FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Leasys at 'BBB+'/Negative on Parental Support

Tue 27 Apr, 2021 - 16:10 ET

Fitch Ratings - Milan - 27 Apr 2021: Fitch Ratings has affirmed Leasys S.p.A.'s (Leasys) Long-Term Issuer Default Rating (IDR) at 'BBB+' with Negative Outlook, Short-Term IDR at 'F1' and Support Rating at '2'.

The ratings reflect Fitch's expectations of support for Leasys from its ultimate parent, Credit Agricole (CA; A+/ Negative), flowing through FCA Bank (BBB+/Negative) and its role as CA's only group-wide competence centre for long-term car rental. The Negative Outlook on Leasys' Long-Term Foreign-Currency IDR mirrors that on CA's. A full list of rating actions is provided below.

Leasys is the rental and mobility services provider of FCA Bank Group. It is Italy's leader in long-term car rental and is present in eleven other European markets, with a fleet of around 315,000 vehicles at end-2020. Leasys plans to grow domestically and internationally, supported by the long-term market trend towards leasing and rental solutions, away from direct car ownership.

KEY RATING DRIVERS

The ratings of Leasys are based on Fitch's assessment of its integration with FCA Bank and the availability of potential support from CA Consumer Finance (CACF; A+/Negative), and ultimately from CA. CA owns a 50% stake in FCA Bank through CACF and provides ongoing support to FCA Bank, mostly through funding and liquidity. The provision of funding and liquidity is governed via a joint-venture (JV) agreement with FCA Italy S.p.A. (FCA Bank's other 50% shareholder), a 100% subsidiary of Stellantis N.V. (BBB-/Stable).

We believe that 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. The presence of cross-default clauses referencing FCA Bank's subsidiaries in part of FCA Bank's financing agreements with third parties, Leasys' explicit inclusion in the JV agreement and strategic role for the group, in Fitch's view, further underpin CA's willingness to provide support since a default of Leasys would have a significantly negative impact on parts of the CA group.

Leasys' planned diversification of funding sources away from the banking parent, mirroring FCA Bank's, is part of CA's overall strategy across the group's subsidiaries. Nonetheless, in Fitch's view, CA's willingness to support remains high.

The three-notch difference between CA's and Leasys' IDRs reflects that any support from CA to Leasys would be part of any support provided by CA to FCA Bank Group as a whole. FCA Bank's ratings are not constrained by Italy's sovereign (BBB-/Stable), but Fitch is unlikely to widen the notching difference between FCA Bank's and Italy's IDRs to above two notches.

Given Leasys' operational integration within FCA Bank (and ultimately CA), Fitch does not factor any support from Stellantis into Leasys' ratings. Similarly, given Leasys' access to financial support from CA, if required, Stellantis does not currently represent a constraint for Leasys' ratings.

The merger between Fiat Chrysler Automobiles N.V. and Peugeot SA into Stellantis does not affect Leasys' IDRs in the short term. However, it may entail a re-organisation of their respective captive lenders over the medium term. As Stellantis' priority is primarily focused on industrial synergies first we expect no changes until the expiration of FCA Bank's shareholders' agreement (end-2024). We also expect the funding agreement to remain in place until end-2024 even if one of the two parties announces its intention to exit the JV. We expect more clarity on the long-term strategy by end-2021 as the non-renewal of the JV beyond 2024 is subject to a notice provided by any shareholder by end-2021.

Fitch believes the standalone credit profile of Leasys is constrained by its high operational integration with FCA Bank, in terms of centralised functions (including co-ordination by FCA Bank Group treasury) and seconded personnel, as well as by its high leverage. Positively, sound profitability, moderate credit risk and medium-term growth prospects highlight Leasys' positive contribution to the parent's performance, underpinning our assessment of support propensity.

RATING SENSITIVITIES

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

- Fitch would upgrade Leasys' Long-Term IDR if FCA Bank's IDR is upgraded. FCA Bank's Long-Term IDR in turn could be upgraded if CA's, CACF's and Italy's IDRs are all upgraded, while the Italian operating environment remains stable and FCA Bank's exposure to Italian sovereign risk remains limited.

- Fitch would revise the Outlook on Leasys' Long-Term IDR to Stable, if the Outlook on FCA Bank's IDR is revised to Stable, which would require an Outlook revision to Stable on CA's Long-Term IDR.

- Fitch could reduce the notching between Leasys' and CA's IDRs, if Leasys becomes so individually relevant for CA that the latter would support it directly and independently from FCA Bank, although we do not consider this likely in the medium term.

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

- Fitch would downgrade Leasys' Long-Term IDR if FCA Bank's IDR is downgraded or if the current institutional arrangements (i.e. cross-default clauses, JV and funding agreements) are removed, leading to lower expectation of support.

- As Leasys' Long-Term IDR is equalised with that of FCA Bank, Fitch would downgrade Leasys' Long-Term IDR, along that of FCA Bank, if Italy is downgraded, 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 equalised with those of FCA Bank.

ESG CONSIDERATIONS

As support-driven issuers have strong linkages to their support providers, the ESG Relevance Score assigned to the 'supported' subsidiaries often mirror 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.

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

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Leasys S.p.A.	LT IDR	BBB+ Rating Outlook Negative	Affirmed	BBB+ Rating Outlook Negative

ENTITY/DEBT	RATING			PRIOR
	ST IDR	F1	Affirmed	F1
	Support	2	Affirmed	2

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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

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Non-Bank Financial Institutions Europe Italy

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