PRESS RELEASE

Qivalio reaffirms its SR1 short-term rating on the NEU CP instrument of Sofiproteol SA

Lyon, June 25, 2020 – Credit rating agency Qivalio (formerly Spread Research) reaffirms its SR1 short-term rating on the €300m NEU CP program of Sofiproteol SA.

Rating rationale

Qivalio has analysed the credit profile of Sofiproteol SA in order to assign its short-term rating. The outcome is an SR1 short-term rating.

Credit profile

Sofiproteol's credit profile is underpinned by good credit metrics, notably the adjusted loan-to-value ratio which was still very favourable at end-2019 and is expected to remain so through our forecast period (until 2022). The interest coverage ratio is good as well, in the range 4-9x, and is expected to get a significant boost in 2020 on the back of a material gain made in early 2020 on the divestment of an equity asset.

The company operates two businesses, each accounting for nearly 50% of total adjusted assets: minority equity investments, and cash management. The latter contains investment grade bonds in its portfolio and a high amount of French DATs (dépôts à terme, equivalent to certificates of deposits). As the diversification and liquidity of these assets is considered to be good, there is a positive impact on our rating.

Sofiproteol's rating is, however, constrained by the below-investment grade credit quality of equity investments on average, the France-focused investment strategy, as well as limited diversification since equity investments are entirely oriented towards agribusinesses. It is also limited by the liquidity of these investments, which is lower than for the bonds and DATs.

Liquidity profile

Sofiproteol's corporate liquidity profile is good, characterised by a solid cash position as at end-2019, and limited debt repayments to face in the next three years. It should also be supported by significant cash-in expected from divestments in the years ahead, the proceeds of which will be used for new investments and will help the company to maintain good liquidity through our forecast period.

Credit outlook

Our Stable outlook reflects our view that credit metrics will remain strong and relatively unchanged despite the context of the pandemic and its consequences on financial markets and companies' credit metrics.

Our methodology for short-term ratings is available at:

https://www.spreadresearch.com/uploads/pdf/user/methodo/SRshorttermratingsmethodology-08jan16Public.pdf

Our methodology for investment holdings is available at:

https://www.spreadratings.com/wp-content/uploads/2019/12/SrInvestmentHoldingsCorporateRatingMethodology.pdf

Sofiproteol

Sofiproteol SA is a French investment company, a subsidiary of Avril Group. Avril SCA, the ultimate holding company of Avril Group, owns 70.6% of the 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 authority 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 protein and oilseed sector in France, before it became an industrial group itself, known as Avril Group. In 2014 Sofiproteol became an independent investment company within Avril Group and has two separate businesses: minority equity investments and cash management. Sofiproteol's investment strategy aims at fostering the development of the agricultural world, notably the protein and oilseed sector.

Spread Ratings

Spread Ratings is the trademark under which Qivalio operates as a credit rating agency, registered and regulated by the European Securities and Markets Authority (ESMA). Qivalio itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Qivalio (formerly 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. Qivalio 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.

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Sofiproteol - Reaffirming our SR1 short-term rating

SPREAD RATINGS

Company: Sofiproteol
Sector: Investment Holdings

SOFIPROTEOL

SR Rating	Outlook
SR1	Stable

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Rating rationale

We reaffirm our SR1 rating on Sofiproteol's NEU CP program for up to €300m.

Sofiproteol SA is a French investment company, a subsidiary of the agricultural cooperative group Avril. Avril SCA, the ultimate holding company of Avril Group, owns 70.6% of the 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 authority 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 protein and oilseed sector in France, before it became an industrial group itself, known as Avril Group. In 2014 Sofiproteol became an independent investment company within Avril Group with two separate businesses. First, it invests in agribusinesses and food industries, especially companies in the protein and oilseed sector, in which Avril specialises. Investments are mainly made through minority equity stakes. Depending on the needs of companies, Sofiproteol may also invest through loans 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 world, notably the protein and oilseed sector. Second, in order to optimize cash not invested in equity, Sofiproteol manages a portfolio of assets which mainly comprises bonds and certificates of deposits (dépôts à terme, referred to as 'DATs').

In 2019, Sofiproteol continued to invest and grow its assets as well as reporting growing net banking income. In early 2020, Sofiproteol divested one of its investments as planned. It realized a significant gain, part of which has been kept as cash and cash equivalents, which reinforces the already good liquidity profile and enables the company to be in line with its 2020 budget in a context of heightened market uncertainty. Despite the current pandemic and its consequences on financial markets and assets valuation in general, Sofiproteol reaffirms its long-term philosophy and remains committed to its buy-and-hold strategy. Due to the nature of Sofiproteol's activities, our analysis is based on our 'investment holding methodology'.

Our rating is underpinned by a prudent investment policy characterized by very good credit metrics. The adjusted loan-to-value ratio slightly increased in 2019 as expected, but it was still very favourable as of the end of the year; it is expected to rise slightly again in 2020, on the back of significant investments, but will probably remain very good over the 2020-22 period. Interest coverage is good as well, and will significantly increase in 2020 thanks to the significant gain made on the divestiture in early 2020, which will offset potential losses from other sources of revenues as a result of the current market conditions. With respect to credit metrics, we have also factored in good diversification by value: the main equity investment which has been sold accounted for c.25% of total adjusted investments in equity at end-2019. In addition, the certificates of deposits and portfolio of bonds are well diversified. We have also considered the credit quality of assets; the majority of bonds held by Sofiproteol are investment grade and Sofiproteol has become even more prudent in its bonds investments in the context of the pandemic. The average credit quality of 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 continue to report solid credit metrics. Our rating is also constrained by equity investments being mainly focused in France, and in the agribusiness sector. It is also partly limited by the liquidity of the equity investments, given the non-listed nature of most investments as well as Sofiproteol's strategy of long-term investment. However, the low level of financial debt, the good liquidity of bonds and DATs, and a prudent financial policy enable Sofiproteol to maintain a good corporate liquidity profile, which contributes positively to our rating.

Debt structure

As of end-2019, Sofiproteol's gross debt mainly comprised various credit lines totalling €88m, €111m of REPOs, and €113m of NEU CP. The company has confirmed with us that credit lines are uncommitted, and could be called within 60 days.

We have adjusted this reported debt for €72m of cash-out expected on equity, split between €11m for companies in which Sofiproteol invested and €61m for Sofiproteol Capital 1 SAS, which is 88%-owned by Sofiproteol and has been created as a vehicle to invest in equity. At end-2019, only 42% of the equity of Sofiproteol Capital 1 had been paid by Sofiproteol, the remaining 58% will be paid when future investments are made by Sofiproteol Capital 1. Had we incorporated this adjustment for the reported debt at a consolidated level (Sofiproteol + Sofiproteol Capital 1), it would have been limited to €11m.

According to our rating methodology, and our interpretation of Sofiproteol's business, cash and cash equivalents amounted to €264m as at end-2019 and mainly comprised DATs. We have also factored in €111m of bonds to match the amount of repo(s) debt, resulting in a net adjusted financial debt of €35m as at end-2019.

Had we calculated the adjusted LTV ratio in line with Sofiproteol's methodology, considering all financial assets excluding minority equity stakes as cash and cash equivalents, this would have resulted in a negative adjusted LTV ratio. However, this would not have affected the rating.

Liquidity profile

Sofiproteol's liquidity profile is still good thanks to a solid cash position as at end-2019. Based on our methodology and our projections, significant investments in the next three years and almost neutral free cashflow will probably reduce liquidity by 2022, but the level would remain good nonetheless thanks to significant cash-in from planned divestments.

Depending on liquidity needs, Sofiproteol, which has a prudent financial policy, may also adapt its investment strategy, which reinforces the good liquidity profile.

Credit outlook

Our Stable outlook reflects our view that despite the pandemic, Sofiproteol managed to divest its most significant equity asset in early 2020 which boosts its interest coverage ratio for 2020, while the LTV ratio is expected to remain unchanged in 2020. In 2021, interest coverage is expected to return to the historical range of 4-9x and the LTV ratio is projected to increase very slightly.

Rating sensitivity

We may upgrade our rating should credit metrics further improve. We may also upgrade our rating should Sofiproteol increase its diversification, especially with respect to industry investments and geography, and/or improve the overall quality of its assets, especially its equity investments.

Conversely, we may downgrade our rating in the event of a significant deterioration of credit metrics and/or a more aggressive financial policy.

Regulatory disclosures

SPRR/2020/00494/25/06/2020

Short-term rating report on existing NEU CP program

Rating initiation: 25 June 2019 at SR1

Latest rating action: 25 June 2019 (initiation) at SR1

Rating nature: Solicited, short-term, public rating on NEU CP instrument (the rating was issued after having been reviewed by the issuer)

Name of the rating committee chair: Johann Scavone, Senior Rating Analyst

Material sources used to support the rating decision:

- Annual financial statements 2015, 2016, 2017, 2018, 2019 and related analytical financial statements

- Consolidated financial statements 2015, 2016, 2017, 2019

- Adjusted net assets statements 2015, 2016, 2017, 2018, 2019

- Sofiproteol company presentation

- Details of financial debt at end-2019

- Strategic plan Sofiproteol

- Call with Sofiproteol CFO

Limitation of the Rating action:

- Qivalio believes that the quality and quantity of information available on the rated entity is sufficient to provide a rating

- Qivalio has no obligation to audit the data provided

Our methodology for short-term ratings is available at: https://www.spreadratings.com/wp-content/uploads/2019/12/SrShortTermCorporateRatingMethodology.pdf

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