



ISSUER RATING
Long term

OUTLOOK
Stable



ISSUER RATING
Short-term

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Rating action and rationale

- EthiFinance Ratings affirms Valeo SE's long-term rating at BBB-, maintaining its Stable outlook. Concurrently, we affirm Valeo's short-term rating of EF2.
- Our ratings result from decent revenue growth of 10% YoY, mostly organic, although slightly impacted by an FX headwind of 3%. The reported operating margin has improved accordingly from 3.1% in FY22 to 3.7% in FY23, although it still trails those of industry peers due to high R&D expenses (10% of FY23 sales). EthiFinance Ratings' adjusted net leverage ratio has deteriorated by more than we expected, to 3.4x (vs 3.1x expected in April 2023 and 3.0x in FY22), due to a decrease in adjusted EBITDA margin owing to an increase of €338m in capitalized R&D. Valeo stands out as an electrification enabler with its powertrain systems and comfort, driving and assistance systems, which accounted for 31.1% and 21.1% respectively of FY23 sales. In addition, its thermal (21.4% of FY23 sales) and visibility (25.1%) segments enhance product portfolio diversification, covering almost all the technological components a vehicle needs. Over the past two years, Valeo has compiled an indicative orderbook totalling €67bn, set to contribute to 2025 sales and beyond, contingent upon the orderbook of OEMs. Despite that, we remain conservative about revenue prospects for 2024, amid forecasts of softness in global auto production; we expect Valeo to achieve a CAGR (2023-26) of 5.5%. We expect a gradual improvement in EBITDA margin to reach 10.9% by 2026, thanks to the ongoing cost reduction plan, inclusive of one-off €300m related expenses in 2024 and 2025. Accordingly, adjusted net leverage is expected to steadily improve to reach 1.9x by 2026.
- However, our ratings are constrained by average adjusted credit metrics, which do not fully align with an investment grade rating. Compared to industry peers, Valeo is highly leveraged with €7bn of gross reported debt, which weighs on both its solvency and interest coverage ratios (50.8% and 4.9x respectively). Moreover, Valeo's relatively low operating margin when compared to its size and its industry peers constrain our ratings – particularly considering the S&P IHS forecast of a flattish global light vehicle production for 2024. Nonetheless, this margin is expected to improve on the back of a decrease in R&D capitalization and the selection of highly profitable orders.
- 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, Valeo committed to a significant reduction of its CO2 emissions and energy consumption, achieving a 9% reduction in its scope 1 and 2 emissions compared with 2019. Going forward, it aims for a 45% reduction by 2030. This significant targeted 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 more than offsetting the negative impact from our industry ESG assessment.

Issuer description

Valeo is a top-tier French automotive supplier for original equipment manufacturers (c.85% of FY23 revenues) and offers after-market & miscellaneous services (c.10%) worldwide. Valeo designs, manufactures, and sells auto parts, integrated systems, and modules through its four divisions focused on enhancing intuitive, safer, and cleaner mobility (LIDARs, RADARs, EV components). It is also renowned for being one of the top-tier innovators and experts in comfort and advanced driver assistance systems (ADAS).

With operations in over 29 countries, Valeo has a significant global presence and a solid foothold in several of the world's most important automotive markets. The EMEA region accounted for c. 48.2% of FY23 revenues, followed by Asia Pacific (30.9%), and North America (18.6%).

For FY23, the group reported €22bn in total revenues for adjusted EBITDA of €1.65bn, equivalent to a 7.6% margin (down from 8.7% at end-2022). At end-2023, the EthiFinance Ratings adjusted net leverage ratio was 3.4x and the group had 112,700 employees spread across 184 plants and 65 R&D centers. Valeo SE is listed on the Euronext Stock Exchange and its market capitalization as of 26th March 2024 was €2.72 bn.

Liquidity profile

- A Superior liquidity assessment**

We assess the company's liquidity profile as "Superior" since Valeo can pay off all its forthcoming debt maturities without receiving new funding for more than two years. The company can also secure financing rather easily given its financial profile. Yet its current robust liquidity is susceptible to significant fluctuations in cash flow, which could force Valeo to seek financing in unfavourable debt market conditions.

Credit metrics expected evolution(CMEE)

- CMEE : Stable

We have a Stable CMEE, resulting from contrasting anticipated developments in credit metrics in the next twelve months, on the back of some cost reductions and company deleveraging.

Main financial figures and forecasts

Main financial figures. €m.						
	2022	2023	2024E	2025E	2026E	23vs22
Turnover	20 037	22 044	22 946	24 264	25 912	9.1%
EBITDA (Adjusted) (1)	1 744	1 652	1 913	2 388	2 812	-5.6%
EBITDA Margin (1)	8.7%	7.5%	8.3%	9.8%	10.9%	-1.2pp
EBIT	618	811	789	1 079	1 413	23.8%
EBIT Margin	3.1%	3.7%	3.4%	4.4%	5.5%	0.6pp
Interest expenses	(189)	(340)	(387)	(383)	(344)	44.4%
EBT (Adjusted)	429	471	402	695	1 069	8.9%
Total Assets	22 029	21 756	22 094	22 644	23 463	-1.3%
Equity (Adjusted)	4 612	4 360	4 508	4 837	5 359	-5.8%
Total Financial Debt (Adjusted) (2)	8 603	8 576	8 514	8 443	8 373	-0.3%
Net Financial Debt (2)	5 274	5 551	5 246	5 319	5 344	5.0%
Equity/TFD (2)	53.6%	50.8%	52.9%	57.3%	64.0%	-2.8pp
NFD/EBITDA (1) (2)	3.0x	3.4x	2.7x	2.2x	1.9x	0.3x
Funds From Operations	1 518	1 940	2 184	2 497	2 910	21.8%
FFO/NFD (2)	28.8%	34.9%	41.6%	46.9%	54.4%	6.2pp
EBITDA/Interest (1)	9.2x	4.9x	4.9x	6.2x	8.2x	-4.4x

(1) Adj EBITDA is exclusive of capitalized R&D as per our rating methodology
(2) Adj debt is inclusive of factoring, pension benefits, IFRS 16 (off balance-sheet) and other debt adjustments

Credit rating

CREDIT RATING	
Business Risk Profile	BBB-
<i>Industry Risk Assessment</i>	<i>BB</i>
<i>Competitive Positioning</i>	<i>BBB</i>
<i>Governance</i>	<i>BBB-</i>
Industry' ESG	Negative
Financial Risk Profile	BBB-
<i>Cash flow and leverage</i>	<i>BBB-</i>
<i>Solvency</i>	<i>BB-</i>
Company's ESG	Positive
Anchor Rating	BBB-
<i>Modifiers</i>	-
Final Rating	BBB-

Rating sensitivity

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

- Ratings Positive factors (↑)

A long-term rating upgrade could occur should Valeo's profitability, credit metrics, and financial policy improve on a sustainable basis. Such an upgrade may derive from an interest coverage ratio above 8.5x and/or an EthiFinance Ratings adjusted net leverage ratio dropping below 2.0x over time as a result of an ongoing deleveraging strategy.

At constant CMEE and liquidity profile, a short-term rating upgrade would derive from an upgrade in the long-term rating.

- Ratings Negative factors (↓)

We could downgrade our current long-term rating should adjusted EBITDA decline as a result of unfavourable market conditions, resulting in a deterioration of credit metrics. Notably, a trigger for such downgrade would be an EthiFinance Ratings adjusted net leverage ratio above 3.5x on a sustainable basis and/or an interest coverage ratio below 4.0x on a sustainable basis. A downgrade could also result from a more aggressive financial policy involving for example debt-funded M&A or a considerably higher pay-out ratio.

A downgrade of our short-term rating would derive from a downgrade of the LT rating to BB+ combined with a Negative CMEE or a deterioration of the liquidity profile to 'Adequate' instead of 'Superior'.

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.

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