EthiFinance Ratings

SOFIPROTEOL SA

804808095 CORPORATE

A- ISSUER RATING
Long term

OUTLOOK
Stable

A- INSTRUMENT RATING
Neu MTN

EF1 ISSUER RATING
Short-term

EF1 INSTRUMENT RATING
Neu CP

Initiation date	29/11/2022
Rating Date	28/06/2024

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Rating action and rationale

- EthiFinance Ratings affirms both its long-term rating for Sofiproteol SA and for the NEU MTN programme for up to €75m, at A-, maintaining a Stable outlook. EthiFinance Ratings also affirms its short-term rating of EF1 for Sofiproteol SA, and a rating of EF1 for its NEU CP programme for up to €300m.
- The reaffirmation of our ratings is primarily due to an excellent financial profile over the past two years, one which is expected to be maintained over our forecast period, until 2026. It is characterized by a slightly negative loan-to-value ratio, on the back of a prudent financial policy. In addition, Sofiproteol has a rather cautious investment policy, as demonstrated by a well-diversified portfolio by value that excludes the use of significant leverage. Sofiproteol's track record of gains on divestments over the past few years also supports our ratings. Regarding Sofiproteol's bond portfolio, it is well diversified with a good liquidity profile.
- However, our ratings are constrained by the rather low level of diversification in terms of industries and geography as Sofiproteol's equity investments are mainly concentrated in the agribusiness in France. Moreover, equity investments are relatively illiquid since most companies in which the company invests are not listed. Finally, the credit quality of those companies is on average lower than that of Sofiproteol, which weighs on the ratings.
- In terms of ESG issues, Sofiproteol is committed to sustainable agriculture and food production. This is particularly visible for the equity investments division, for which Sofiproteol incorporates ESG KPIs regarding safety, management, and GHG emissions, into its investment policy. The portfolio of bonds is more diversified in terms of industries covered, and by extension less oriented towards positive ESG sectors.

Issuer description

Sofiproteol SA is an investment company, a subsidiary of the French group Avril, which is specialised in the industrial processing and transformation of oilseed grains into oils and proteins. Avril SCA, the ultimate holding company of Avril, currently owns 70.9% of the investment company, the rest being owned by financial institutions and companies from the agricultural world. Sofiproteol is regulated by the Autorité de Contrôle Prudentiel et de Résolution (ACPR), the body in charge of monitoring banking and insurance activities in France.

Sofiproteol was created in 1983, originally as an investment vehicle granting term loans and taking minority stakes in companies in the oils and protein industries in France, before it became an industrial group itself, changing its name to Avril. In 2015, Sofiproteol became an independent investment company with two separate businesses within the Avril group. First, it invests in agribusinesses and food sectors, especially companies in the oils and protein sub-sectors, using Sofiproteol's equity. Investments are mainly made through minority equity stakes with a medium-to-long-term time horizon. Depending on the needs of the companies, Sofiproteol may also invest through bonds and set up current accounts in addition to its equity investments. This business accounts for around 50% of total adjusted assets including cash and cash equivalents. Sofiproteol's investment strategy aims at fostering the development of the agricultural sector. Second, in order to optimize cash not invested in equity, bonds or current accounts, Sofiproteol manages a portfolio of assets which mainly comprises bonds and term deposits (TDs), using some leverage effect. This accounts for the remaining 50% of the company's assets.

Due to the nature of Sofiproteol's activities, our analysis is based on our 'investment holding methodology'.

Fundamentals

Business profile

Investment policy

- **Prudent investment policy with a good track record and ESG considerations**

Our ratings remain underpinned by Sofiproteol's very good credit metrics, which result from its prudent investment policy and good track record. These metrics have been reinforced by some significant gains made over the past few years despite the consequences of the pandemic.

In addition, since 2022, Sofiproteol has reviewed its investment policy to align it with the various pillars of Avril's stated purpose, "Serving the Earth". In particular, Sofiproteol has integrated the commitment of "acting for the impact of our investments", which aims at anchoring sustainable agriculture and food production in the areas of operation. As a consequence, it has integrated ESG criteria into its investment policy for equity and sustainability linked debts, in particular safety KPIs, management best practices, and GHG emissions targets (scope 1 and 2). Regarding its portfolio of bonds, the part of green bonds or sustainability-linked loans is now evaluated. However, the portfolio being more diversified in terms of industry covered, it is less oriented towards positive ESG sectors.

Portfolio of investments

- **Good diversification in value with moderate sector and geographic diversification**

Sofiproteol's portfolio has very good diversification by value as the main equity investment accounted for c. 14% of total adjusted investments in equity at end-2023. However, our ratings are constrained by equity investments being mainly focused on France, and in the agribusiness sector. Regarding the bond portfolio, it is well diversified with a significant number of lines, and a wide exposure to industries and geographies.

- **Excellent credit quality of debt investments, constrained by equity investments**

The vast majority of bonds held by Sofiproteol at end-2023 were investment grade. The average credit quality of the assets is, however, partly lowered by equity investments, which comprise companies with credit quality below investment grade on average, albeit some companies among the top 5 in value continue to report solid credit metrics.

- **Liquidity of assets constrained by rather illiquid equity investments despite good liquidity for bonds and term deposits**

Our ratings are also partly constrained by the illiquidity of the equity investments, given the unlisted nature of most of the companies concerned as well as Sofiproteol's strategy of long-term investment. However, the low level of financial debt and the good liquidity of bonds and TDs enable Sofiproteol to maintain a good corporate liquidity profile, which contributes positively to our ratings.

Financial profile

Financial policy

- **Prudent financial policy**

We assess Sofiproteol's financial policy as prudent given its low level of financial debt and excellent loan-to-value (LTV) ratio.

Leverage and coverage

- **Excellent credit metrics with a net cash position**

The EthiFinance Ratings-adjusted LTV ratio was negative at end-2023 and is expected to remain negative over our forecast horizon (three years). The interest coverage ratio - FFO / (interest + mandatory dividend payable) - deteriorated in FY23 compared with the previous year, on the back of higher cash interest expenses. Over the forecast period (2024-26), despite interest rates which should remain high, we expect the ratio to improve on the back of a good cash generation.

At end-2023, Sofiproteol's gross debt principally comprised €164m of REPOs, and €82m of NEU CP. The remainder consisted of various credit lines and cash pooling totalling €37m. According to our rating methodology, and our interpretation of Sofiproteol's business, cash and cash equivalents amounted to €175m at end-2023 and mainly consisted of TDs. We have also factored in €164m of bonds to match the amount of repo debt, resulting in a net cash position of €56m as at end-2023.

Liquidity profile

- **'Superior' liquidity profile with solid cash position**

Sofiproteol's liquidity profile is assessed as 'Superior' thanks to a solid cash position as at end-2023. Based on our methodology and our projections, the liquidity level should remain strong, helped by the last tranche of the share capital increase planned for 2024 as well as some divestments and despite some significant investments. Depending on liquidity needs, Sofiproteol may also adapt its investment strategy, which reinforces its good liquidity profile.

Credit metrics expected evolution (CMEE)

- **Stable outlook despite significant investments expected**

Our Stable CMEE reflects our view that despite significant investments expected in the forthcoming year, credit metrics are expected to remain broadly unchanged.

Rating sensitivity

- **Rating list:**
  - LT issuer rating: A-
  - NEU MTN rating: A-
  - ST issuer rating: EF1
  - NEU CP rating: EF1

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑)**

One major driver for an upgrade of our LT ratings would be a sustainable improvement in the interest coverage ratio (towards 3.5x). An upgrade could also derive from better overall diversification, especially with respect to industry investments and geography, and/or an improvement in the overall quality/liquidity of the company's assets, especially its equity investments.

An upgrade of our short-term ratings would derive from an upgrade of our long-term corporate rating.

- **Negative factors (↓)**

We may downgrade our long-term ratings in the event of a deterioration of credit metrics, especially the interest coverage and LTV ratios, and/or the adoption of a more aggressive financial policy. A downgrade of our short-term ratings is improbable at present and would require significant unforeseen change in credit metrics or liquidity.

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 - Investment Holding : https://files.qivalio.net/documents/methodologies/CRA 192 V1.Corporate Rating Methodology Investment Holding.pdf
    - Corporate Rating Methodology - Instruments : https://files.qivalio.net/documents/methodologies/CRA 127 V2.Corporate Rating Methodology Instruments.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.