S&P Global Ratings

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Bulletin:

FCA Bank's Transfer To Credit Agricole Consumer Finance Strengthens The Relationship But Poses Business Challenges

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MILAN (S&P Global Ratings) Dec. 20, 2021--S&P Global Ratings today said that Credit Agricole Consumer Finance's (CACF's) decision to become full owner of FCA Bank SpA (BBB/Positive/A-2) is further evidence of the strong relationship between FCA Bank and its partner that will continue to support the ratings on FCA Bank and cushion the potential negative impact that loosened commercial partnership with Stellantis might have on the bank's business prospects.

On Dec. 17, 2021, Stellantis announced it entered exclusive negotiations with its banking partners to reorganize its European captive finance activities. The parties expect to sign by first-quarter 2022 an agreement under which CACF will acquire Stellantis' 50% shares in FCA Bank, becoming the bank's sole shareholder. In addition, FCA Bank will transfer to CACF its 50% stake in Leasys (its rental business). The reorganization is expected to complete in first-half 2023. After that, FCA Bank will start operating as an independent auto financing player in Europe.

While FCA Bank's management has proven its capacity to expand business outside of the Stellantis perimeter (non-Stellantis brands--chiefly Jaguar, Land Rover and Ferrari--already account for about 20% of total financed volumes as of 2020), FCA's former brands still represent 80% of FCA Bank's business volume. The bank's activity strongly benefited from the relationship with Stellantis thanks to direct access to a dealer network, as further shown by a penetration rate of 45%-50% of sold vehicles over the past few years. Consequently, we anticipate FCA Bank will face new challenges to keep growing its lending volumes and sustain its historically above-Italian-peers profitability no longer benefiting from strong distribution agreements with its industrial partner.

The spinoff of the profitable Leasys operations to CACF might add to the pressures on FCA Bank's earning capacity. Nevertheless, the transaction could support the bank's capitalization via lower risk-weighted assets. All else equal, we estimate a positive impact of around 250 basis points on S&P Global Ratings' risk-adjusted capital as of 2020.

While FCA Bank's business prospects will weaken, we also consider the sale agreement attests for the bank's strategic importance to parent CACF. Under the new ownership structure, we also envisage the potential for higher integration of FCA Bank into CACF, which could ultimately benefit its efficiency and its profitability. We further expect capital and funding support to remain intact and continue supporting our rating on the entity.

We will continue assessing the potential implications of ongoing shifts in strategic alliances on FCA Bank's business and earnings prospects.

This report does not constitute a rating action.