EthiFinance Ratings

VALEO SE

552030967

CORPORATE

BB+ ISSUER RATING
Long term

OUTLOOK
Stable

EF2 ISSUER RATING
Short-term

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RATING ACTION AND RATIONALE

- EthiFinance Ratings downgrades Valeo SE's long-term rating from BBB- to BB+, maintaining its Stable outlook. Concurrently, we affirm Valeo's short-term rating of EF2.
- Valeo is a French global automotive supplier specializing in designing, manufacturing, and selling components and systems for both OEMs and the aftermarket.
- Our rating downgrade primarily results from below expectations evolution of Valeo's key credit metrics throughout our rating period, when compared to our last review forecasts. They remain negatively impacted by high R&D expenditures (10% of FY24 sales) and restructuring costs of more than €400m in FY24 and €250m expected for FY25. In FY24, Valeo's revenues declined by 2.5% (including -1.0% FX effect), with a 3.5% drop in sales to OEMs, partially offset by resilient aftermarket performance. The power division was the most impacted, with weaker yoy sales of high-voltage electrification components, while the light segment remained stable. Despite the revenues decline, Valeo's reported operating margin improved from 3.7% in FY23 to 4.0% in FY24, although it continues to lag behind peers average due to substantial R&D expenditures. With a lower net adjusted debt of €5.3bn (vs €5.6bn in FY23), EthiFinance Ratings' adjusted net leverage ratio has improved to 2.9x (vs 3.4x), slightly above our previous rating review forecast of 2.7x. We expect this ratio to slightly improve from 2.9x in FY24 to 2.7x in FY25 on the back of EBITDA growth and FCF generation, and to remain stable around that level for the rest of our forecast period.
- Valeo's high exposure to the headwinds in automotive production such as cyclicality and potential US tariffs on EU automotive imports negatively impact our revenue and profitability growth forecasts, especially amidst a slower than expected BEV transition and rising competition in China. In addition, key credit metrics (equity/debt and EBITDA/interest) remain weak and are not fully aligned with an investment grade rating. Compared to industry peers, Valeo carries a relatively high level of gross reported debt, with €7bn as of FY24, weighing on both its capitalisation ratio (53%) and interest coverage ratio (5.0x). Additionally, Valeo's operating margin remains relatively low given its large scale and strategic industry positioning, further limiting its rating – particularly in light of S&P IHS forecast of stagnant global light vehicle production in 2025.
- Nevertheless, our ratings remain supported by Valeo's market positioning as a key enabler of electrification, with expertise in powertrain systems, as well as in comfort, driving, and assistance systems (ADAS). Another positive factors include Valeo's large scale, good geographical and product diversification, and a conservative financial policy focused on cash generation and deleveraging. Over 2022-23, Valeo secured an indicative order book totalling €67.5bn, set to contribute to sales from 2025 onward. Although this figure was recently reduced by €7.3bn due to order cancellations from North American OEMs following shifts in electrification strategies in that market, the revenue growth is still expected to be driven by strong demand in ADAS where Valeo is holding a leading market position. We believe that the ongoing cost reduction plan, which is expected to generate up to €300m of OpEx savings by 2026, the reduction in R&D expenses and a strategic focus on securing highly profitable orders would all contribute to alleviate the pressure on Valeo's profitability margins going forward. Consequently, EthiFinance Ratings-adjusted EBITDA margin is expected to slightly improve to 8.8% in FY25 and remain stable around that level for the rest of our forecast period.
- Under our methodology, the auto components industry has medium-to-high ESG risks (sector heatmap score between 3.5 and 4), slightly constraining our industry assessment. Its impact on the climate is primarily tied to OEMs, but with a lighter production process generating low GHG emissions. The industry uses a lot of resources, mainly raw materials, thereby generating a significant amount of waste and pollution. Valeo's excellent governance score, favourable social metrics, and reducing energy and GHG emissions intensities are key factors contributing to our positive ESG assessment of the company with a score ranging between 0 and 1, more than offsetting the negative impact from our industry ESG assessment.

ISSUER DESCRIPTION

Valeo is a top-tier French automotive supplier for original equipment manufacturers (c.82% of FY24 revenues) and the aftermarket (11%) worldwide. Valeo designs, manufactures, and sells auto parts, integrated systems, and modules through its four divisions focused on enhancing intuitive, safer, and cleaner mobility (LIDARs, RADARs, EV components). It is also renowned for being one of the top-tier innovators and experts in comfort and advanced driver assistance systems (ADAS).

With operations in over 29 countries, and 106,100 employees spread across 184 plants and 65 R&D centers, Valeo has a significant global presence and a solid foothold in several of the world's most important automotive markets. The EMEA region accounted for c. 49% of FY24 revenues, followed by Asia Pacific (30%,), and North America (18.5%).

For FY24, the group reported €21.5bn in total revenues for adjusted EBITDA of €1.8bn, equivalent to an 8.4% margin (up from 7.5% for 2023). At end-2024, the EthiFinance Ratings adjusted net leverage ratio stood at 2.9x. Valeo SE is listed on the Euronext Stock Exchange and its market capitalization as of 21 March 2025 was c. €2.4 bn.

LIQUIDITY

We assess the company's liquidity profile as "Superior" since Valeo can pay off all its forthcoming debt maturities without receiving new funding for more than two years. The company can also secure financing rather easily given its financial profile. However, volatile market conditions could lead to large swings in cash flow and require Valeo to raise funding in severe downside scenarios.

CREDIT METRICS EXPECTED EVOLUTION (CMEE)

We assign the company a Stable CMEE, resulting from an overall balance of contrasting anticipated developments in credit metrics in the next twelve months, on the back of some cost reductions and company deleveraging.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. Millions of €	FY23	FY24	FY25e	FY26e	FY27e	24vs23
Turnover	22 044	21 492	21 707	22 141	22 584	-2.6%
Adj EBITDA (1)	1 652	1 811	1 915	1 954	1 994	8.8%
Adj EBITDA Margin (1)	7.5%	8.4%	8.8%	8.8%	8.8%	0.9pp
EBIT	811	867	960	980	1 001	6.5%
EBIT Margin	3.7%	4.0%	4.4%	4.4%	4.4%	0.4pp
EBT	471	504	619	687	720	6.5%
Total Assets	21 756	21 658	21 486	21 745	21 875	-0.5%
Equity	4 360	4 515	4 719	5 063	5 397	3.4%
Adj Total Financial Debt (2)	8 576	8 442	8 013	7 812	7 498	-1.6%
Adj Net Financial Debt (2)	5 551	5 289	5 154	5 184	5 431	-5.0%
Equity / Adj TFD (2)	50.8%	53.5%	58.9%	64.8%	72.0%	2.6pp
Adj NFD/Adj EBITDA (1) (2)	3.4x	2.9x	2.7x	2.7x	2.7x	-0.4x
Adj Funds From Operations (3)	945	874	1 262	1 431	1 414	-8.1%
Adj FFO/ Adj NFD (2)(3)	17.0%	16.5%	24.5%	27.6%	26.0%	-0.5pp
Adj EBITDA /Interest (1)	4.9x	5.0x	5.6x	6.7x	7.1x	0.1x

(1) Adj EBITDA excludes Capitalized R&D in application of our rating methodology
(2) Adj debt includes factoring, a portion of reverse factoring, pension benefits, IFRS 16 (off balance-sheet) and other debt adjustments
(3) Adj FFO excludes capitalized R&D

CREDIT RATING

Credit Rating	
Business Risk Profile	**BBB-**
Industry risk assessment	*BB*
Industry's ESG	*Negative*
Competitive Positioning	*BBB*
Governance	*BBB-*
Financial Risk Profile	**BB+**
Cash flow and leverage	*BB*
Capitalisation	*BB-*
Company's ESG	*Positive*
Anchor Rating	**BB+**
Modifiers	-
Rating	**BB+**

RATING SENSITIVITY

- **List of ratings:**
  - **LT corporate rating: BB+**
  - **ST corporate rating: EF2**

- **Ratings Positive factors (↑)**

We could upgrade our long-term rating should Valeo's credit metrics improve above our forecast level. A trigger for such an upgrade could be an interest coverage ratio above 6.0x and/or an EthiFinance Ratings adjusted net leverage ratio below 2.5x on a sustained basis and as a result of an ongoing deleveraging strategy.

At constant CMEE and liquidity profile, a short-term rating upgrade would derive from a 2-notch upgrade to the long-term rating.

- **Ratings Negative factors (↓)**

We could downgrade our long-term rating should Valeo's adjusted EBITDA decline as a result of unfavourable market conditions, which could result in a deterioration of credit metrics. Notably, a trigger for such downgrade would be an EthiFinance Ratings adjusted net leverage ratio above 4.0x and/or an interest coverage ratio below 4.0x, on a sustained basis. A downgrade could also result from a more aggressive financial policy involving for example debt-funded M&A or a considerably higher pay-out ratio.

A downgrade of our short-term rating would derive from a change to a Negative CMEE or a deterioration of the liquidity profile from 'Superior' to 'Adequate' with a Stable CMEE or 'Weak' with a Positive CMEE.. Additionally, it could derive from a downgrade to our long-term rating to BB regardless of the CMEE and liquidity risk assessment.

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 - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- 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 not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.