FitchRatings

RATING ACTION COMMENTARY

# Fitch Maintains Leasys' 'BBB+' IDR on Watch Positive

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Fitch Ratings - Milan - 22 Apr 2022: Fitch Ratings is maintaining Leasys S.p.A.'s 'BBB+' Long-Term Issuer Default Rating (IDR) on Rating Watch Positive (RWP). Fitch first placed Leasys' Long-Term IDR on RWP on 12 January 2022 following the announced reorganisation of Stellantis N.V.'s captive finance providers, which has not yet been completed.

Leasys' ultimate shareholders, Credit Agricole S.A. (CA; A+/Stable) and Stellantis (BBB-/Positive), announced that Leasys will be spun off from FCA Bank (its direct 100% shareholder) and merged with Free2Move Lease, the long-term rental business of the former PSA group. CA and Stellantis will each own a 50% stake in the resulting entity, with over 800,000 vehicles in its combined fleet based on end-2021 data.

The relevant agreements were signed in April 2022 and the transaction is expected to be completed in 1H23, once the relevant anti-trust authorities and market regulators have provided the required authorisations.

Fitch has withdrawn Leasys' Support Rating of '2' as it is no longer relevant to the agency's coverage following the publication of its updated "Non-Bank Financial Institutions Rating Criteria" dated 31 January 2022. In line with the updated criteria, we have assigned a Shareholder Support Rating (SSR) of 'bbb+' to Leasys. Fitch has placed the SSR on RWP, in line with Leasys' Long-Term IDR.

## KEY RATING DRIVERS

The rating actions reflect Fitch's anticipation that Leasys' Long-Term IDR will be upgraded to the lower end of the 'A' category upon completion of the transaction in 1H23. This reflects that CA will be able to support Leasys directly and independently from FCA Bank. At the same time, Fitch expects that CA's propensity to support Leasys will increase, due to Leasys' materially broader franchise and strong growth prospects in the car-finance segment, whose strategic importance for CA is increasing.

Sound profitability, moderate credit risk and medium-term growth prospects highlight Leasys' positive contribution to the parent's performance in recent years and already underpin our assessment of support propensity. The magnitude of the upgrade will depend on Leasys' organisational structure, joint-venture (JV) agreements, assessed role within and integration with CA, among other factors, once the corporate reorganisation is completed.

Leasys' ratings are already based on Fitch's assessment of the availability of potential support from CA Consumer Finance (CACF), and ultimately from CA, through FCA Bank. CA's support for Leasys is equal to that for FCA Bank Group as whole, due to Leasys' very high level of operational integration into FCA Bank. CA provides ongoing support to FCA Bank, mostly through funding and liquidity, under a JV agreement with FCA Italy S.p.A., a 100% subsidiary of Stellantis. Leasys is explicitly included in the agreement, which will remain in place until the spin-off is completed.

Leasys' ratings are not constrained at the level of Italy's sovereign rating (BBB/Stable), because Leasys is not a regulated financial institution and also because it has no direct exposure to Italian sovereign risk. However, Leasys's ratings are currently equalised with those of FCA Bank, because it is an integrated subsidiary.

Leasys' EUR500 million senior unsecured notes due July 2024 (ISIN: XS2366741770), which are rated 'BBB+', are also on RWP, in line with Leasys' Long-Term IDR.

Fitch did not place Leasys' Short-Term IDR of 'F1' on RWP, because it is already at the level of CA's Short-Term IDR.

## RATING SENSITIVITIES

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

Following the completion of the reorganisation, Fitch expects to upgrade Leasys' Long-Term IDR and SSR to the lower end of the 'A' and 'a' categories, respectively.

Fitch could resolve the Rating Watch and affirm Leasys' ratings at their current level, if the reorganisation of Stellantis' captive finance providers fails to be implemented. Fitch would also review the ratings if the reorganisation plan changes compared with what has been already communicated

Until the transaction's completion, Leasys' Long-Term IDR is equalised with that of FCA Bank. Fitch would thus upgrade Leasys if FCA Bank is upgraded. This would require that CA's and CACF's IDRs are all upgraded, while Italy's IDR is affirmed, the Italian operating environment remains stable and FCA Bank's exposure to Italian sovereign risk remains limited.

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

Until the transaction's completion, Fitch would downgrade Leasys' Long-Term IDR, along that of FCA Bank, if CA's and CACF's IDRs are downgraded, reflecting a weakening of the parents' ability to support a strategically important subsidiary. Similarly, Fitch would also downgrade Leasys' Long-Term IDR, along with FCA Bank, if Italy is downgraded by more than one notch, because Fitch is unlikely to widen the notching difference between FCA Bank's and Italy's IDRs to above two notches.

## 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 ratings of Leasys are equalised with those of FCA Bank. Both Leasys' and FCA Bank's ratings are driven by parental support from CA.

## ESG CONSIDERATIONS

As support-driven issuers have strong linkages to their support providers, the ESG Credit-Relevance Score assigned to the 'supported' subsidiaries often mirrors those of their corporate and financial institution parents. This reflects our opinion that many of the ESG elements at the parent level are credit-relevant for the subsidiary.

Therefore, Leasys' scores are mostly aligned with those of CA. Leasys differs from CA with scores for 'GHG Emissions' at '3' and 'Energy Management' at '2', reflecting its focus on the automotive industry.

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

## RATING ACTIONS

| ENTITY / DEBT | RATING | | | PRIOR |
|---|---|---|---|---|
| Leasys S.p.A. | LT IDR | BBB+ Rating Watch Positive | Rating Watch Maintained | BBB+ Rating Watch Positive |
| | ST IDR | F1 | Affirmed | F1 |
| | Support | WD | Withdrawn | 2 Rating Watch Positive |
| | Shareholder Support | bbb+ Rating Watch Positive | New Rating | |
| senior unsecured | LT | BBB+ Rating Watch Positive | Rating Watch Maintained | BBB+ Rating Watch Positive |

**VIEW ADDITIONAL RATING DETAILS**

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## APPLICABLE CRITERIA

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

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

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|---|---|
| Leasys S.p.A. | EU Issued, UK Endorsed |

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Non-Bank Financial Institutions Europe Italy

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