



ISSUER RATING
Long term

OUTLOOK
Stable



ISSUER RATING
Short-term

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Rating Action and Rationale

- EthiFinance Ratings affirms the long-term corporate rating of Safran at A, maintaining its Stable outlook. EthiFinance Ratings also affirms its short-term corporate rating at EF1+.
- Please note that we have not included the acquisition of Collins Aerospace in our forecast, due to the lack of certainty regarding the final scope of the acquisition. Indeed, Safran might have to take measures to withdraw Italy's veto on this transaction. This acquisition, if carried out in its current expected scope, would have an impact of around 0.3x on our adjusted net leverage calculation in the short term, which, all other things being equal, would not lead to any change in our ratings.
- These ratings are supported by i) a very solid financial risk profile as emphasized by the group's credit ratios (e.g., a net adjusted leverage ratio at 0.2x in FY23 and even slightly better expected going forward); ii) its leading global market position, which places the company among the top 10 in the sector in terms of revenue; iii) the favourable geographic diversification, with 52% of 2023 sales in EMEA, 35% in the Americas, and 13% in APAC.
- The ratings are mainly constrained by our industry risk assessment (BB+), with only moderate growth perspectives, mild volatility of profitability, and medium-to-high ESG risk stemming from its environmental impact. Geopolitical tensions and regulatory uncertainties further contribute to the industry's inherent risks, potentially affecting demand dynamics and supply chain operations.
- The capital goods industry has medium-to-high ESG risks under our methodology (sector heatmap score between 3.5 and 4), slightly constraining our industry assessment. Heavy industries have a high impact on climate as they are highly energy-intensive in the production process and generate high levels of GHG on all scope measures. The capital goods sector has also a significant impact on resources, consuming a large amount of raw materials. However, impact on biodiversity is medium as this can vary depending on the land use and the production process. Regarding suppliers, raw materials are increasingly problematic given geopolitical uncertainties, and the sector is also affected by human rights issues. On a more positive note, the company has a favourable ESG score (75/100), which offsets the industry risk, resulting in a slight positive impact on the final rating from ESG aspects. This satisfactory score is mainly due to the group's solid governance, with 8 independent members on the Board of Directors, the separation of the roles of Chairman and CEO, and the prioritization of ESG issues. Furthermore, regarding environmental aspects, in January 2023 the Group set itself the target of reducing its emissions by 30% by 2025 (scopes 1 and 2) compared with 2018 (this target has already been achieved by the end of 2023 with a reduction in its emissions of 34% according to the company), and by 50.4% by 2030, and to achieve zero carbon emissions by 2050.

Issuer Description

Headquartered in France, Safran SA is a Tier 1 supplier with leading positions in its markets. With its three divisions, Safran designs, manufactures, and sells engines for commercial and military aircraft, other defense equipment, as well as commercial aircraft interiors. It also generates a significant proportion of its sales and profitability from maintenance, repair, and related services, as well as the sale of spare parts for its products.

The company is notably recognized for its collaboration with General Electric Aviation in developing the LEAP engine, a crucial component utilized in major aircraft models such as the Boeing 737 Max, the Airbus A320neo, and the Comac C919. In 2023, the group generated revenues of €23.7bn, with EthiFinance ratings' adjusted EBITDA of €4.3bn (EBITDA margin of 18.3%). The EthiFinance Ratings' leverage ratio (NFD/EBITDA ratio) stood at 0.2x at end-2023.

Safran is listed on the Euronext Paris stock exchange, is part of the CAC 40 index, and the French government was the main shareholder with a 11.2% stake at end-December 2023. The group had a market capitalisation of around €89bn as of April 4, 2024.

Liquidity

We assess the liquidity profile of Safran as "Superior" reflecting its high level of liquidity at end-2023 (cash available and committed credit lines), in addition to a strong refinancing profile.

Credit Metrics Expected Evolution (CMEÉ)

We expect the Group's credit ratios to remain stable over the next 12 months. Please note that this excludes the potential acquisition of Collins Aerospace, which could take place at the end of 2024.

Main Financial Figures

| Main financial figures, millions of EUR | | | | | | |
|---|--------|--------|--------|--------|---------|---------|
| | FY22 | FY23 | FY24e | FY25e | FY26e | 23vs22 |
| Turnover | 19 523 | 23 651 | 26 962 | 29 658 | 32 624 | 21,1% |
| EBITDA | 3 665 | 4 334 | 4 953 | 5 468 | 6 002 | 18,3% |
| EBITDA Margin | 18,8% | 18,3% | 18,4% | 18,4% | 18,4% | -0,4pp |
| EBIT | 2 361 | 3 098 | 3 508 | 3 853 | 4 201 | 31,2% |
| EBIT Margin | 12,1% | 13,1% | 13,0% | 13,0% | 12,9% | 1,0pp |
| EBT | 2 267 | 2 980 | 3 354 | 3 702 | 4 058 | 31,5% |
| Total Assets | 46 828 | 50 468 | 53 142 | 55 789 | 58 836 | 7,8% |
| Equity | 10 866 | 12 088 | 12 914 | 14 081 | 15 361 | 11,2% |
| Total Financial Debt | 8 344 | 7 702 | 7 474 | 7 495 | 6 818 | -7,7% |
| Net Financial Debt | 1 657 | 1 026 | 1 038 | 649 | -675 | -38,1% |
| Equity/TFD | 130,2% | 156,9% | 172,8% | 187,9% | 225,3% | 26,7pp |
| NFD/EBITDA | 0,5x | 0,2x | 0,2x | 0,1x | -0,1x | -0,2x |
| Adj Funds From Operations | 2 816 | 3 512 | 3 916 | 4 298 | 4 698 | 24,7% |
| Adj FFO/NFD | 170,0% | 342,3% | 377,3% | 661,7% | -696,4% | 172,4pp |
| EBITDA/Interest | 39,0x | 36,7x | 32,1x | 36,2x | 42,2x | -2,3x |

Credit Rating

| Credit Rating | |
|---------------------------------|-----------------|
| Business Risk Profile | BBB+ |
| <i>Industry risk assessment</i> | <i>BB+</i> |
| <i>Industry's ESG</i> | <i>Negative</i> |
| <i>Competitive Positioning</i> | <i>A</i> |
| <i>Governance</i> | <i>BBB+</i> |
| Financial Risk Profile | AA |
| <i>Cash flow and leverage</i> | <i>AA+</i> |
| <i>Solvency</i> | <i>A</i> |
| <i>Company's ESG</i> | <i>Positive</i> |
| Anchor Rating | A |
| <i>Modifiers</i> | <i>-</i> |
| Rating | A |

Rating Sensitivity

- Long-term and short-term rating positive factors (↑)

Already at an excellent level, the improvement in our LT rating would come from the Group's confirmed objective of maintaining a net adjusted leverage ratio of less than 0.2x in a sustainable manner (bearing in mind that the acquisition of Collins Aerospace should have an impact on this ratio of around 0.3x, which would make it difficult to upgrade the rating in the short term). On the other hand, we could consider upgrading the rating due to an improvement in our assessment of the industry risk. Indeed, this risk is the main drawback of our current rating. The ST rating is already at the best possible level, according to our methodology.

- Long-term and short-term rating negative factors (↓)

A downgrade of our LT could occur if the company's results deviate materially from our forecasts, for instance in the event of a debt-funded acquisition, resulting in a sustained adjusted net debt ratio above 1.0x. A downgrade of our short-term rating would imply a change in the CMEE from Stable to Negative, which seems unlikely at present, as this would occur in a severe downturn scenario for the aerospace sector.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

| Unsolicited Credit Rating | |
|--|----|
| With Rated Entity or Related Third Party Participation | NO |
| With Access to Internal Documents | NO |
| With Access to Management | NO |

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
 - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA_190_V3_Corporate%20Methodology_2023-10-06.pdf
 - Corporate Rating Methodology - Short Term : https://files.qivalio.net/documents/methodologies/CRA_191_Corporate_Rating_Methodology_Short_Term-202303.pdf
- The rating scale used in this report is available at <https://www.ethifinance.com/en/ratings/ratingScale>.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has provided ancillary services to related third parties of the rated entity, but not to the rated entity. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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