COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN SCA

855200887 CORPORATE

A
ISSUER RATING
Long term

OUTLOOK
Stable

EF1+
ISSUER RATING
Short-term

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Rating Action and Rationale

- EthiFinance Ratings upgrades Compagnie Générale des Etablissements Michelin SCA's ('Michelin') long-term rating from A- to A, maintaining a Stable outlook. Concurrently, we upgrade the company's short-term rating from EF1 to EF1+.
- Our ratings upgrade results mainly from a better improvement in credit metrics than anticipated in June 2023, especially on the interest coverage front (26.8x as of end-2023, vs 20.6x expected). Michelin's deleveraging strategy has also led to a reduction in the EthiFinance Ratings-adjusted net leverage ratio to 1.1x as of end-2023 (vs 1.3x expected, similar to end-2022). We expect the interest coverage ratio to slightly increase by 2026 (end of our forecast period), on the back of a further reduction in total adjusted debt, combined with stable interest rates and Michelin's fixed rate policy (75% of the group's debt). However, the initiation of a €1bn buyback program over the 2024-26 period, is expected to limit further deleveraging. Consequently, the adjusted net leverage ratio is expected to stay broadly stable around 1.1x for the next few years. As a result of this improvement in credit metrics, Michelin's financial risk profile has improved to AA-, compared to A+ in June 2023. Our ratings are also underpinned by Michelin's leadership in the tyre market, providing the group with some leeway in dictating prices. Such a competitive advantage proved useful, despite the volume headwinds that tyre manufacturers faced over the past year in the aftermarket segment. Michelin's sales growth was flattish for 2023 (-0.9% YoY) due to a continuous decline in volumes (-4.7% vs -2.0% in FY22), combined with a FX headwind (-2.9%) due to the depreciation of most foreign currencies against the Euro. Nonetheless, the price-mix effect and efficient cost pass-throughs mechanisms and effective plant management have once again limited a further revenue decline. On a positive note, the adjusted EBITDA margin has improved to 18.7% (vs 17.8% in FY22), on the back of some COGS reduction in proportion of total sales (72.0% in FY23 vs 73.6% in FY22).
- However, our ratings are constrained by the tyre industry risk profile, which remains at BB owing to low demand growth in the aftermarket segment. At the group's level, potential logistics disruptions in the Red Sea trade route, affecting approximately 4% of Michelin's total product flows (including both raw materials and finished goods), may slow production level at some factories, thereby impacting revenues. Additionally, Michelin's stagnant sales volumes pose a risk to profitability growth, especially given the minimal contribution of non-tyre activities (such as fleet services and high-tech materials) to total sales. This stood at roughly 5% in FY23, up from 4% in FY22. However, non-tyre businesses have been boosted by the major acquisition of FCG, a company specializing in fabrics and films. Michelin is strategically focusing on external growth within technological areas, expecting them to reach a contribution ranging between 20% and 30% by 2030.
- According to our methodology, the auto component 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. In FY23, Michelin committed to a significant reduction of CO_2 emissions and energy consumption, achieving a 21.9% reduction in its scope 1 and 2 emissions compared to 2021. From a 2010 baseline, the company has reduced its CO_2 emissions by 44% and aims for a 50% reduction by 2030. This significant reduction in emissions is a key factor contributing to our positive ESG assessment of the company with a score ranging between 0 and 1, thereby offsetting the negative impact from our industry ESG assessment.

Issuer Description

Based in France, Michelin is a first-rank French automotive supplier specializing in tyres. It designs, manufactures, and sells tyres for both light and heavy vehicles such as cars, trucks, aircraft, off-road machines, and motorbikes. Beyond its flagship "Michelin" brand (tier 1), the company offers also a set of more affordable brands (tier 2) such as Kleber and BFGoodrich. Michelin's business operations extend into data-driven services for vehicle fleets, the creation of polymer-based high-tech materials, and pioneering efforts in hydrogen mobility through its partnership with Faurecia and Stellantis in the joint venture SYMBIO. The group has 125,000 employees spread across 123 factories and 9 R&D centres in 26 countries; its products are sold in 170 countries. Michelin's revenues are mainly generated in the EU and North America, accounting respectively for c. 35% and 39% of FY23 revenues.

For FY23, Michelin reported revenues of €28.3bn for adjusted EBITDA of €5.3bn, equivalent to an 18.7% margin. Michelin's market capitalisation was €24.3bn as of 27th February, 2024.

Liquidity

We assess Michelin's liquidity profile to be 'Superior' as the company can repay all its upcoming debt without refinancing for more than two years.

Main Financial Figures

Main financial figures. €m	2022	2023	2024E	2025E	2026E	23vs22
Turnover	28 590	28 343	28 592	29 093	29 675	-0,9%
EBITDA (Adjusted) (1)	5 081	5 301	5 212	5 458	5 569	4,3%
EBITDA Margin	17,8%	18,7%	18,2%	18,8%	18,8%	0,9pp
EBIT	3 215	3 384	3 278	3 490	3 562	5,3%
EBIT Margin	11,2%	11,9%	11,5%	12,0%	12,0%	0,7pp
Interest expenses	(239)	(198)	(209)	(202)	(199)	17,2%
EBT	2 976	3 186	3 069	3 288	3 363	7,1%
Total Assets	35 346	35 195	36 174	36 827	37 842	-0,4%
Equity (Adjusted)	17 116	17 958	18 995	19 847	20 714	4,9%
Total Financial Debt (2)	9 708	8 687	8 610	8 374	8 480	-10,5%
Net Financial Debt (2)	6 631	5 769	5 688	5 892	6 117	-13,0%
Equity/TFD (2)	176,3%	206,7%	220,6%	237,0%	244,3%	30,4pp
NFD/EBITDA (2)	1,3x	1,1x	1,1x	1,1x	1,1x	-0,2x
Funds From Operations	4 007	4 302	4 258	4 489	4 591	7,4%
FFO/NFD	60,4%	74,6%	74,8%	76,2%	75,0%	14,1pp
EBITDA/Interest (1)	21,3x	26,8x	25,0x	27,0x	28,0x	5,5x

(1) Adj EBITDA is adjusted for recurring restructuring costs

(2) Net debt is adjusted for pension benefits

Credit Rating

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

Credit Metrics Expected Evolution (CMEE)

- Stable CMEE

We expect Michelin's credit metrics to remain steady and broadly unchanged over the next twelve months – as the tyre market is witnessing low demand, especially in the aftermarket segment.

Rating Sensitivity

- **List of ratings:**
  - **LT Rating: A**
  - **ST Rating: EF1+**

- **Long-term rating positive factors (↑)**

We could upgrade the current rating should credit metrics improve above our forecasts level. A trigger for such an upgrade could be an EthiFinance Ratings-adjusted net leverage ratio below 0.6x combined with an interest coverage ratio above 45x on a sustainable basis. Moreover, a rating upgrade could also depend on the tyre industry's overall growth.

The current short-term rating is already positioned in the highest category.

- **Long-term rating negative factors (↓)**

We could downgrade our long-term rating should Michelin's credit metrics deteriorate, with an adjusted net leverage ratio around 1.5x, or if the interest coverage ratio falls below 20.0x on a sustainable basis. Additionally, a deterioration of the company's ESG score to a level above 1, or a less cautious financial policy, such as undergoing significant debt-financed M&A, could be another catalyst for a potential rating downgrade.

A downgrade of our short-term rating could occur in the event of a CMEE change from Stable to Negative or/and a potential downgrade of the long-term rating to A-.

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 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.