



ISSUER RATING

Long-Term

Outlook

Stable



ISSUER RATING

Short-Term

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Rating Action and Rationale

- EthiFinance Ratings reaffirms Safran's "A" rating, maintaining its Stable outlook. EthiFinance Ratings has also reaffirmed a short-term corporate rating of EF1+.
- These ratings are supported by several qualitative and financial aspects that strengthen the group's credit profile. Among these, we highlight the following: i) Safran is active in a sector with high barriers to entry (such as the high level of assets and investment required to operate) and positive levels of profitability (EBIT margin around 9-13%); ii) a solid and robust competitive position in the global market, which places the company among the top 10 in the sector in terms of revenue; iii) favourable geographic diversification, with 50% of 2022 sales in EMEA, 38% in the Americas, and 12% in APAC; and iv) we assess the management team's financial policy as prudent, taking into account Safran's excellent track record and robust economic-financial profile.
- Additionally, the group has a positive liquidity level, while showing for 2022 and 1H23, stable and favourable ratios such as NFD/EBITDA < 0.5x, FFO/NFD > 200%, interest coverage > 45x, and high levels of solvency (equity/TFD ratio greater than 120%). We estimate a favourable prospect for the group's business in the coming years.
- However, the rating is constrained by first, the sector's ongoing supply chain disruptions, which are expected to continue until at least 2025. This means that a steady flow of parts and materials - such as steel, aluminium or titanium - cannot be guaranteed, potentially forcing the company to slow down production ramp-ups. Second, the group has recently announced a material acquisition, of Collins Aerospace, with an enterprise value of \$1.8bn that will be financed with cash. This integration (expected for 2H24), although it will contribute very positively to the group's business and results (Safran projects around \$1.5bn in combined sales in 2024 and around \$50m of annual run-rate cost synergies), could moderately impact its net leverage (Safran says the impact will be limited and has reiterated its commitment to an investment grade rating). Safran is also in negotiations to acquire Air Liquide's aeronautical technologies activities.
- In line with our methodology, the Capital Goods sector (Aerospace & Defense industry) has a medium-to-high ESG risk (sector heatmap between 3.5 and 3.9) given its impact on the environment. This results in a sector rating being downgraded one notch by industry-related ESG considerations. Heavy industries by their nature use a significant amount of raw materials and generate impacts from extraction, transport, etc. The company has a favourable ESG score (73/100), with a positive impact on the rating. It stands out in terms of governance, with 7 independent board members, separation of the chairman and CEO roles, and prioritisation of ESG issues. In terms of the environment, the group has set the target of reducing its emissions by 30% in 2025, 50% by 2030, and becoming carbon-free for air transportation by 2050.

Issuer Description

Headquartered in France, Safran SA is a Tier 1 supplier with leading positions in the aircraft propulsion, aircraft equipment, space and defence markets. With its three divisions, Safran designs, manufactures and sells aircraft engines, engine and defense equipment, as well as aircraft interiors. The group is well known for its LEAP engine, developed in collaboration with General Electric Aviation, which is used for some of the most popular models, such as the Boeing 737 Max, the Airbus A320neo, and the Comac C919. In 2022, the group generated revenues of €19.5bn and EBITDA of €3.2bn (EBITDA margin of 16.4%). EthiFinance Ratings' leverage ratio (NFD/EBITDA ratio) stood at 0.4x. Safran is listed on the Euronext Paris stock exchange, is a part of the CAC 40 and Euro Stoxx 50 indices, and in October 2023 had a market capitalisation of around €62.8bn.

Main Financial Figures

Main financial figures. Millions of €. ⁽¹⁾						
	2021	2022	2023E	2024E ⁽⁵⁾	2025E	22vs21
Turnover	15,630	19,475	23,229	26,441	29,620	24.6%
EBITDA ⁽²⁾	2,549	3,188	4,160	5,009	5,837	25.1%
EBITDA Margin ⁽²⁾	16.3%	16.4%	17.9%	18.9%	19.7%	0.1pp
EBIT ⁽³⁾	1,805	2,408	3,114	3,923	4,717	33.4%
EBIT Margin ⁽³⁾	11.5%	12.4%	13.4%	14.8%	15.9%	0.8pp
EBT	1,196	1,772	3,156	3,954	5,010	48.2%
Total Assets	41,716	46,828	48,041	51,388	54,184	12.3%
Equity	13,270	10,866	11,245	12,459	14,229	-18.1%
Total Financial Debt ⁽⁴⁾	8,110	8,029	6,868	5,754	5,661	-1.0%
Net Financial Debt ⁽⁴⁾	2,863	1,342	196	-1,465	-3,093	-53.1%
Equity/TFD	163.6%	135.3%	163.7%	216.5%	251.3%	-28.3pp
NFD/EBITDA	1.1x	0.4x	0.0x	n/a	n/a	-0.7x
Funds From Operations	2,186	2,816	3,296	3,961	4,589	28.8%
FFO/NFD	76.4%	209.8%	1684.8%	n/a	n/a	133.4pp
EBITDA/Interest	30.0x	56.9x	63.0x	76.3x	84.2x	26.9x

⁽¹⁾ 'n/a' is reflected when the value of the ratio is negative because the company has more cash than financial debt (negative NFD). ⁽²⁾ EBITDA has been adjusted by discounting the positive effect of R&D capitalisation income (€316m in 2021 and €283m in 2022). ⁽³⁾ adjusted EBIT retracting the negative effects of one-off items (€405m in 2021 and €450m in 2022). These non-recurring expenses relate to impairments and capital gains on disposal of assets. ⁽⁴⁾ adjusted debt projections including an estimate of future non-recourse factoring debt, as data are not available, and ⁽⁵⁾ the projections for 2024 and beyond do not include the impact of the Collins Aerospace acquisition.

Credit Rating

Credit Rating	
Business Risk Profile	BBB
<i>Industry Risk Assessment</i>	<i>BB+</i>
<i>Sector ESG Adjustment</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 Adjustment</i>	<i>Positive</i>
Anchor Rating	A
<i>Modifiers</i>	<i>No</i>
Rating	A

Rating Sensitivity

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

Continuation of the positive revenue growth trend, with better operating and final results, improving operating margins (EBIT margin above 13%). Positive evolution of the cash position and a reduction of debt, obtaining a negative net financial debt position with favorable impact on the ratios.

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

Significant decrease in the group's turnover and profits, worsening EBITDA margins below 12%. In addition, ratios such as NFD/EBITDA above 1.5x, FFO/NFD <100%, interest coverage <25x and equity/TFD below 120%.

A downgrade of our short-term rating could derive from a downgrade of our long-term rating or simply a change of the Credit Metrics Expected Evolution (CMEV) to negative.

REGULATORY DISCLOSURES

LEI: 969500UIC89GT3UL7L24.

Follow-up report of the long-term corporate rating.

Last rating action: “A” and “EF1+” rating with a Stable outlook to Safran (November 29, 2022).

Rating nature: Unsolicited long-term rating (this report is paid by investors, not the issuer).

With rated entity or related 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: *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.*

Name of the rating committee chair. Thomas Dilasser, Head of Corporate Ratings France.

Material sources used to support the rating decision:

- * 1Q23 trading update, 2Q23 Results.
- * 2022, 2021, 2020 annual reports.
- * Company presentation.
- * Bloomberg.

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.

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, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on <https://www.ethifinance.com/en/ratings/methodologies> and according to the Long-term Corporate Rating scale available at <https://www.ethifinance.com/en/ratings/ratingScale>.

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