

RATING ACTION COMMENTARY

Fitch Affirms ALD at 'BBB+'; Outlook Stable

Mon 21 Sep, 2020 - 11:36 AM ET

Fitch Ratings - Frankfurt am Main - 21 Sep 2020: Fitch Ratings has affirmed ALD S.A.'s Long-Term Issuer Default Rating (IDR) and long-term senior unsecured debt rating at 'BBB+'. Fitch has also affirmed ALD's Short-Term IDR at 'F1' and Support Rating (SR) at '2'. The Outlook on the Long-Term IDR is Stable.

KEY RATING DRIVERS

IDRs, SR AND SENIOR DEBT

ALD's Long-Term IDR is driven equally by Fitch's view that support from its majority shareholder, Societe Generale (SocGen; A-/Stable/F1/a-) would be forthcoming if required and Fitch's assessment of ALD's standalone creditworthiness. ALD's Short-Term IDR is solely based on Fitch's support assessment. The Stable Outlook on ALD's Long-Term IDR reflects that on SocGen's Long-Term IDR.

Fitch considers ALD to be strategically important to SocGen, given its majority ownership, significant share in non-equity funding and the relevance of its offering for SocGen's financial services division. In view of this, extraordinary capital or liquidity support, if ever required, would be highly likely, in our opinion, as reflected in ALD's SR of '2'.

ALD's Long-Term IDR is notched down once from SocGen's Long-Term IDR, recognising its strategic importance in the context of its considerable contribution to group revenues, its complementary product offering to SocGen's services, the close

integration of ALD's risk controls into SocGen's risk management framework as well as SocGen's public commitment to remain ALD's majority shareholder and funding provider. As of end-1H20, SocGen provided 70% of ALD's non-equity funding. This implies a high likelihood of support by SocGen, as a default on ALD's non-SocGen debt would most likely have significant reputational ramifications.

The notching also recognises ALD's independent franchise as an automotive leasing provider, which offers only limited business synergies with that of SocGen. Given ALD's size, any extraordinary support would most likely be manageable but require meaningful commitment from SocGen. Support considerations also recognise SocGen's majority but not full ownership of ALD.

The affirmation of ALD's Short-Term IDR at 'F1' reflects SocGen's Short-Term IDR and Fitch's view that support is incrementally more likely in the short term. Consequently, Fitch has assigned the higher of the two Short-Term IDRs that map to ALD's 'BBB+' Long-Term IDR.

Fitch's Global Economic Outlook published on 7 September 2020 forecast global GDP in 2020 to contract by 4.4%; improved from the 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.

On a standalone basis, ALD's credit profile benefits from its well-entrenched market position in the European automotive leasing sector, a cohesive business strategy, experienced management team and good underlying earnings generation and cost efficiency. The standalone assessment also takes into account ongoing pressure on ALD's profitability from the COVID-19 pandemic, its relatively concentrated monoline business model, a notable reliance on SocGen with regards to non-equity funding and an elevated, albeit stable, leverage profile.

ALD remained profitable in 1H20 (pre-tax income/average assets of 1.9% compared with a 3.4% 2016-2019 four year average), but above-average impairment charges, excess fleet depreciation charges and a small net loss from the disposal of fleet (largely as a result of pandemic-related impairment charges) negatively affected its 1H20 performance and Fitch expects ALD's profitability to remain subdued in 2H20 and 2021. We believe that once government support measures (furlough schemes, SME support) are phased out in late 2020 and 2021, demand for fleet (or fleet extension) could fall and lessee defaults increase. However, we view ALD's current provisioning and depreciation

policy as generally adequate and absent a major pandemic resurgence, ALD's financial profile should remain relatively resilient.

With ALD primarily providing closed-ended operating leases, the company is exposed to residual value (RV) risk, which is partially driven by external developments in the second-hand car market and as such cannot be comprehensively mitigated. As a result of pressure on RVs, ALD's net result from car sales turned moderately negative in 1H20 (EUR11.6 million loss compared with a EUR43.4 million net profit in 1H19). However, ALD's overall profitability does not meaningfully rely on generating net gains from vehicle sales (which accounted for less than 20% of total operating revenue since 2012) and Fitch expects ALD's remaining revenue sources, notably leasing contract revenue (broadly stable in 1H20 if the excess depreciation charge is excluded) and services revenue (4% higher yoy) to remain resilient in 2H20 and 2021.

Fitch's assessment of ALD's risk appetite recognises the company's prudential approach to the setting and ongoing monitoring of RVs as well as its integrated credit risk management protocols, displaying sound diversification with regards to clients, OEM exposures and geographic representations.

While ALD is not subject to any meaningful regulatory capital or leverage requirements, the company manages balance sheet capitalisation on the basis of a targeted equity/asset ratio of between 15%-17%. At end-1H20, ALD's gross debt/tangible equity ratio, Fitch's core metric for leasing company leverage, stood at around 5.4x. In light of ALD's business model resilience and good predictability of core earnings, we view leverage as acceptable.

ALD's funding profile remains reliant on SocGen, both with regards to its direct funding exposure and indirectly via guarantees provided by SocGen for third-party funding. However, we note ongoing efforts by the company to diversify the funding mix, with European ABS and third-party bank facilities gaining in relative prominence in recent years. The company's liquidity management is sound, with generally matched tenors, interest rates and currencies limiting liquidity requirements. Upcoming funding maturities for the remainder of 2020 and 2021 are material but predominately relate to funding sourced from its parent. Non-parental funding maturities are mitigated by ALD's adequate cash generation and undrawn credit facilities with SocGen (EUR2.4 billion at end-1H20).

ALD's senior unsecured EMTN programme ratings are aligned with its IDR, as in Fitch's view the likelihood of default on the senior unsecured notes under the programme reflects the likelihood of default of ALD. The programme's ratings apply only to senior unsecured notes issued by ALD. There is no assurance that notes issued under the

programme will be assigned a rating, or that the rating assigned to a specific issue under the programme will have the same rating as the programme.

RATING SENSITIVITIES

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

- Increased strategic importance of ALD for SocGen, for instance by increasing distribution/product synergies, combined with SocGen's ownership stake in ALD remaining at the current level or increasing, could lead to an equalisation ALD's Long-Term IDR with that of SocGen and possibly to an upgrade in ALD's Long-Term IDR (subject to the rating level of SocGen at the time).

ALD's programme and debt ratings are primarily sensitive to changes in ALD's Long- and Short-Term IDRs.

A sustained reduction in the gross debt/ tangible equity ratio to below 5x (commensurate with a sub-factor score of 'bbb' for Capitalisation & Leverage) could be positive for ALD's standalone assessment, as could a more diversified funding profile (thereby reducing its reliance on SocGen for non-equity funding).

Conversely, materially higher leverage (resulting from either a sustained increase in debt or an erosion in tangible equity, in particular if because of net losses), would be negative for our standalone assessment as would be a material weakening of ALD's risk management policies.

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

- Absent any changes to our current notching, a one notch downgrade of SocGen's Long-Term IDR would not automatically lead to a one-notch downgrade of ALD's Long-Term IDR given Fitch's current view of ALD's standalone credit profile. However, should a negative rating action on SocGen lead to a weaker assessment of ALD's franchise and particularly funding and liquidity profile. this could lead to a downgrade of ALD's Long-Term IDR.

- A material reduction in SocGen's stake in ALD, in particular if in conjunction with diminished strategic importance of ALD for SocGen, could lead to wider notching. Based on Fitch's standalone assessment of ALD this would currently not lead to a downgrade of ALD's Long-Term IDR but would lead to a revision of ALD's Outlook to Negative from

Stable, reflecting pressure on ALD's asset quality and earnings profile as a result of the pandemic.

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 to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg

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.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
ALD S.A.	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Stable
	ST IDR	F1	Affirmed	F1

ENTITY/DEBT	RATING			PRIOR
	Support	2	Affirmed	2
● senior unsecured	LT	BBB+	Affirmed	BBB+
● senior unsecured	ST	F1	Affirmed	F1

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Ben Schmidt

Director

Primary Rating Analyst

+49 69 768076 115

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Christian Kuendig

Senior Director

Secondary Rating Analyst

+44 20 3530 1399

Nathan Flanders

Managing Director

Committee Chairperson

+1 212 908 0827

MEDIA CONTACTS

Louisa Williams

London

+44 20 3530 2452

louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

ADDITIONAL DISCLOSURES

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

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

ALD S.A.

EU Issued

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it

receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the 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.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the

securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the

[EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Non-Bank Financial Institutions Europe France
