BBB- ISSUER RATING
Long-Term

Outlook	Stable

EF2 ISSUER RATING
Short-Term

Initiation date	29/11/2022
Rating date	18/04/2023

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RATING ACTION AND RATIONALE

- EthiFinance Ratings has reaffirmed its long-term corporate rating of BBB- for Compagnie Plastic Omnium SE, the holding company of Plastic Omnium Group, with a Stable outlook. EthiFinance Ratings has also reaffirmed its short-term corporate rating of EF2.
- Our ratings remain supported by Plastic Omnium's strong competitive position as one of the tier 1 (principal) suppliers in the automotive industry. Recent acquisitions, especially Varroc Lighting in 2022, as well as, the recent developments around fuel cell technology, enhance Plastic Omnium's ambitions in this industry. While these acquisitions and R&D expenditures are currently weighing on credit metrics, a growing order book is expected to translate into significant revenues in the future. Hence, we expect revenues to jump from c.€8.5bn in 2022, to c.€10.8bn in 2025. In addition, these recent developments are favorable to the company from a credit standpoint as they strengthen its global reach and expand its product portfolio. It should be emphasized that Plastic Omnium is focused on hydrogen, a field whose development has not progressed as much as battery technology for light vehicles. Nonetheless, the company is not oblivious to battery technology as it employs it for heavy mobility vehicles (buses, trains, rail).
- Plastic Omnium's financial risk profile is solid, although this is currently impacted by its recent acquisitions, which constrain our ratings. As such, the EthiFinance Ratings-adjusted net leverage ratio increased from 2.2x as of end-2021 to 3.1x as of end-2022. However, it is expected to gradually return to more normative levels over the next few years. According to our projections, the adjusted net leverage ratio will be 2.6x by the end of 2023, 2.1x by the end of 2024, and 1.7x by the end of 2025. Moreover, our rating is constrained by the current situation of the automotive industry, which is marked by numerous uncertainties as it transitions from thermal engines to electric ones. The pandemic, chip shortages, and the current rise in raw material prices have all had a significant negative impact on the sector, and the improvement in margin is rather limited, given inflation and high R&D expenditures. Some client concentration is also a constraining factor for our ratings, with the top 3 clients accounting for 50% of total revenues for 2022.
- In line with our updated methodology, the automobile component industry has medium-to-high ESG risks (heatmap score of between 3.5 and 4) given its impact on the environment, which slightly constrains our industry assessment. Meanwhile, our assessment of the company's ESG policy is neutral (company ESG score of between 1 and 4), resulting in our rating being slightly constrained by industry-related ESG considerations.

ISSUER DESCRIPTION

Plastic Omnium is a major supplier of automobile parts, headquartered in the suburbs of Paris. The group designs, manufactures, and sells car systems and components through its various divisions, notably Intelligent Exterior Systems (bumpers, tailgates), Clean Energy Systems (energy storage systems, selective catalytic reduction systems), New Energies (low-carbon mobility, hydrogen fuel cell and fuel tanks), and Front-End Modules (module design, development, and assembly). Plastic Omnium has recently entered into new industries such as: (i) Lighting through the acquisition of two specialist lighting businesses: "AMLS Osram" and "Varroc Lighting Systems". (ii) E-Power, with the acquisition in 2H22 of the "ACTIA power" division, which designs and manufactures on-board batteries, power electronics and electrification systems of trucks, buses, trains and construction machinery. Plastic Omnium has around 30k employees spread over 150 production plants and 43 R&D centers located in 28 different countries.

For FY22, the group reported €8.5bn in total revenues, with €864m EBITDA, equivalent to a margin of 10.1%. The EthiFinance Ratings-adjusted net leverage ratio was 3.1x as of end-2022.

FUNDAMENTALS

BUSINESS RISK PROFILE

INDUSTRY RISK ASSESSMENT

- **A market expected to grow while transitioning to EVs after two years of turmoil, despite a continuing risk of volatility**

One of the significant trends in the automotive parts industry is the shift towards electric vehicles (EVs) and hybrid vehicles, which require different types of components and technology from traditional internal combustion engine (ICE) ones. Within the scope of tackling climate issues, manufacturers are increasingly aware of the pressure for change being applied by regulators worldwide. In addition, multiple challenges have shaped the pattern of the entire industry since the Covid-19 outbreak, including: (i) the disruptions to global supply chains, then (ii) the electronic components shortage that hit in 2021 and continued in early 2022, and finally (iii) the increase in raw materials prices in 2022 in the aftermath of the onset of the war between Ukraine and Russia. Nevertheless, the industry has recovered. Global light vehicle production is expected to increase by 3.6% in 2023, a trend which we expect to continue in 2024 and 2025, characterized by growing market share for electrics vehicles.

- **Rather strong barriers to entry for the automotive components industry**

The auto parts industry is highly competitive. It relies on significant capital investment in specialized equipment and facilities as well as in research and development in order to stay ahead of competitors and meet changing customer needs. From a regulatory standpoint, automotive components manufacturers must comply with a wide range of regulations around product safety, environmental standards, and other factors. Meeting these requirements can be costly and time-consuming, which amount to significant obstacles for potential new entrants.

COMPANY'S COMPETITIVE POSITIONING

- **A leading automobile supplier**

Plastic Omnium is a global leader with large market shares across its three primary business segments (IES, CES, and Modules). Its components are installed in 1 in every 6 vehicles produced worldwide, and it supplies well-known automotive brands like VW Group, Stellantis, Daimler and BMW. The company has made multiple acquisitions in the last five years, to strengthen its position as a market leader as well as accelerate the transition to next-generation vehicles, whether in battery electric vehicles (BEV) or Hydrogen electric vehicles (HEV).

- **Good geographical diversification with broad product offerings, but with some client concentration**

As a leading automobile supplier, Plastic Omnium has a global presence in both developed and emerging countries, with some focus in the EMEA region (>50% of revenues for FY22). The group is able to offer a wide range of products, from exterior and interior modules to ignition systems. The establishment of new divisions (E-Power & Lighting in FY22), further widens the group's range of products and client coverage, allowing it to enter the heavy transportation market (trucks, buses, trains, and aircraft). However, our rating is somewhat constrained by Plastic Omnium's client concentration, since the three largest clients combined make up for half of total sales for FY22: (i) the Volkswagen Group, accounting for 26%, (ii) Stellantis for 15% and (iii) Mercedes-Benz for 10%.

GOVERNANCE

- **Shareholder profile: controlled by the founder's family**

Plastic Omnium's largest shareholder is Burelle SA (60.4% as of YE22), a holding company controlled by the family of Pierre Burelle, founder of Compagnie Plastic Omnium. Company executives and members of the Burelle family hold another c. 1% of shares. The remainder, c. 38% of the shares, is free float, with significant institutional investors such as Schroder Investment Managemet Ltd, Capital Research & Management Co. and Vanguard Group Inc.

- **Management quality: prudent financial policy with a good track record**

We assess Plastic Omnium's financial policy as prudent given the long-term "Invest to grow" vision of the board of management. The group has had reasonable pay-out ratios in the past few years, and is fully focused on carrying out numerous M&A transactions. This is in order to diversify its value proposition and stand out from competition, while still maintaining a healthy financial situation.

- **ESG policy: sustainability as a growth driver**

To satisfy consumer demand, Plastic Omnium is committed to creating solutions that are compatible with electric and hydrogen vehicles. Consequently, by developing lighter modules and depollution technologies, the group also aims to help the environment by lowering vehicle Greenhouse gas emissions (GHG). From 2019 to 2022, the company has been able to reduce its scopes of 1 & 2 CO2 emissions by around 26%, and has been targeting full carbon neutrality by 2050.

FINANCIAL RISK PROFILE

CASHFLOW AND LEVERAGE

- **Moderate growth supported by an expected automotive production rebound**

Plastic Omnium reported FY22 consolidated sales of €8.5bn, representing 18% growth yoy (including change in scope and inflation effects), compared with global production growth of 6.3% (S&P global mobility). The newly integrated companies: AMLS OSRAM, VARROC and ACTIA accounted for €0.3bn.

Performance was uneven between 1H and 2H. Volumes decreased as automotive production plummeted by 11.4% mid-year of 2022 in Europe (the group's main market). Nevertheless, this decline was partially offset by volume increases in North America, and some pass-through price increases, as raw material prices surged in 1H22 (plastic c. +25%; steel c. +75%). In the second half of 2022, the market saw the beginning of a recovery in production volumes, despite continuing supply chain difficulties. However, inflation reached unprecedented levels and impacted the company for a net €60m, owing to energy and labor costs.

The group reported EBITDA of €864m for FY22 (10.1% margin) vs. €771m in the previous year (10.7% sales margin). The loss in margins was mainly due to the consolidation of new acquisitions and their dilutive effect on margins overall. Such an impact is expected to be felt again in 2023, after a full year of consolidation (2022 only had a partial impact). This will weigh on the group's expected margin improvement, which, in our forecast, is expected to be visible from 2024 onwards.

2022 EthiFinance Ratings-adjusted FCF (after dividend and acquisitions) was negative, on the back of €161m of acquisitions made in 2022. Adjusted for the acquisitions, it was a positive €125m. EthiFinance Ratings-adjusted FCF is expected to increase over our forecast period, as no further significant acquisitions are guided by management for the time being, and on the back of an improvement in the CFO.

- **Solid financial profile**

The EthiFinance Ratings-adjusted net leverage ratio increased from 2.2x at end-2021 to 3.1x as of end-2022, resulting from an increase of €500m in gross debt and a significant cash outflow of €590m. The latter is related to acquisitions (mainly VLS and HBPO's remaining stake). Our net leverage ratio is anticipated to trend downwards to a level below 2.0x by the end of 2025, assuming there are no more significant cash outflows for acquisitions. The leverage ratio would be aided even more by improved EBITDA, as well as a strengthening of the cash position through recurring operational cashflow. The interest coverage ratio (ICR) and FFO/Net Debt have also deteriorated owing to the same factors, but are expected to improve again by end-2025.

SOLVENCY AND LIQUIDITY PROFILE

- **Good solvency ratio impacted by external growth operations**

As of 31 December 2022, the group's gross reported debt stood at €2.3bn, rising from €1.8bn a year earlier, mainly comprised of bonds and private placements (Shuldschein). Net adjusted debt – adjusted for items we consider debt-like, such as employee benefits and factoring - was €2.2bn as of end-December 2022. This was €815m higher than the year before, due to the increase of gross debt on the back of M&A activity (cash outflow and newly consolidated debt). Consequently, our solvency ratio was impacted and decreased to c. 68%.

- **Superior liquidity profile with strong refinancing capacity**

We consider Plastic Omnium's liquidity profile to be "Superior" as the company can repay all its upcoming debt maturities, without raising new financing for more than two years. In addition, the company can get financing relatively easily, given its strong financial profile. The holding family may also support the company if and when needed.

CMEE

- **Stable CMEE despite the recent acquisitions**

We have given Plastic Omnium a Stable CMEE as we expect contrasting developments in credit metrics over the course of the next twelve months, as the group will have to digest its recent acquisitions.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. €m	2021	2022	2023E	2024E	2025E	22vs21
Turnover	7,233	8,538	9,869	10,313	10,845	*18.0%*
EBITDA (Adjusted)	641	715	832	917	1,004	*11.5%*
EBITDA Margin	8.9%	8.4%	8.4%	8.9%	9.3%	*-0.5pp*
EBIT	324	376	422	482	538	*16.0%*
EBIT Margin	4.5%	4.4%	4.3%	4.7%	5.0%	*-0.1pp*
Interest expenses	(49)	(67)	(87)	(97)	(88)	*-37.8%*
EBT	275	309	335	384	450	*12.2%*
Total Assets	6,345	7,302	7,792	7,626	7,868	*15.1%*
Equity (Adjusted)	1,969	1,912	2,039	2,195	2,389	*-2.9%*
Total Financial Debt (Adjusted)	2,278	2,813	3,097	2,697	2,652	*23.5%*
Net Financial Debt (Adjusted)	1,385	2,237	2,116	1,960	1,758	*61.5%*
Equity/TFD	86.5%	68.0%	65.8%	81.4%	90.1%	*-18.5pp*
NFD/EBITDA	2.2x	3.1x	2.5x	2.1x	1.8x	*0.4x*
Funds From Operations	603	655	737	796	872	*8.7%*
FFO/NFD	43.5%	29.3%	34.8%	40.6%	49.6%	*-14.2pp*
EBITDA/Interest	13.2x	10.7x	9.6x	9.4x	11.4x	*-2.5x*

Adjusted EBITDA is adjusted for capitalized R&D

Total adjusted debt is adjusted mainly for factoring and employee benefits

RATING SNAPCHOT

CREDIT RATING	
Business Risk Profile	***BB+***
Industry Risk Assessment	*BB*
Competitive Positioning	*BBB-*
Governance	*BBB*
Industry 's ESG	***Negative***
Financial Risk Profile	***BBB***
Cash flow and leverage	*BBB*
Solvency	*BB+*
Company's ESG	***Neutral***
Anchor Rating	***BBB-***
Modifiers	-
Final Rating	***BBB-***

RATING SENSITIVITY

- **List of ratings:**
  - **LT corporate rating: BBB-**
  - **ST corporate rating: EF2**

- **Positive factors (↑)**

We could ultimately upgrade our long-term rating in the event of a general improvement in credit metrics. A trigger could be an EthiFinance Ratings-adjusted net leverage ratio below 2.0x on a sustainable basis. In addition, an upgrade could also be considered if there is less uncertainty in the automotive market and the supply chains as well as to the company's ability to overcome the challenges of a post-M&A integration. Another positive factor would be related to an improvement in the company's ESG score below 1.

An upgrade of our short-term rating may be triggered by an upgrade of our long-term rating along with a Stable or Positive CMEE.

- **Negative factors (↓)**

We could downgrade our ratings should the automotive market outlook deteriorates, leading to a poor financial performance from the company, and consequently its credit metrics. In other words, an EthiFinance Ratings-adjusted net leverage of 3.0x on a sustainable basis, and/or the company adopting a more aggressive financial policy (higher dividends or debt-funded M&A). This could lead to an eventual deterioration of credit metrics, such that they would no longer qualify for an investment grade rating.

A downgrade of our short-term rating may be triggered by a downgrade of our long-term rating with a negative CMEE, or a downgrade of our LT rating with a deterioration of the liquidity profile from 'Superior' to 'Adequate'.

REGULATORY INFORMATION

18/04/2023

LEI : 9695001VLC2KYXX0DW73

Initiation report: No

Rating initiation: BBB- on November 29, 2022 for the LT corporate rating and EF2 on November 29, 2022 for the ST corporate rating

Last rating action: Initiated at BBB- on November 29, 2022 for the LT corporate rating, and EF2 on November 29, 2022 for the ST corporate rating.

Rating nature: Unsolicited long-term and short-term corporate ratings (this report is paid by investors, not the issuer)

With rated entity of third-party participation: No. The report was published without having been reviewed by the issuer.

With access to internal documents: No.

With access to management: No.

Ancillary services provided to the entity: No.

Name of the rating committee chair: Marc PIERRON, Senior Director

Material sources used to support the rating decision:

- Annual reports 2020, 2021, 2022
- Consolidated financial statements 2020, 2021, 2022
- Annual results presentation 2020, 2021, 2022
- Bloomberg Earnings call transcript

Limitation of the Rating action:

- EthiFinance Ratings believes that the quality and quantity of information available on the rated entity is sufficient to provide a rating
- EthiFinance Ratings has no obligation to audit the data provided

Principal methodologies used for these ratings:

https://files.ethifinance.com/documents/methodologies/CRA_190_V3.CorporateRatingMethodology_Long_Term.pdf

https://files.ethifinance.com/documents/methodologies/CRA_191.Corporate_Rating_Methodology_Short_Term.pdf

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