S&P Global Ratings

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Research Update:

ALD Upgraded To 'BBB+' On Business Growth And Strategic Importance To Societe Generale; Outlook Stable

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Overview

- We believe ALD's strategic importance to its parent Société Générale (SG) has increased, due to its profitability and role for SG's Financial Services division.
- Furthermore, we believe ALD's 2017 IPO was to increase the company's financial flexibility rather than to provide an exit route for SG.
- ALD's scale and diversity have improved over the past four years, but we note higher reliance on debt and deteriorated leverage metrics.
- We are raising our long-term ratings on ALD to 'BBB+' from 'BBB'.
- The stable outlook reflects our expectation that SG will maintain its commitment and support for ALD through its control of the entity and provision of significant funding and liquidity.

Rating Action

On Oct. 23, 2018, S&P Global Ratings raised its long-term issuer credit rating on France-based car leasing and fleet management company ALD S.A. to 'BBB+' from 'BBB'. The outlook is stable.

The 'A-2' short-term issuer credit rating was affirmed.

Rationale

The upgrade stems from our view of ALD's increased strategic importance to its controlling shareholder Societe Generale (SG; A/Positive/A-1), which leads us to see a stronger likelihood of extraordinary support for ALD from SG.

Sixteen months after ALD's partial IPO, we see no signs of a further substantial reduction of SG's stake in its car leasing and fleet management company. We regard the partial listing as a tool to increase ALD's financial flexibility in a context of sustained growth and changes in the mobility sector. Our assessment of ALD's overall importance to SG now reflects:

- Our view that a substantial dilution of SG's stake in ALD (80% currently), leading to SG's loss of control of ALD, is highly unlikely, considering our understanding of the IPO and SG's public commitment to ALD.

- ALD's strategic importance to SG, and its Financial Services division in particular, due to its contribution to the group's results and high profitability, with a return on equity (ROE) of 18% in 2017, supporting SG's profitability in the low interest-rate environment; and growth based on structural factors, such as a societal shift to car usage from car ownership, outsourcing trends at corporate entities, and new mobility solutions.
- Incentives for SG to help ALD meet its external debt obligations if needed, since we expect SG to remain ALD's main funding source (72% of total funding as of midyear 2018).

As a result, our ratings on ALD now factor in two notches for potential extraordinary support from SG.

Today's rating action also reflects our better view of ALD's business risk profile. Following successful organic and inorganic growth since 2011--by 9% per year on average (number of cars)--ALD has become the world's second largest car leasing and fleet management company (excluding captive finance and financial leasing companies). Its managed fleet crossed 1.5 million of vehicles in 2017 while the ROE has remained at 17%-22% since 2011. ALD is also one of the world's most diversified players by geography (43 countries) and by brand, and boasts high granularity of single-name and sector exposures. We view its large scale as an advantage in an industry with high barriers to entry. We expect ALD will continue expanding at a similar pace, with some moderation in the next two years, mainly in the retail and small and midsize enterprise (SME) markets.

This growth, however, was financed by increasing recourse to debt, as shown by the decline of some key financial ratios. ALD's leverage, which we measure with the debt-to-EBITDA ratio, increased to 3.8x at year-end 2017 from 3.2x at year-end 2015. We believe that ALD's debt accumulation should reduce over the next two years, due to somewhat slower business growth and limited debt increases from fleet renewal at a higher price. In our base-case scenario, we assume that debt will plateau at about 4.0x EBITDA. Nevertheless, considering the dynamics of the debt-to-EBITDA ratio since 2015, we recognize the risk that it could exceed 4.0x, at which point we could take a more negative view of ALD's business risk profile. We now reflect this risk by factoring a negative adjustment notch in our assessment.

Outlook

The stable outlook reflects our expectation that ALD will remain strategically important for SG over the next 24 months, with SG maintaining its commitment and financial support in the form of majority ownership and significant funding and liquidity support.

Upside scenario

We see limited rating upside over the next two years, since it would require an improvement in SG's unsupported group credit profile to 'a' from 'a-'.

Downside scenario

Signs of ALD's lessening strategic importance for SG could lead us to downgrade ALD. This could occur, for instance, following a material dilution of SG's stake in ALD, significantly weaker funding and liquidity support from SG, or a decline in profitability. A downgrade of ALD based on entity-specific factors is highly unlikely, in our view.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Stable/A-2

Business risk: Strong
- Country risk: Intermediate
- Industry risk: Moderately high
- Competitive position: Excellent

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Strong (no impact)
- Comparable rating analysis: Negative (-1)

Stand-alone credit profile: bbb-
- Unsupported group credit profile: a-
- Entity status within group: Strategically important (+2 notches)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- 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 Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria - Financial Institutions - Finance Companies: Key Credit Factors For Financial Services Finance Companies, Dec. 9, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Societe Generale Outlook Revised To Positive On Plans For Loss Absorption Buildup; 'A/A-1' Ratings Affirmed, Oct. 23, 2018

Ratings List

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
ALD S.A.		
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Positive/A-2

Upgraded

	To	From
ALD S.A.		
Senior Unsecured	BBB+	BBB

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. Complete ratings information is available to subscribers of

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