preferred plus junior debt buffer sustainably in excess of 10% of RWAs

- An upgrade of LeasePlan's Long-Term IDR would likely lead to an upgrade of the debt rating

## **LEASEPLAN - SSR**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-SSR will likely be upgraded to 'bbb+' on completion of LeasePlan's acquisition by ALD

## **LF AND LFHPL**

Fitch expects LF's outstanding debt to be redeemed on completion of the transaction. Until the transaction has closed, LF's AND LFHPL's ratings remain sensitive to the following factors:

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 LeasePlan dividends

- The ratings may be sensitive to the addition of new liabilities or assets within LFHPL, but the impact would depend on the balance between increasing LFHPL's debt service obligations and diversifying its income from a reliance on LeasePlan dividends

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 a significant depletion of liquidity close to covenanted levels affecting its ability to service its debt obligations. This would most likely be prompted by a material fall in earnings within LeasePlan that restricts its capacity to pay dividends, or externally imposed restrictions on dividend payments beyond those currently imposed by the ECB.

-A downgrade of LeasePlan's Long-Term IDR - implying an incrementally weaker ability to upstream dividend - could be negative for LFPHL's credit profile

## **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.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The RWP on LeasePlan's debt rating and SSR are driven by potential support from Societe Generale S.A.

## ESG CONSIDERATIONS

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

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
LeasePlan Corporation N.V.	LT IDR	BBB+ Rating Outlook Stable		BBB+ Rating Outlook Stable
		Affirmed		
	ST IDR	F2	Affirmed	F2
	Viability	bbb+	Affirmed	bbb+
	Support	WD	Withdrawn	5

## Shareholder Support

ns Rating Watch Positive      New Rating

senior unsecured	LT	BBB+ Rating Watch Positive	BBB+
		Rating Watch On	
senior unsecured	ST	F2 Rating Watch Positive	F2
		Rating Watch On	
Lincoln Financing Holdings Pte. Limited	LT IDR	BB- Rating Outlook Stable	BB- Rating Outlook Stable
		Affirmed	
Lincoln Financing S.a.r.l			
senior secured	LT	BB- Affirmed	BB-

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Behruz Ismailov**

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**APPLICABLE CRITERIA**

[Non-Bank Financial Institutions Rating Criteria \(pub. 31 Jan 2022\) \(including rating assumption sensitivity\)](#)

[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

**ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

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**ENDORSEMENT STATUS**

LeasePlan Corporation N.V.

EU Issued, UK Endorsed

Lincoln Financing Holdings Pte. Limited

EU Issued, UK Endorsed

Lincoln Financing S.a.r.l

EU Issued, UK Endorsed

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