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ELO (Auchan Holding)

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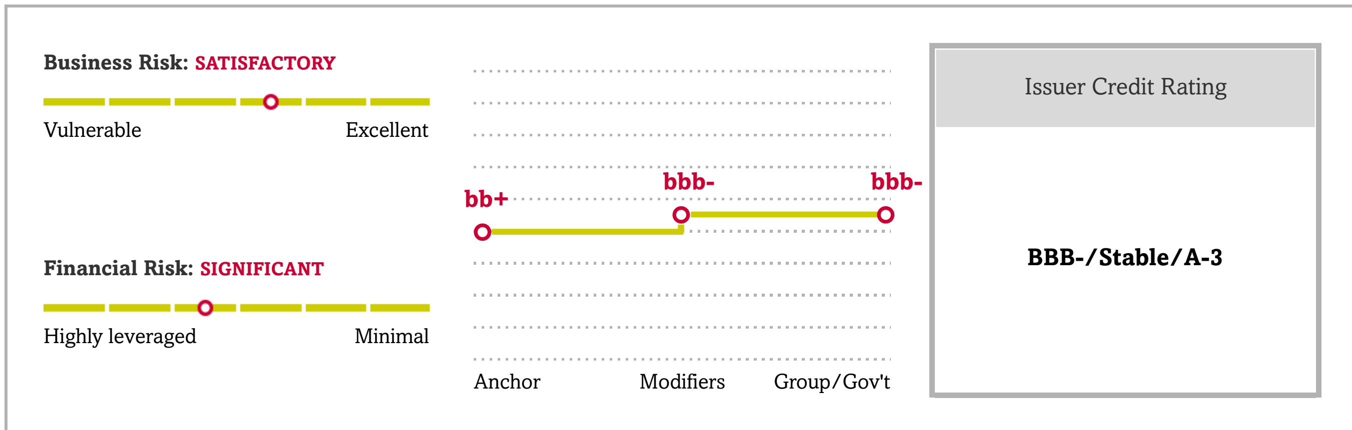
ELO (Auchan Holding)



Credit Highlights

Overview	
Key strengths	**Key risks**
Large food retailer with good product diversification, sound brand recognition, and strong bargaining power.	High reliance on the price-sensitive hypermarket format, while consumer preference is shifting to e-commerce, proximity, and convenience stores in mature economies.
An asset-rich balance sheet, notably from Ceetrus' real estate assets, worth €7.4 billion as of end-December 2020.	Tough competition in France and Russia, two of the group's largest geographies by revenue.
Supportive financial policies underpin the group's commitment to preserve its investment-grade rating.	Continued high investment needs over the next few years, further constraining free operating cash flow (FOCF) and credit ratios.
	Less geographically diversified business with lower margin following the disposal of the stake in the leading Chinese grocery retailer Sun-Art to Alibaba.
	Real-estate subsidiary's earnings expected to be durably depressed against 2019's levels.

ELO--previously known as Auchan Holding--reported 2020 fiscal year results stronger than our projections. We had anticipated a slight decline in leverage from 2019, stemming from the group's recent disposal of its stake in Sun-Art and the subsequent debt repurchases of December 2020. However, ELO's 2020 results indicate a sharper deleveraging, with S&P Global Ratings-adjusted leverage of 2.6x against the 3.3x we had forecasted. The over-performance stems from a variety of factors. First, the group reported a slightly better profitability performance with adjusted EBITDA of €1.6 billion against €1.5 billion anticipated in our base case. In our view, this has been facilitated largely by high food demand in France throughout the year (+6% overall growth for the food retail market in France according to Nielsen), leading to a less promotional environment. Combined with the group's cost-savings in France, the outcome is a pick-up in margins. Secondly, the group recorded a strong performance in terms of working capital management, with a material inflow of €289 million; we had anticipated an outflow by year-end. The positive result owes to a lower level of inventory on stronger demand and tight inventory management. As such, we expect this trend to reverse somewhat in 2021. Lastly, smaller-than-anticipated capex contributed to an increase in the cash balance at year-end. This translated into stronger credit metrics, in line with the financial triggers set in our upside scenario.

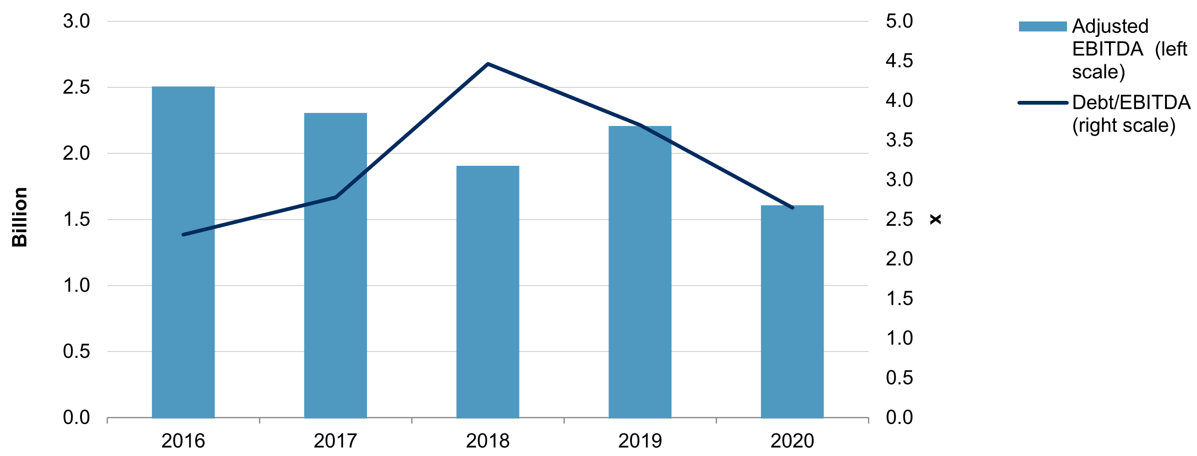
That said, any rating upside will hinge on sustained operating and financial performance. We still see material risk weighing on ELO's future operating performance, particularly given the recent track record of volatile earnings and credit metrics. For instance, the S&P adjusted EBITDA ranged from €2.5 billion in 2016 to €1.6 billion in 2020, while

adjusted debt-to-EBITDA peaked to 4.5x in 2018 from 2.3x in 2016, then rose to 2.6x in 2020. Although we acknowledge a material improvement in profitability in 2020--on the back of continued cost-controls, furthering the trend initiated in 2018--we also believe part of that improvement is thanks to the favorable operating context for food retailers, over restaurants and canteens amid COVID-19-related restrictions and lockdowns, in the group's largest geographies. We notice that margin improvement was an industry wide phenomenon in Europe, and we expect a normalization in food demand in the coming months, as the roll-out of the COVID-19 vaccine lead to eased restrictions. As a result, it is likely that price competition will resume, thus squeezing ELO's margin levels. Additionally, we still see significant operational risks likely constraining earnings in the next few years. For the group's retail activities, France now represents half of its revenue; in this market, we estimate that a large majority of this revenue is generated from hypermarkets. This format is still facing significant headwinds, with increased competition from food discounters and specialized fresh food retailers, and competition from pure-players and specialized retailers for the non-food side, adding to the consumer preference shift towards convenience and online sales. This is likely to translate in low growth and low profitability prospects for this segment. Auchan retail faces pronounced operating pressure in Russia, where topline declined by double-digit numbers, provoking a material erosion of profitability in 2020. Since 2018, Auchan Retail undertook a turnaround of the Russian operations. However, to date, the operation has not been fruitful, with a continuing decline of both topline and profitability. After the disposal of assets in China, Russia is ELO's third largest geography, following Spain. Furthermore, the group's earnings from Ceetrus were materially dented in 2020 due to the mandatory store closures, and we don't expect a normalization to 2019 levels in our forecast horizon, as we expect a portion of the tenant base to be durably affected.

The group's €2 billion deleveraging plan through asset disposals should help create further headroom despite uncertainties around financial policy. Its cash flow generation should also turn durably positive despite our anticipation of larger capital expenditure (capex), driven by the cost-cutting efforts and a lower interest burden going forward. That said, some unknowns are still weighing on the group's future credit metrics. First, we don't think the 2020 working capital performance is sustainable in the long term. Secondly, as the group's balance sheet strengthens, we expect some changes in financial policy that are likely to weigh on cash flow and improvements in the ratios. In particular, considering the group's cash balances as of end-2020, we assume an exceptional dividend distribution in 2021 to be very likely. In our base case, we forecast a dividend between €500 million and €1 billion. Beyond 2021, we forecast a normative dividend distribution policy in the range of €200 million per year. We also expect a material pick-up in investments from the levels over the past two years. We believe ELO aims to run structurally lower levels of debt on its balance sheet.

Chart 1

Adjusted EBITDA And Leverage Evolution Over 2016-2020



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Outlook: Stable

The stable outlook reflects our anticipation that, despite challenging operating trends in the retail and real estate businesses, ELO will maintain consolidated S&P Global Ratings-adjusted leverage below 3.5x and funds from operations (FFO) to debt well above 20%. The outlook also reflects our anticipation that the group will use proceeds from asset disposals to manage credit metrics while reinvesting in its core European retail operations to reinforce its competitive positioning. This should translate into positive like-for-like and pre-exceptional profitability growth and improved cash flow.

Downside scenario

We could lower the rating if:

- The group's retail operations were to deteriorate materially in the next 24 months due to a weakening of its business position, translating into negative like-for-like growth and a lack of success in sustaining profitability and restoring material positive FOCF before asset disposals;
- The real estate business' performance and credit ratios were to deteriorate further than we anticipate because of prolonged COVID-19 economic fallout and challenging retail conditions; or
- Consolidated adjusted leverage exceeds 3.5x or FFO to debt deteriorates to below 20% because of delays in asset disposals and the return to a more aggressive financial policy.

Upside scenario

We could revise the outlook to positive if ELO maintains its business risk profile despite structural pressure and its deleveraging efforts continued such that its debt to EBITDA remained below 3.0x. This would be due to continuing asset disposals but also to a supportive financial policy and a sustainable improvement of the group's profitability and organic FOCF, indicating a durable improvement in credit quality.

Our Base-Case Scenario

Assumptions

- Real GDP progressing in France by 5.0%-6.0% in 2021 after an 8.2% contraction in 2020.
- EU GDP increasing by about 4%-5% in 2021. However, given the evolving COVID-19 situation, we expect GDP growth could vary significantly from our base-case scenario.
- An intensifying price competition in 2021 and 2022, as the health crisis eases. The increased penetration of discounters and specialized food retailers and the renewed push from independents for market share will stress prices, only moderately compensated for by heightened food demand related to COVID-19 impacts. In our view, this is likely to translate in a flat to slightly negative topline for the group in 2021 and 2022.
- Following a boom in online sales due to the pandemic, we expect a structural increase in online sales, which is also likely to weigh on margins because physical retailers have to reshuffle their supply chains, ensure last-mile delivery, and maintain their store network.

- Continued modest improvements in gross margin, spurred by the same efforts to improve supply-chain efficiency and limit breakage costs as in 2019 and 2020, combined with the benefits from the purchasing alliance with Casino, Metro, and DIA.
- In line with 2020, we expect the group to undertake additional cost-savings to restore profitability further. As of December 2020, the group realized €664 million of cost-savings against 2018 levels and now targets up to €1.4 billion against the €1.1 billion initially budgeted.
- One-offs associated with the remainder of the plan in the range of €100 million per year, bearing in mind, the group has already recorded €222 million of such costs in 2020.
- Real estate arm Ceetrus' 2021 profitability down by about €100 million-€120 million against 2019's levels, in line with 2020, due to continuing lockdowns and other restrictions reducing traffic in commercial galleries. We also expect structurally more subdued profitability, considering the exposure to the non-food retail sector, particularly apparel, which has been badly affected by the pandemic.
- One-off costs associated with COVID-19 (employee bonuses, higher sanitary costs, and other costs) still weighing on the group's consolidated EBITDA for 2021, progressively phased-out thereafter.
- A continued absolute revenue decline in Russia related to store closures and ongoing restructuring, with like-for-like sales only picking up in 2022 due to a redefined commercial strategy and footprint. We believe the group's efforts to reshuffle the commercial strategy should help improve the operating performance in the near future, though short-term restructuring costs related to network optimization should offset the positive effect on margins.
- The group's S&P Global Ratings-adjusted EBITDA margin progressing to 5.5%-6.0% in 2020, remaining broadly stable thereafter, as we expect cost control measures to compensate for the more challenging market environment.
- A working outflow in 2021 of €50 million-€100 million, in line with management's expectation, followed by neutral working capital effects on FOCF from 2022.
- Annual gross capex of about €900 million to €1 billion in 2021, rising to €1.1 billion-€1.2 billion in 2022, against just €685 million in 2020, because we believe investments are critical for ELO's efforts to remain competitive with its digital capabilities. Capex includes part of the transformation charges relating to automated and digital investments. Toned-down expansion plans for convenience stores, which will be essentially through new franchisees, limiting capex. Equally, COVID-19 impacts will dampen Ceetrus' earnings, but we have not assumed a reduction in real estate capex.
- Outflow of about €100 million 2021 related to recapitalization of Italian operations disposed of in 2019.
- Our expectation of an exceptional dividend distribution to ELO's direct shareholders in 2021 in the €500 million-€1 billion range. We have assumed a normative €200 million distribution thereafter.
- Buybacks related to employee shareholdings of €100 million each year.
- We are not incorporating the €2 billion deleveraging plan announced by the group as we have limited visibility over the asset disposal plan underpinning this deleveraging.

Key metrics

Based on these assumptions, we arrive at the following adjusted credit measures:

- Adjusted debt to EBITDA of 2.8x-2.9x, incorporating our expectations of one-offs, with adjusted FFO to debt of 25%-30% in 2021-2022.

- Positive FOCF after lease payments in the range of €300 million in 2021 dropping to about €30 million-€50 million in 2022, due to our anticipation of increased capex.

Auchan Holding--Key Metrics

	2020	2021	2022
Revenues	32,117.0	32,124.9	31,900.0
Adjusted EBITDA	1,608.0	1,902.0	1,982.3
Adjusted EBITDA margin	5%	6%	6%
Reported FOCF, after finance lease payments	1,390.0	303.3	20.6
Debt/EBITDA	2.6	2.8	2.9
FFO/Debt	23%	30%	25%
DCF/ Debt	7%	-6%	24%

FFO--Funds form operations. DCF--Discretionery cash flow. FOCF--Free operating cash flow.

Auchan retail's operational challenge lies in its capacity to restore positive-yet-profitable like-for-like growth in its main markets, particularly France and Russia. In both countries, ELO has lost market share to competitors, indicating a less attractive value proposition than that of its competitors. We don't believe the past few quarters of profitability growth will be sustainable if ELO cannot resume traffic growth and market share gains. The Renaissance plan aims to restore growth by building on various initiatives: Developing partnerships with other Mulliez held businesses, offering localized marketplace services within the existing network of hypermarkets, using hypermarkets as local warehouses for proximity and convenience formats, and modifying the product mix to have a more attractive offering. We understand a key aspect of the strategy is to have a less centralized organization, enabling stores to meet their local demand. However, considering Auchan retail's format concentration, in particular in France, we believe challenges remain high. If hypermarkets remain a key shopping avenue in France with over €100 billion in sales per year, it is a declining format in terms of growth as per Euromonitor data and we believe the COVID-19 pandemic has highlighted the benefits of a diversified store base. In that context, we expect Auchan Retail to be constrained to invest in prices to regain traffic, in particular considering its reliance on the price-sensitive hypermarket format. In addition to that, the pandemic could also lead, in our view, to changing consumer habits with a boom in online sales that might continue to weigh on traffic in hypermarkets and destination formats in general, which could further affect the subpar growth of this format of consumption.

Although Ceetrus' earnings are likely to be durably affected by the pandemic, we still expect this segment to remain a priority area of development for the group. Ceetrus' earnings have been materially subdued in 2020 by the restrictions and lockdowns implemented to fight the pandemic, with a 19.5% drop in topline and a 24.2% drop in EBITDA. Earnings should continue to be depressed in 2021 due to ongoing restrictions in the first half of the year. More importantly, although we expect a partial normalization from 2022 on, we do not foresee a return to 2019's levels in the near term. The long-lasting restrictions and the resulting economic downturn could lead to further retailer bankruptcies, a continued rise in vacancies, and potential downward rent negotiations. Furthermore, we expect additional declines in retail asset values in 2021, but to a lesser extent than what we observed in 2020. Although we believe that Ceetrus' good-quality and convenient shopping centers in catchment areas should continue to attract retailers and footfall once the pandemic is over, we believe its overall revenue resilience and cash flow predictability will most likely weaken. This is in line with our general view of the retail property sector, which is going through major changes. These include the rise in e-commerce and shift in consumer habits exacerbated by the pandemic, and a considerably weaker tenant base that could take years to recover. That said, we still expect ELO to meaningfully invest in its real estate activities with a diversification in other areas, as exemplified with the creation of NHood, which intends to develop services associated with Real estate activities.

Company Description

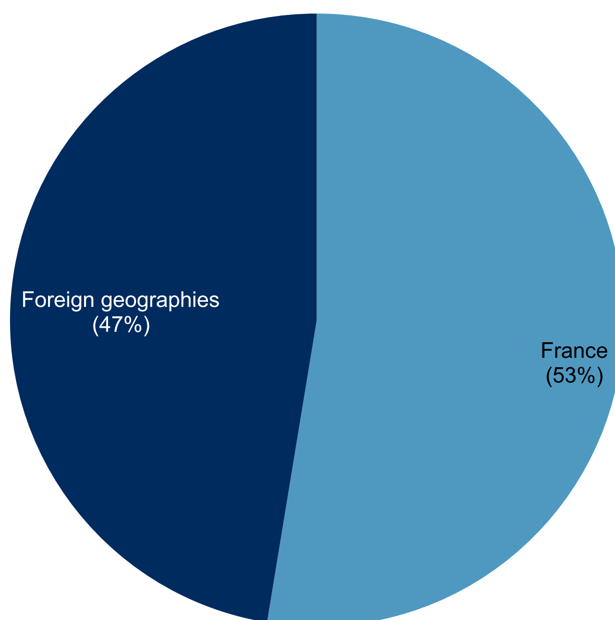
ELO reported €32 billion of sales in fiscal 2020. The company operates hypermarkets and convenience stores in 11 countries. It is the fifth-largest retailer in France, with sizable operations in both Eastern and Western Europe and a notable presence in Russia, Ukraine, Poland, and Spain. The company also owns and operates shopping centers through Ceetrus in 12 countries.

ELO holds a 49.3% stake in Oney Bank. The group had sold remaining stake to BPCE (one of France's largest banks) in 2019. In the medium term, assuming Oney benefits from the support of BPCE, we believe this transaction will likely increase the bank's overall value.

The Mulliez family owns about 97% of ELO through Association Familiale Mulliez (AFM), while the remainder is owned by eligible employees.

Chart 2

Revenue Split Per Country 2020



Source: S&P Global Ratings.

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Chart 3

Auchan Store Network Under Banners–FY2020-France

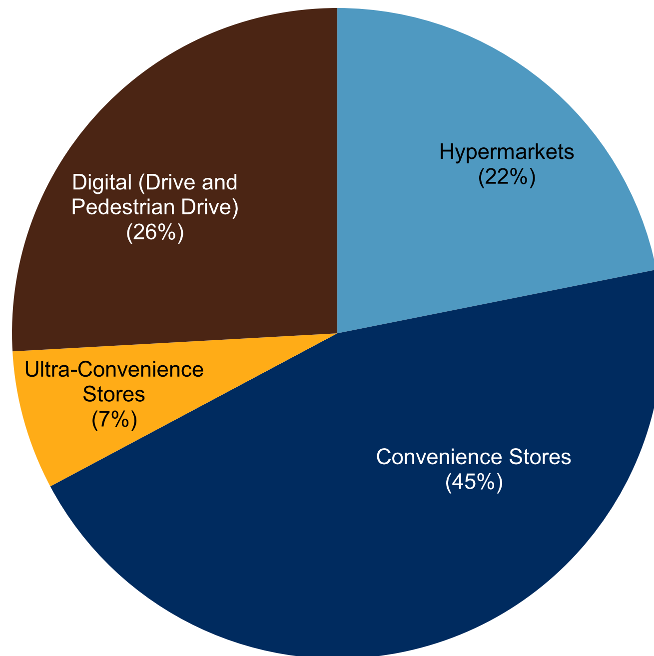

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Chart 4

Auchan Store Network Under Banners–FY 2020-Foreign Geographies

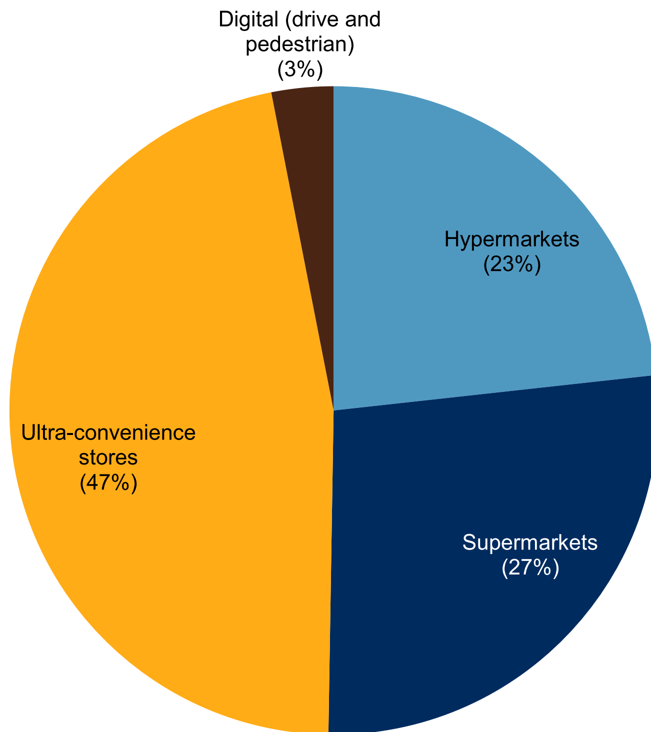

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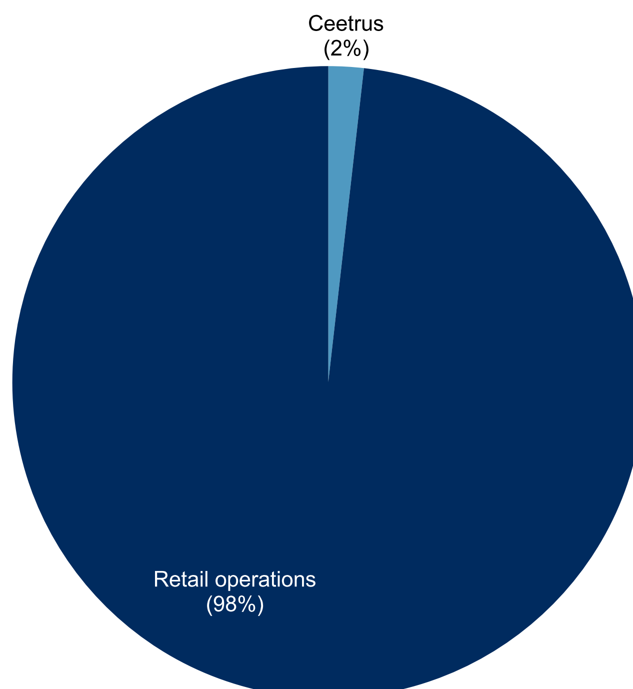
Chart 5

Auchan's 2020 Reported Revenues



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Peer Comparison

Table 1

Auchan Holding--Peer Comparison

Industry sector: Supermarkets

	ELO	Carrefour S.A.	Casino Guichard - Perrachon S.A.	Ahold Delhaize N.V.	Kroger Co.	REWE Group	Walmart Inc.
Ratings as of May 5, 2021	BBB-/Stable/A-3	BBB/Stable/A-2	B/Negative/B	BBB/Stable/A-2	BBB/Stable/A-2	BBB-/Stable/A-3	AA/Stable/A-1+
	--Fiscal year ended--						
	Dec. 31, 2020	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Feb. 01, 2020	Dec. 31, 2019	Jan. 31, 2020
(Mil. €)							
Revenue	32,117.0	70,954.0	35,310.0	74,736.0	110,300.3	55,374.3	472,608.2

Table 1

Auchan Holding--Peer Comparison (cont.)							
EBITDA	1,608.0	4,184.0	2,275.0	6,600.0	5,798.9	4,277.7	32,452.6
Funds from operations (FFO)	964.0	3,499.0	1,371.0	5,602.0	4,414.9	3,539.4	26,093.5
Interest expense	412.0	284.0	693.5	517.0	819.4	584.8	3,219.2
Cash interest paid	380.0	289.0	645.0	512.0	747.2	583.1	3,097.5
Cash flow from operations	1,156.0	3,123.0	1,352.0	6,228.0	4,833.4	3,478.8	24,313.0
Capital expenditure	685.0	1,491.0	1,102.0	2,653.0	2,821.4	1,783.2	9,655.8
Free operating cash flow (FOCF)	471.0	1,632.0	250.0	3,575.0	2,012.0	1,695.6	14,657.2
Discretionary cash flow (DCF)	303.0	1,462.0	(1,036.0)	1,548.0	1,154.2	1,494.8	3,544.8
Cash and short-term investments	4,401.0	4,280.0	3,572.0	2,968.0	359.9	567.0	8,537.3
Debt	4,256.0	9,363.2	12,222.5	13,908.6	21,390.1	12,791.4	62,214.8
Equity	6,705.0	10,642.0	7,616.0	12,432.0	7,732.7	7,278.2	73,558.8
Adjusted ratios							
EBITDA margin (%)	5.0	5.9	6.4	8.8	5.3	7.7	6.9
Return on capital (%)	3.2	7.6	3.4	13.5	9.0	5.8	16.0
EBITDA interest coverage (x)	3.9	14.7	3.3	12.8	7.1	7.3	10.1
FFO cash interest coverage (x)	3.5	13.1	3.1	11.9	6.9	7.1	9.4
Debt/EBITDA (x)	2.6	2.2	5.4	2.1	3.7	3.0	1.9
FFO/debt (%)	22.7	37.4	11.2	40.3	20.6	27.7	41.9
Cash flow from operations/debt (%)	27.2	33.4	11.1	44.8	22.6	27.2	39.1
FOCF/debt (%)	11.1	17.4	2.0	25.7	9.4	13.3	23.6
DCF/debt (%)	7.1	15.6	(8.5)	11.1	5.4	11.7	5.7

Financial summary

Table 2

Auchan Holding--Financial Summary

Industry sector: Supermarkets					
	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. €)					
Revenue	32,117.0	38,545.1	42,864.8	44,334.7	43,668.3
EBITDA	1,608.0	2,156.6	1,885.6	2,268.8	2,551.4
Funds from operations (FFO)	964.0	1,508.1	1,451.3	1,760.5	2,020.6
Interest expense	412.0	81.6	288.8	273.8	274.8
Cash interest paid	380.0	426.3	281.7	320.8	328.8
Cash flow from operations	1,156.0	1,145.7	1,460.0	1,785.7	1,853.0
Capital expenditure	685.0	1,033.2	1,826.6	1,516.3	1,389.5
Free operating cash flow (FOCF)	471.0	112.5	(366.6)	269.4	463.5
Discretionary cash flow (DCF)	303.0	(98.2)	(821.4)	(193.3)	(23.9)
Cash and short-term investments	4,401.0	2,592.6	2,319.1	1,775.0	1,680.1
Gross available cash	4,501.0	2,592.6	2,319.1	1,775.0	1,661.1
Debt	4,256.0	7,958.0	8,415.5	6,302.9	5,889.0
Equity	6,705.0	7,783.6	9,395.4	10,753.9	10,375.2
Adjusted ratios					
EBITDA margin (%)	5.0	5.6	4.4	5.1	5.8
Return on capital (%)	3.2	2.5	(5.2)	3.0	5.6
EBITDA interest coverage (x)	3.9	26.4	6.5	8.3	9.3
FFO cash interest coverage (x)	3.5	4.5	6.2	6.5	7.1
Debt/EBITDA (x)	2.6	3.7	4.5	2.8	2.3
FFO/debt (%)	22.7	19.0	17.2	27.9	34.3
Cash flow from operations/debt (%)	27.2	14.4	17.3	28.3	31.5
FOCF/debt (%)	11.1	1.4	(4.4)	4.3	7.9
DCF/debt (%)	7.1	(1.2)	(9.8)	(3.1)	(0.4)

Reconciliation

Table 3

Auchan Holding--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2020--						
Auchan Holding reported amounts							
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	6,742.0	6,519.0	1,657.0	89.0	410.0	1,608.0	2,375.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	(264.0)	--
Cash interest paid	--	--	--	--	--	(380.0)	--
Reported lease liabilities	1,681.0	--	--	--	--	--	--

Table 3

Auchan Holding--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)							
Postretirement benefit obligations/deferred compensation	89.0	--	5.0	5.0	2.0	--	--
Accessible cash and liquid investments	(4,348.0)	--	--	--	--	--	--
Share-based compensation expense	--	--	1.0	--	--	--	--
Dividends received from equity investments	--	--	4.0	--	--	--	--
Nonoperating income (expense)	--	--	--	25.0	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	4.0
Noncontrolling interest/minority interest	--	186.0	--	--	--	--	--
Debt: Put options on minority stakes	152.0	--	--	--	--	--	--
Debt: Other	(60.0)	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(71.0)	(71.0)	--	--	--
EBITDA: Other	--	--	12.0	12.0	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	365.0	--	--	--
Operating cash flow: Discontinued operations	--	--	--	--	--	--	(1,223.0)
Total adjustments	(2,486.0)	186.0	(49.0)	336.0	2.0	(644.0)	(1,219.0)
S&P Global Ratings' adjusted amounts							
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	4,256.0	6,705.0	1,608.0	425.0	412.0	964.0	1,156.0

PP&E--Plant, property & equipment.

Liquidity: Adequate

ELO's liquidity has materially improved thanks to the Sun-Art disposal and subsequent use of proceeds to redeem about €1.8 billion of bonds against the July 2020 position. Below, our estimate of the group's principal liquidity sources and uses for the 12 months started Jan. 1, 2021.

Principal liquidity sources	Principal liquidity uses
• €4.5 billion of cash and cash equivalents immediately accessible and available for debt repayment.	• About €325 million of debt redeemed, excluding commercial paper outstanding as of December 2020, that we expect to be rolled-over.

- About €1.9 billion of available credit lines maturing beyond 12 months.
- €1.2 billion-€1.3 billion in reported FFO forecast over the next 12 months (net of lease depreciation).
- €100 million of cash out related to the disposal of the Italian subsidiary
- Annual capex of about €1 billion (including for growth and related to the transformation plan).
- Working capital outflow of about €50 million-€100 million in 2021, along with seasonal working capital requirements of €1.0 billion-€1.2 billion.
- An exceptional dividend to shareholders of €650 million-€800 million per year.
- About €100 million-€150 million of share repurchases

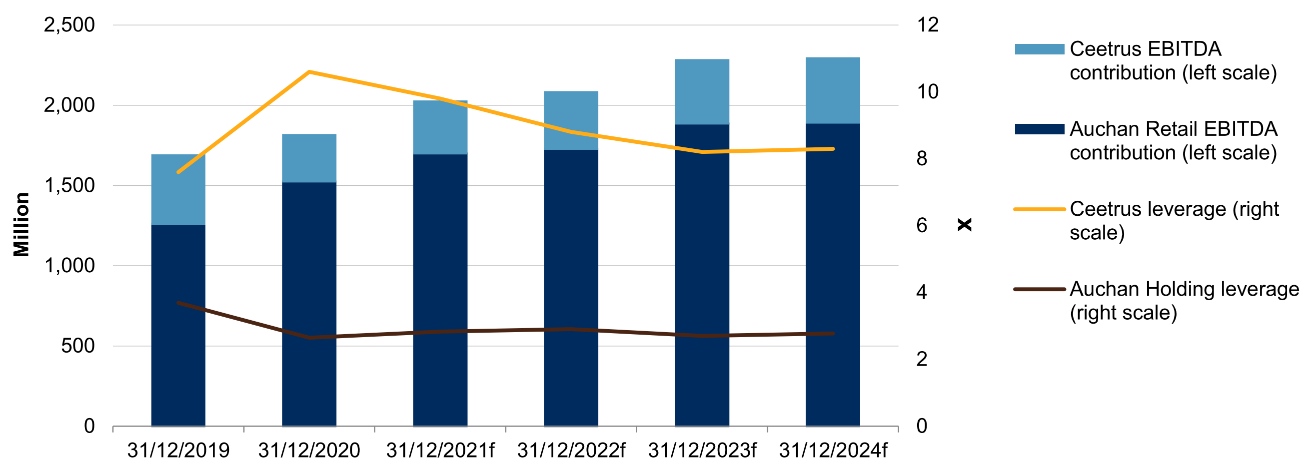
Other Credit Considerations

Our adjusted leverage of 2.6x in fiscal 2021 incorporates a significant contribution from the real estate business, which generates less than 20% of the reported EBITDA in 2020 and represents about 50% of the group's consolidated debt (bearing in mind half of Ceetrus debt is intercompany debt). From a financial standpoint, and in line with our rating approach for real estate companies, Ceetrus--like other real estate entities--has a much more leveraged capital structure relative to its EBITDA than regular corporate entities. This high leverage is offset by the high levels of real estate assets it holds on its books and the quality of the related rental incomes, a characteristic that is reflected in our methodology for real estate companies that have more laxed financial triggers than other corporates to reflect that specificity. In 2020, Ceetrus' impact on the group's overall leverage is even more pronounced, considering the sharp drop in Ceetrus' EBITDA that reached just €322 million against €434 million in the previous year, resulting in an S&P Global Ratings-adjusted debt-to-EBITDA ratio expected at about 10x and a debt-to-debt-plus equity ratio at about 45% for 2020. Under our financial matrix framework for real estate entities, Ceetrus' weighted-average credit metrics correspond to an intermediate financial risk profile. In a context of a deterioration of Ceetrus' credit metrics and considering the company's debt in the overall debt burden of the group, the 2.6x adjusted leverage reported at the holdco level also indicates a meaningful deleveraging of the group's retail operations.

Therefore, we believe that ELO's credit quality is stronger than what its consolidated credit metrics suggest under our issuer credit rating methodology, justifying a one-notch uplift against our 'bb+' anchor. Considering the group's hybrid nature, combining both retail and real estate businesses, we will monitor not only the consolidated group but also the creditworthiness of its two core businesses on a stand-alone basis under each methodology.

Chart 6

Adjusted EBITDA And Debt Contribution Over 2019-2024



f--Forecast. Source: S&P Global Ratings.

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Issue Ratings - Subordination Risk Analysis

Capital structure

As of end-December 2020, ELO's capital structure consists of about €6.7 billion of issued bonds and bank debt, essentially borrowed by the group's parent company, ELO (previously Auchan Holding). Ceetrus reported €3.4 billion of debt on its books in fiscal 2020, but over 50% of it was intracompany loans with ELO. The debt the parent borrowed is not guaranteed by its two subsidiaries, Auchan Retail and Ceetrus, but is on-lent to these two through long-term senior unsecured intercompany loans. There are no cross-default or cross-acceleration clauses between the debt borrowed at ELO and that at the Ceetrus level.

Analytical conclusions

ELO's capital structure consists of senior unsecured debt, primarily constituting bonds and notes. We rate the group's debt 'BBB-', in line with the issuer credit rating, because there are no significant elements of subordination risk in the capital structure.

As of December 2020, real estate subsidiary Ceetrus has taken some third-party debt on its own books. However, the amounts raised are not significant, totaling about €1.5 billion. The debt comprises a bond, a private placement, and a corporate and asset financings. We understand that Ceetrus' intention is to rely less on intracompany funding and more on external funding, which could ultimately reinforce subordination risk, an aspect we will monitor. However, the portion of priority debt at the subsidiary levels is still below the thresholds that could trigger subordination risks.

Ratings Score Snapshot

Issuer Credit Rating

BBB-/Stable/A-3

Business risk: Satisfactory

- **Country risk:** Intermediate
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: bb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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 | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

Related Research

- Auchan Holding, Jan. 12, 2021

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	**bbb-/bb+**	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of May 5, 2021)*

ELO	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	A-3
Senior Unsecured	BBB-
Issuer Credit Ratings History	
16-Nov-2020	BBB-/Stable/A-3
22-Mar-2019	BBB-/Negative/A-3
19-Sep-2018	BBB/Negative/A-2
16-Mar-2018	BBB/Stable/A-2
Related Entities	
Auchan Coordination Services S.A.	
Issuer Credit Rating	--/--/A-3
Ceetrus S.A.	
Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
Oney Bank	
Issuer Credit Rating	BBB/Positive/A-2
Senior Unsecured	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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