SODIAAL INTERNATIONAL SAS

395050784 CORPORATE

EF3 ISSUER RATING
Short-term

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Rating action and rationale

- EthiFinance Ratings affirms the short-term rating of EF3 for Sodiaal International. Sodiaal International is the main industrial and financing holding of the Sodiaal group, but financial statements are produced for Sodiaal Union, the ultimate parent holding which is a cooperative. Since most production assets are owned directly or indirectly by Sodiaal International, and most financial debt is located in Sodiaal International, our rating for Sodiaal International is considered to be equivalent to a rating of Sodiaal Union as per our methodology.
- Our rating is supported by Sodiaal's good market share and brand image in France and elsewhere in Europe through its main brands Candia, Entremont, and Yoplait. In addition, the food sector presents good characteristics and in particular high barriers to entry which is positive for our assessment of Sodiaal. Product diversification is, to a lesser extent, a positive driver of our rating as Sodiaal has extensive know-how and covers a wide range of milk-derived products.
- Our rating is, however, still constrained by rather poor credit metrics. Despite some improvement in FY23 linked to profitability improvements (adjusted EBITDA margin of 4.8% vs 3.6% in FY22), our net adjusted leverage ratio is still high (4.0x at end-2023). It will slightly deteriorate over our forecast period (2024-26) considering the acquisition of Yoplait Canada from FY25. FFO is rather low and slightly covers the level of capex needed in such a capital-intensive sector. In addition, Sodiaal has extensive recourse to factoring, which weighs on its adjusted net debt. As a result, the FFO/net debt ratio is weak. Geographic diversification, albeit a direct consequence of Sodiaal's cooperative status, remains also a constraining factor as the group is largely focused on the French market. Therefore, it relies quite heavily on food trends in one country and the purchasing power of French consumers.
- The agribusiness industry has medium-to-high ESG risks under our methodology (sector heatmap score between 3.5 and 4), slightly constraining our industry assessment. Regarding environmental factors, agribusiness has a high impact on resources as a major user of land and water but also on pollution with the contamination of soils and water basins through intensive use of fertilizers. The sector also has an impact on climate through the use of carbon-intensive processes, and it significantly impacts biodiversity. Moreover, consumers are highly concerned by issues linked to food safety and quality. The sector has a medium impact on communities as access to good food is an essential part of social stability and contributes to a population's health.
- Our assessment of the company's ESG policy is neutral (company ESG score of between 1.5 and 3.5). Sodiaal benefits from good governance practices despite the lack of independent board members, which is another consequence of its cooperative status. Regarding the social factors, Sodiaal has average practices with a decrease of its accident frequency rate but a limited level of women in its management. The environmental factors are also addressed with commitments to reduce scope 1 and 2 emissions.

Issuer description

Headquartered in Paris, Sodiaal Union is a French cooperative specialized in the collection of milk and then its transformation and conditioning into various dairy products. It is one of the largest milk producers in France, with over 15,000 producers collecting around 4.2 billion liters of milk annually. The collected milk is used to produce a wide range of dairy products, including fresh milk, cheese, butter, and milk ingredients, to name a few, under well-known brands such as Candia, Entremont, and Yoplait. For FY23, Sodiaal Union reported revenues of €5.8bn, up 4.7% from FY22, and adjusted EBITDA of €276.2m. The EthiFinance Ratings-adjusted net leverage ratio was 4.0x at end-2023.

Fundamentals

Business risk profile

Industry risk assessment

- **Long-term growth supported by resilient demand and related to GDP and population growth**

Dairy products are central to people's diets and are consumed daily in different forms, both fresh and processed (butter, cheese, milk powder, etc.). Globally, fresh dairy products represent the larger part of dairy products consumed (c. 9kg/capita vs c. 4kg/capita for processed dairy products). However, the breakdown is different between developed and emerging countries. In the US and the EU, processed dairy products account respectively for 63% and 58% of the dairy products consumed, while in Pakistan and India, the main dairy products consumers, consumption is oriented towards fresh dairy products (respectively 89% and 87% of the dairy products consumed).

The market is quite resilient as milk and milk derivatives support inelastic demand. The sector's main growth drivers are changes in per capita consumption and growth of the global population. Globally, fresh dairy products are expected to grow by 1.4% per year until 2030 compared to 0.6% for processed dairy products (source: OECD-FAO). The breakdown would be different by region with fresh dairy products expected to grow faster in India and Pakistan while in Europe, the US and in China growth will be limited. Overall, we expect that growth for the industry will be much in line with GDP growth.

- **Strong barriers to entry linked to stringent regulations and high capital requirements**

Due to the health sensitivity of dairy products, the industry is subject to stringent food safety regulations. Players must comply with rules through the entire production process; breaches may result in fines or even suspension of production. Companies in the sector also face high capital requirements in order to build or to renovate factories, and to respond to the evolution of demand and safety regulations.

- **Good profitability of the food industry overall, but characterized by some revenues volatility**

The overall profitability of the food industry is quite good with average EBIT margins around 13%. Sodiaal's revenues are usually driven by trends in milk prices and the volume of milk collected from its farmers, with profitability also impacted by production costs, especially prices for grains and energy. Sodiaal purchases its milk from its farmers, whose production costs are correlated to the costs of feeds. Energy constitutes a significant part of costs as Sodiaal is responsible for organizing the collection of milk through trucks and processing it in its factories. Commodity prices are affected by various factors, such as adverse weather or war. Milk prices usually follow other commodity prices but often with a time lag. The strong correlation between selling prices and volatile commodity markets adds to the high level of uncertainty over revenues - and to some extent profitability - of the sector. However, under the new EGALIM law in France, negotiations occur to ensure fair pricing along the value chain, which reduces price volatility but does not prevent some lag between increases in production costs and Sodiaal's ability to pass them through to customers after negotiations.

Company's competitive positioning

- **Leading player in the French dairy industry with a special business model**

Sodiaal is a leading player in the French dairy industry and one of Europe's 10 largest dairy companies. The group enjoys a significant market share in France, behind Lactalis and Danone. The group also owns some brands that are popular not only in France but also in other countries, such as Yoplait. However, Sodiaal is a cooperative, a special business model, as the company's suppliers, the milk farmers, own the company. As a consequence, Sodiaal cannot switch to lower-cost sources, and is compelled to collect milk from its farmers, sometimes in remote areas. Additionally, competition is fierce in the dairy industry in France. As a consequence, Sodiaal's EBITDA margins are significantly lower than those of its main competitors (Sodiaal's EBITDA margin was 4.0% on average over 2021-23).

- **Great range of product offerings but with limited geographic diversification**

As a leading player in the dairy market, Sodiaal has a wide range of products to offer, ranging from everyday food and beverages - such as milk, cheese, and yogurts - to nutrition products and food additives. However, the group lacks diversification on the geographic front as more than 90% of its sales are generated in Europe, with a significant concentration on the French market.

Governance

- **Management quality: new management and new ambitions**

We view Sodiaal's financial policy as 'weak'. Although it has not been very active in M&A, unlike its peers, the group has a relatively high net leverage ratio. Sodiaal managed to limit the loss in margins during the pandemic, showing the group's revenues resilience, but its track record is characterised by only average credit metrics.

Since 2023, Sodiaal's management experienced some changes with Antoine Colette taking the position of CEO and the chairman of the board being replaced by Jean-Michel Javelle. In addition, Sodiaal introduced in June 2024 its new strategic plan for the 2024-2029 period. The main goals of this new plan are to promote the farming industry while improving the profitability of its activities. The plan also included significant capex related to environmental transition and improvement of productivity.

- **Shareholder profile: a cooperative owned by milk farmers**

Sodiaal Union's shares are owned by its milk producers. The farmers elect 25 milk producers to sit on the board, which supervises the executive committee. The unique holding structure may give incentives to the producers, but it also constrains the company's margin by limiting its ability to source from lower-cost milk suppliers, unlike some of its peers.

- **ESG policy: building a sustainable farming system**

Sodiaal's ESG strategy focuses on building a sustainable system that supports its different stakeholders. On the environmental side, c. 73% of its farmers voluntarily conduct ecological assessments and work on solutions to reduce emissions; the group is also committed to improving animal welfare and responsible procurement. The group has set clear targets which are reported in its integrated report. For instance, it targets a reduction of 30% of its scope 1, 2 and 3 emissions between 2019 and 2030, in line with the 'well-below 2°C target' as validated by SBTi. At end-2023, Sodiaal had already achieved a reduction of 21% of its scope 1 & 2 emissions and of 23% of its scope 3 emissions. The group also targets a reduction of 25% of its water consumption between 2019 and 2025, and it had already achieved a reduction of 19% at end-2023.

We assess Sodiaal's ESG score as neutral.

Financial risk profile

Results and profitability

- **Good increase in revenues and improvement in EBITDA margin**

For FY23, Sodiaal reported revenues of €5.8bn (+4.7% vs FY22). Growth mainly resulted from a price effect linked to the negotiations with clients for price increases on cheeses, milk, cream, butter, and ultra fresh products. The volume effect was more heterogeneous and concerned mainly cheeses. Adjusted EBITDA improved in FY23 to €276.2m (vs €196.5m in FY22) leading to a rise in EBITDA margin to 4.8% (vs 3.6% in FY22). The significant growth of profitability was a consequence of price increases. Over our forecast period, we expect margins to remain around 5.0% on average, mainly linked to a better mix effect.

Cashflow and leverage

- **Credit metrics still below average**

Sodiaal's credit metrics derive from its business model, one which constrains its EBITDA, resulting in a rather high EthiFinance Ratings-adjusted net leverage ratio. However, in FY23, Sodiaal's adjusted net leverage ratio improved to 4.0x (vs 5.7x as of end-2022), mainly due to higher profitability. Considering the acquisition of Yoplait in Canada from 2025, we expect the adjusted net leverage ratio to slightly deteriorate but remain below 4.5x over our forecast period. Despite some improvements in EBITDA and adjusted FCF, other credit metrics, such as the FFO/net debt ratio, will probably remain weak.

Capitalisation

- **Well-spread maturities but a significant recourse to factoring**

As of December 31, 2023, Sodiaal's gross reported debt stood at €712m (vs €820m at end-2022). It mainly comprised private placements such as USPPs or Shuldscheins, as well as a €700m RCF. Maturities of Sodiaal's debt are rather long and well spread. Our debt adjustments amounted to €660m as we added back several items we consider debt-like, such as employee benefits, suppliers of fixed assets, operating leases, and factoring (€378m). Net adjusted debt amounted to €1,115m at end-2023.

Liquidity

- **Strong liquidity profile**

Sodiaal's liquidity profile is 'Superior' as per our methodology, as the company can repay all its upcoming debt without refinancing for more than two years. We also believe the company can get financing from financial institutions relatively easily, especially considering its pivotal role in the French dairy market, but it may struggle to get financing through capital markets because of its special business model.

Modifiers

- **Controversies**

Over the course of our review, we have found one controversy regarding an ongoing investigation launched in 2022 by the French anti-trust authorities regarding possible collusion on prices with competitors. At this stage of the investigation, our rating has not been impacted by controversies as Sodiaal has not received any fines or been instructed to change its business model. EthiFinance Ratings will continue to monitor the situation and will adjust its controversy score based on the results of the investigation.

- **Country risk**

Sodiaal mainly operates in France and in Europe, and therefore does not present any specific country risk.

Credit metrics expected evolution (CMEE)

- **Stable CMEE**

We have assigned a Stable CMEE as we expect the group's credit metrics to be broadly unchanged in a years' time.

Main financial figures

Main financial figures. millions of EUR	FY21	FY22	FY23	22vs21	23vs22
Turnover	4 668	5 527	5 789	18,4%	4,7%
EBITDA (adjusted)	167	197	276	18,0%	40,5%
EBITDA Margin	3,6%	3,6%	4,8%	0,0pp	1,2pp
EBIT	35	25	114	-28,4%	352,1%
EBIT Margin	0,8%	0,5%	2,0%	-0,3pp	1,5pp
EBT	14	-68	66	-592,0%	n/a
Total Assets	2 841	2 820	2 742	-0,7%	-2,8%
Equity	729	580	634	-20,4%	9,2%
Total Financial Debt (adjusted)	1 508	1 446	1 334	-4,1%	-7,7%
Net Financial Debt	1 102	1 129	1 115	2,5%	-1,2%
Equity/TFD	48,3%	40,1%	47,5%	-8,2pp	7,4pp
NFD/EBITDA	6,6x	5,7x	4,0x	-0,9x	-1,7x
Funds From Operations	70	94	160	130,4%	70,5%
FFO/NFD	8,9%	12,3%	18,2%	3,5pp	5,9pp
EBITDA/Interest	4,2x	6,0x	6,5x	1,8x	0,5x

EBITDA is adjusted for operating leases, and dividends received under the equity method.

Total adjusted debt is mainly adjusted for the capitalisation of operating leases, factoring, suppliers of fixed assets and the provision for pensions.

Rating sensitivity

- **List of ratings:**
  - ST Corporate rating: EF3

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

Sodiaal's current rating is constrained by its financial profile. With a Stable CMEE and 'superior' liquidity profile, an upgrade of our short-term rating would require a significant improvement in the group's credit metrics, in particular a net adjusted leverage ratio around 3.0x on a sustainable basis. However, considering Sodiaal's specific business model and the recently announced acquisition of Yoplait Canada which is expected to be closed in 1Q25, such an upgrade is improbable in the near future.

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

A downgrade of our short-term rating would require a deterioration of Sodiaal's financial profile. Such a deterioration could occur should the net adjusted leverage ratio return to 6.0x on a sustainable basis.

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

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.

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/corporateratingmethodology-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.