

PRESS RELEASE



## **Spread Research assigns its SR3 short-term rating with a Negative outlook to the €150m NEU CP program of Sodiaal**

**Lyon, November 08, 2018 – Credit rating agency Spread Research assigns its SR3 short-term rating with a Negative outlook to the NEU CP instrument of Sodiaal Union, the ultimate holding of Sodiaal group referred to as ‘Sodiaal’. The NEU CP instrument will be issued by its financing holding Sodiaal International.**

### **Rating rationale**

Spread Research has analysed the credit profile of Sodiaal in order to assign its short-term rating. The outcome is an SR3 short-term rating.

### **Credit profile**

Sodiaal’s credit profile is underpinned by a good reputation in the French market with well-known brands and top 5 French market shares in cheese and drinking milk. The group offers a wide range of products derived from milk processing (cheese, drinking milk, cream, butter, food supplements). Sodiaal is one of the world’s top 20 dairy companies in terms of revenues, and the dairy products market offers strong opportunities for growth thanks to increasing global demand in terms of consumption volumes.

Our rating is, however, constrained by Sodiaal’s average credit metrics and geographical diversification, which mainly result from its cooperative status and its business model, which is oriented towards the collection and the valuation of milk produced by French farmers, who are the shareholders of the cooperative. We have also factored in the existence of significant larger peers in a global and challenging market where habits vary depending on the continents and food habits.

### **Liquidity profile**

Liquidity is solid. It is driven by a good amount of cash on balance sheet, large undrawn committed credit lines, and a long-term debt maturity profile. The use of factoring is significant and is expected to remain so given the credit quality of Sodiaal’s customers, thus reinforcing the liquidity profile.

## **Credit outlook**

Our Negative outlook reflects our view that credit metrics will deteriorate in the short term as a result of significant CapEx, for maintenance and capacity increase, which can be expected to offset the improvement in EBITDA margin and weigh on free cashflow, which will remain negative.

Our methodology for short-term ratings, published on January 7<sup>th</sup>, 2016, is available at <http://www.spreadresearch.com/uploads/pdf/user/methodo/SRshorttermratingsmethodology-08jan16Public.pdf>

## **Sodiaal**

Sodiaal is a French cooperative specialised in the collection of milk, and its transformation and conditioning into various dairy products. It is the 8th European group in the dairy products market in terms of revenues. Sodiaal owns well-known brands such as Entremont, Candia and Régilait and jointly owns its historical brand Yoplait with American company General Mills. The group generated c.€5bn of turnover and reported an EBITDA of €125m for 2017.

---

## **Spread Ratings**

Spread Ratings is the trademark under which Spread Research operates as a Credit Rating Agency, registered and regulated by the European Securities and Markets Authority (ESMA). Spread Research itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Spread Research capitalizes on over fourteen years of experience in assessing corporate debt financial instruments.

Our analysts are sector specialists and the team produces credit opinions for investors as well as private and public credit ratings. Our ratings are recognized by the EU banking (EBA) and insurance (EIOPA) regulators. Spread Research is one of the few rating agencies approved by the Bank of France to provide financial ratings for NEU CP (short-term) and NEU MTN (medium-term) programs.

## **Press contact**

Spread Research

Emmanuel Dovergne / Keima - Tel.: +33 1 56 43 44 63 / [emmanuel.dovergne@keima.fr](mailto:emmanuel.dovergne@keima.fr)

*Lead Analyst*  
Thomas Dilasser  
+33 (0) 4 78 95 64 50  
thomas.dilasser@spreadresearch.com

*Analyst*  
Marc Pierron  
+33 (0) 4 78 95 64 52  
marc.pierron@spreadresearch.com

*Issued on*  
08 November 2018

## NEU CP instrument rating Initiation report



Rated Entity: **Sodiaal Union**  
Sector: **Food & Beverage**

Short-term rating: **SR3**  
Credit outlook: **Negative**

### RATING RATIONALE

- We initiate coverage on Sodiaal Union (the ultimate holding company of Sodiaal group referred to as 'Sodiaal' in this report) and assign a short-term rating of **SR3** to its planned NEU CP instrument program of up to €150m. The instrument will be issued by 100%-owned, financing holding Sodiaal International.
- Sodiaal is a French cooperative specialised in the collection of milk and then its transformation and its conditioning into various dairy products. It is the 8th European group in the dairy products market in terms of revenues. Sodiaal owns well-known brands such as Entremont, Candia and Régilait and jointly owns its historical brand Yoplait with American company General Mills. The group generated c.€5bn of turnover and reported an EBITDA of €125m for 2017.
- Milk is a raw material used in a wide range of applications such as drinking milk, butter, cheese, yoghurts, and food supplements. The dairy market is large, global and competitive. It involves both large industrial companies and small cooperatives.
- Our rating is underpinned by **i) growing global demand for dairy products**, especially in emerging markets, alongside high consumption in developed countries, and **ii) Sodiaal's wide range of products**. The group indeed sells all types of milk and milk-based products through several brands. We also factor in **iii) Sodiaal's good business position** in its core market, France, with a top 5 position in market share in drinking milk and cheese, and well-known brands, not only in France but in foreign markets as well, e.g Yoplait in the USA.
- Our rating is, however, constrained by **i) the presence of significantly larger peers in a very competitive market**, **ii) Sodiaal's limited geographical diversification compared to market-leading companies** with 75% of its revenues generated in France, and **iii) the volatility of the dairy products market**, both in terms of prices and habits, which favours the strongest and most adaptable firms. We also factor in **iv) Sodiaal's historical low EBITDA margins and relatively high adjusted net leverage**, and **our forecast for the 2018-2020 period which incorporates a net adjusted leverage in the range 3.6x-4.5x and negative free cashflow in 2018 and 2019**, as a result of significant projected CapEx, for maintenance and capacity increase, which will offset the recovery in EBITDA margin.
- Unlike some of the largest peers in the market, Sodiaal is a cooperative and, as such, has a responsibility for collecting and selling the milk produced by its French farmers, who are the shareholders of the group. Such a status may explain some of Sodiaal's average credit metrics, such as its limited geographical diversification and low EBITDA margins. We believe the development plan set up in 2018, which aims to focus more on profitability than volumes and to increase sales outside France, is essential in order to reach a critical size and ensure success in such a fast-moving market.

### CAPITAL STRUCTURE

- Most medium and long-term financial debts are issued by Sodiaal International, the financing holding of the group. Sodiaal Union's financial debt represented only 7% of the total amount of financial debt in the group as of end-December 2017.
- Sodiaal International's financial debts are mainly composed of private placements (Euro PP, US PP, Shuldschein) and revolving credit facilities.
- Sodiaal Union's net adjusted leverage was relatively high as at end-December 2017 (within the 3.5x-4.0x range). The difference with ratios reported by the company in the 1.0x-1.5x range derive from our adjustments, namely factoring debts, operating leases and pensions.



## SOLID LIQUIDITY PROFILE

- Sodiaal's liquidity profile is solid. It is driven by significant undrawn cash facilities but is somewhat constrained by significant factoring debts. Nevertheless, given the credit quality of Sodiaal's customers, we have no reason to believe factoring contracts may be terminated in the short term.

## CREDIT OUTLOOK

- The Negative outlook reflects our view that credit metrics will deteriorate in the short term as a result of significant CapEx that will offset the improvement in EBITDA margin and weigh on free cashflow, which will remain negative.

## RATING SENSITIVITY

- Sodiaal is positioned in the middle of the SR3 rating, making an upgrade unlikely in the short term. We may, however, upgrade our rating if Sodiaal's EBITDA margin and geographical diversification were to improve significantly in the medium term, leading to better credit metrics.
- Meanwhile, we may downgrade our rating if Sodiaal proves unable to improve its EBITDA margin and geographical diversification and/or its net debt keeps increasing, leading to a deterioration of credit metrics.





**Spread Research**

**SPREAD RESEARCH assigns ratings and as such is regulated by ESMA.**

20, Boulevard Eugène Deruelle  
69003 Lyon

Tel : +33 4 78 95 34 04  
info@spreadresearch.com

## **REGULATORY DISCLOSURES**

Initiation report on 08 November 2018.

Rating nature: Solicited short-term public rating on NEU CP instrument.

The rating report was issued after being reviewed by the issuer.

Name of the rating committee chair : Maxime GUIONIE, Credit Analyst.

Material sources used to support the rating decision :

- Financial statements 2017, 2016, 2015, and 2014.
- Financial information provided by the company
- Meeting with the treasurer

Limitation of the Rating action:

Spread Research believes the quality and quantity of information available on the rated entity is sufficient to provide a rating. Spread Research has no obligation to audit the data provided.

Principal methodology used in this research: Short-Term Ratings Methodology available at

<http://www.spreadresearch.com/uploads/pdf/user/methodo/SRshorttermratingsmethodology-08jan16Public.pdf>

## **Disclaimer**

ALL INFORMATION CONTAINED IN THIS COMMUNICATION IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED, REPACKAGED, TRANSFERRED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, BY ANY PERSON WITHOUT SPREAD RESEARCH'S PRIOR WRITTEN CONSENT.

All information contained in this communication has been obtained by SPREAD RESEARCH from private sources and generally accepted public sources and is believed to be accurate and reliable. SPREAD RESEARCH makes no representation or warranty as to the accuracy and completeness of any such information. Under no circumstances shall SPREAD RESEARCH have any liability to any person or entity for any loss or damage in whole or in part due to any error (negligent or otherwise) within or outside the control of SPREAD RESEARCH or any of its directors, officers, employees or agents in connection with any such information. The credit analysis, if any, constituting part of the information contained herein, must be construed solely as statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each analysis or other opinion must be considered as one factor in any investment decision made by or on behalf of any recipient of the information contained in this communication, and each user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH ANALYSIS OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY SPREAD RESEARCH IN ANY FORM WHATSOEVER.