FitchRatings

RATING ACTION COMMENTARY

Fitch Publishes Deutsche Sparkassen Leasing's 'A+' Rating; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 04 Oct 2024: Fitch Ratings has published Deutsche Sparkassen Leasing AG & Co. KG's (DSL) Long-Term Issuer Default Rating (IDR) of 'A+' with a Stable Outlook and Shareholder Support Rating (SSR) of 'a+'. Fitch has also assigned DSL a Short-Term IDR of 'F1'. A full list of ratings is below.

KEY RATING DRIVERS

Support-Driven Ratings: DSL's ratings are driven by a very high probability of support if required from its ultimate shareholders, which are part of Sparkassen-Finanzgruppe (SFG; A+/Stable), the German savings bank network. This is reflected in DSL's SSR of 'a+'. The Stable Outlook on DSL's Long-Term IDR mirrors that on SFG's Long-Term IDR.

Fitch does not assign DSL a standalone credit profile score because its franchise is highly correlated with that of SFG, and there is a high level of financial, operational and strategic integration with the group. Although DSL generates most of its business via its own sales network, Fitch believes that DSL's franchise value is ultimately derived from SFG, particularly through the German savings banks' client relationships with SMEs and their broad market coverage. Nevertheless, Fitch notes DSL's modest profitability and elevated leverage on a standalone basis.

Lower Short-Term Rating Option: DSL's Short-Term IDR is the lower of two ratings that map to a 'A+' Long-Term IDR. This is because we believe that despite the owners' very high propensity to provide support to DSL, there are potential impediments to the prompt flow of funds that warrant additional conservatism.

Core Group Role: In Fitch's view, DSL plays a central role in supporting SFG's strategic objectives. This is due to its role as a competence centre for leasing and factoring, to which individual savings banks can refer their clients for specific financing needs. Fitch believes that a default of DSL would constitute huge reputational risk for SFG, and the record of ordinary and extraordinary support provided to DSL by SFG underpins our view of DSL's core role in the group. Further support, if needed, would be immaterial for SFG, in our view. SFG owns 100% of DSL via its individual members.

Leading Leasing Provider: DSL serves as the central provider of leasing and factoring products for SFG's clients and is one of the largest leasing companies in Germany, with a new business volume of around EUR10 billion in the financial year to end-September 2023 (FY23). DSL's customers are primarily German SMEs, which are sourced internally and from SFG's savings banks, with which the company closely cooperates. DSL's leasing and other products are supplementary to SFG's product offering, demonstrating the strong alignment of DSL's market focus with SFG's.

Acceptable Risk Profile: Fitch views DSL's sound execution record and well-tested risk management framework as supportive to its credit and operational performance through the cycle. DSL could be exposed to fraud and cyber security risks, which in Fitch's view are inherent to smaller-ticket leasing and factoring business. Fitch believes these risks are well managed and mitigated by sound risk controls.

Adequate Asset Quality: DSL's balance sheet is dominated by banking, factoring and other receivables (55% of total assets at end-FY23) and leasing assets (40%). DSL generates most of its business in Germany. However, the portfolio is reasonably well diversified by client, asset type and segment, considering DSL's strong SME focus. Machinery equipment (51% of total lease book at end-FY23) and road vehicles (34%) represent DSL's largest leasing asset classes. The specific nature of this type of equipment implies increased residual value (RV) risk, but Fitch views DSL's RV risk approach as sound and commensurate with its peers.

Adequate Profitability: DSL's profitability has historically been modest with pre-tax income to average assets ratio (calculated under German GAAP) at 0.5% in FY23 (0.3% in FY22). In our view, this is due to both DSL's non-profit maximising function within SFG and the highly competitive leasing market in Germany. We believe, DSL's profitability could be pressured in the short term as credit costs could increase, if Germany's economic environment stagnates. In the longer-term, we expect DSL's profitability to benefit from a well-matched balance sheet, gradually decreasing interest rates, lower inflation and improving economic growth in Germany and other international markets.

High Leverage: DSL's tangible leverage ratio (gross debt/tangible equity including funds for general banking risks) was 14x at end-FY23. We understand DSL will not deleverage in the medium term and the announced EUR300 million equity injection, to be received over three years, will be used to grow the company's green finance business. DSL is not subject to regulatory capital (or leverage) requirements and remains primarily funded by SFG and its associated mutual banks.

Mostly Parent Funded: DSL is primarily funded by SFG members, including savings banks (54% of total non-equity funding at end-FY23) and federal state banks (15%), with the rest sourced from development and commercial banks. Fitch does not expect DSL's funding mix to materially change in the medium to longer term. DSL is not a part of SFG's Institutional Protection Scheme and does not collect private retail or corporate deposits.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

DSL's IDRs and SSR are primarily sensitive to adverse changes in our assessment of SFG's ability and propensity to provide timely support. A downgrade of SFG's Long-Term IDR would likely result in a downgrade of DSL's Long-Term IDR and SSR. DSL's Short-Term IDR would be downgraded if SFG's Short-Term IDR was downgraded to below 'F1'.

A weakening of SFG's propensity to support DSL, for instance, if the company's role in the group diminishes or if it becomes less integrated, could lead to Fitch notching DSL's Long-Term IDR from SFG's Long-Term IDR, which would result in a downgrade. A weakening of DSL's role in the group could be indicated by a transfer of leasing activities to other providers within the group. Similarly, a reduction of funding ultimately received from SFG members by DSL, indicating weaker integration, could pressure DSL's ratings.

DSL's ratings would also come under pressure if Fitch believes that the shareholders' ability to provide timely support have weakened. This could be the case if the decision-making processes among the owners impedes timely provision of support.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of SFG would likely result in an upgrade of DSL's IDR and SSR.

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

DSL's ratings are based on shareholder support from SFG.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		
Deutsche Sparkassen Leasing AG & Co. KG	LT IDR	A+ Rating Outlook Stable	Publish
	ST IDR	F1	New Rating
	Shareholder Support	a+	Publish

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 17 Jan 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Deutsche Sparkassen Leasing AG & Co. KG	EU Issued, UK Endorsed

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European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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