Rating Action: Moody's changes Valeo's outlook to stable, Baa3 rating affirmed

30 Aug 2021

Frankfurt am Main, August 30, 2021 -- Moody's Investors Service ("Moody's") has today affirmed the Baa3 long term and Prime-3 (P-3) short term ratings of Valeo S.A. (Valeo) and changed the outlook to stable from negative.

"The affirmation of the ratings reflects Valeo's swift recovery from the global coronavirus outbreak and our expectation of further improvements in profitability, cash generation and de-leveraging", said Falk Frey, a Moody's Senior Vice President and lead analyst for Valeo. The stable outlook reflects Valeo's strong cash position and the expected improvements in profitability and cash flows that will position the company solidly for the Baa3 ratings within the next 12-18 month."*, added Mr. Frey.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The change in Valeo's rating outlook to stable from negative on reflects the company's solid recovery of financial performance in H2 2020 and H1 2021 with credit metrics already returning close to the levels that Moody's deems to be adequate for the Baa3 rating.

On an LTM basis (June 30, 2021), debt/EBITDA (Moody's adjusted) improved to 3.6x from 8.4x in FY2020 coming close to the 3.5x that would be expected for the current rating category. Similarly, Valeo's EBITA margin improved from -0.4% in FY 2020 to 5.8% based on LTM 06/21 figures, already above the 5.5% to be comfortable positioned in the current rating category.

Moody's forecasts for the global automotive sector a 7% increase in unit sales in 2021, with a recovery in the second half of some of the sales lost in the first half of 2021 from the ongoing semiconductor chip shortage. We expect 2022 industry unit sales to continue to grow at 6.1%. However, future demand for vehicles could be weaker than our current estimates, the already competitive environment in the auto sector could intensify further, and Valeo could encounter greater headwinds than currently anticipated. These relate in particular to the ongoing shortage of semiconductors which disrupts supply chains and makes product call-offs less predictable as well as to the ongoing cost inflation which may weigh more heavily on margins over H2 2021 and potentially in 2022.

Valeo's Baa3 rating continues to reflect as positives its: size and scale as a Tier 1 automotive supplier with revenue of around €18.4 billion in the 12 months that ended June 2021; longstanding relationships with global original equipment manufacturers (OEMs); high product diversity, with operations across four core reporting segments and with positive exposure to the long-term forces affecting the automotive industry; high rate of innovation, which underpins future revenue growth (products launched within the last three years accounted for more than 56% of the order intake in 2020); and overall balanced financial policy with a commitment to an investment-grade rating and strong liquidity.

The rating also reflects as negatives its exposure to the cyclical nature of automotive production; exposure to volatile raw material costs; low profitability, with an EBITA margin (Moody's adjusted) of 5.8% as of June 2021, although close to the level that is average for the industry; high R&D expenses; and slightly elevated leverage (3.6x debt/EBITDA [Moody's-adjusted] as of June 2021).

LIQUIDITY

Valeo has excellent liquidity over the next 12 months. As of 30 June 2021, the company had €2.3 billion in cash and cash equivalents, as well as €2.3 billion available under its revolving credit facility agreements, compared with its long-term debt of €4,433 million, current portion of long-term debt of €143 million and short-term debt of €1,253 million. Valeo issued a €700 million senior unsecured sustainability linked bond in August 2021 (maturity 2028) and has the option to draw on a €300 million European Investment Bank (EIB) loan, signed in July 2021. We expect Valeo to generate fund from operations (FFO) of around €2.2 billion over the next 12 months. This expected cash flow, along with its cash holdings, will be sufficient to cover debt.
repayments of €143 million and short-term debt of €1,253 million; estimated capital spending of €1.7 billion; and estimated dividend payout of around €90 million–€110 million.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Valeo's debt/EBITDA will recover into a range of 3.5-3.0x (Moody's adjusted) and net debt/EBITDA will sustain in a range of 2.5-2.0x (Moody's adjusted) over the next 12-18 months, whilst margins should improve towards 7% over the next two years. The stable outlook also reflects our expectation that Valeo will generate positive free cash flows.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive rating pressure could arise if (i) Valeo maintains an EBITA margin of at least 5.5%, (ii) leverage below 2.0x net debt/EBITDA and/or 3.0x debt/EBITDA (both Moody's-adjusted), (iii) positive FCF generation (after dividends), (iv) RCF/net debt above 30%, and (v) a balanced financial policy.

Negative rating pressure could arise if (i) its EBITA margin falls below 4.5%, (ii) FCF were to be significantly negative, (iii) leverage does not decline to below 2.5x net debt/EBITDA and/or 3.5x gross debt/EBITDA (both Moody's-adjusted), or (iv) RCF/net debt declines to below 20%.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Valeo S.A.
   .... Commercial Paper, Affirmed P-3
   ....LT Issuer Rating, Affirmed Baa3
   ....Senior Unsecured MTN, Affirmed (P)Baa3
   ....Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

Outlook Actions:

..Issuer: Valeo S.A.
   ....Outlook, Changed To Stable From Negative

PRINCIPAL METHODOLOGY


COMPANY PROFILE

Headquartered in Paris, Valeo is one of the leading global suppliers of automotive components for new cars and light vehicles (original equipment or OE) and the aftermarket (around 10% of group revenue). In the 12 months that ended June 2021, Valeo generated revenue of €18.4 billion. Valeo has four business divisions: Comfort and Driving Assistance (CDA) Systems (20% of group revenue as of the 12 months that ended June 2021); Powertrain Systems (27%); Thermal Systems (22%); and Visibility Systems (30%). The group’s product range consists of clutches, electrical systems, switching and driver interface modules; sensors for driving assistance; air-conditioning systems and modules; heating and cooling products; filters; windshield wipers; and lighting systems.

REGULATORY DISCLOSURES

For further specification of Moody’s key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody’s Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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