



## **Qivalio reaffirms its SR3 short-term corporate rating for Sodiaal**

**Lyon, November 04, 2020 – Credit rating agency Qivalio reaffirms its SR3 short-term corporate rating for Sodiaal.**

### **Rating rationale**

Qivalio has reviewed the credit profile of Sodiaal in order to assign its short-term rating. The outcome is an SR3 short-term rating, unchanged from last year.

### **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 consumption.

Although the Covid-19 impact on the group is expected to remain modest, our rating is still constrained by Sodiaal's average credit metrics and little geographic 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 significantly larger peers in a global and challenging market where habits vary depending on the continents/countries.

### **Liquidity profile**

Sodiaal's liquidity is driven by a good amount of cash on balance sheet and a committed revolving credit facility which was undrawn at end-2019. The group does have a rather high level of short-term debt and significant use of factoring programs. However, the latter are expected to remain in place given the credit quality of Sodiaal's customers, thus reinforcing the liquidity profile.

### **Credit outlook**

The Stable outlook reflects our view that credit metrics will remain broadly unchanged over the next twelve months: we expect slightly lower EBITDA in 2020 because of the Covid-19 impact, before some improvement in 2021, only to see net debt slightly increase between 2020 and 2021, thus partly offsetting the potential benefits of better operating performance.

Our methodology for short-term ratings is available at <https://www.spreadratings.com/wp-content/uploads/2019/12/SrShortTermCorporateRatingMethodology.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 eighth-largest 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.€5.1bn of turnover and reported EBITDA of €129.6m for 2019.

**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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Company: [Sodiaal](#)  
Sector: [Consumer Goods](#)



SR Rating	Outlook
SR3	Stable

## Rating rationale

We have reaffirmed our short-term corporate rating of SR3 for Sodiaal Union, the ultimate holding company of Sodiaal Group.

Sodiaal is a French cooperative specialised in the collection of milk and then its transformation and conditioning into various dairy products. It is the eighth-largest 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 reported slightly increased revenues of c.€5.1bn for 2019 and higher EBITDA (Qivalio's adjusted EBITDA margin rose by c.110bps to 3.1%). Fat prices had decreased by the end of 2019 after having been historically high early in the year, while protein prices recovered during 2019. Although the price of milk paid to farmers increased, Sodiaal was able to pass on part of the higher costs to customers in order to maintain margins. Sodiaal has also been able to limit the losses from the recently-purchased Carhaix factory, which was taken over in 2019 from Synutra. Despite the Covid-19 pandemic, business has been resilient for milk, cream, butter and packaged cheese as food has been one of the main purchases possible – not to say vital - during the lockdowns. However, the pandemic has hampered parts of Sodiaal's business, such as catering services which have been hard hit by the lockdowns and the stringent regulations imposed by public authorities, or AOP cheese which is served over the counter in supermarkets. Overall, we expect Sodiaal's operating performance in 2020 to be rather stable compared with 2019.

Our rating is still 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. Indeed, the group sells all types of milk and milk-based products through several brands. Also, we continue to factor in iii) Sodiaal's good business position in its core market, France, with a top 5 position for market share in drinking milk and cheese, and well-known brands not only in France but also in foreign markets, e.g. Yoplait in the US.

Our rating is, however, constrained by i) the presence of significantly larger peers in a very competitive market, ii) Sodiaal's limited geographic diversification compared to market-leading companies with c.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 historically low EBITDA margins and relatively high adjusted net leverage. Both indicators are expected to deteriorate in 2020 because of the Covid-19 pandemic: Qivalio adjusted net leverage ratio is projected at c.5.6x at end-2020 (vs 4.8x at end-2019). Meanwhile, free cashflow after dividends is expected to remain positive - but very low - in 2020, and to return to negative territory in 2021 and 2022 as we expect capex to offset the recovery in EBITDA margin. Both the net leverage ratio and the level of free cashflow will depend on the level of capex the group will adopt going forward, meaning the group will also have the flexibility to adapt its investments to its cash and liquidity position.

Unlike some of the its larger 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 geographic diversification and low EBITDA margins. We also reaffirm our positive opinion regarding the development plan '#Value', which was set up in 2018 and aims to focus more on profitability than volumes and to increase sales outside France, which is essential in order to reach a critical size and ensure success in such a fast-moving market.

Published on **04 November 2020**

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## Debt structure

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Most medium and long-term financial debt is issued by Sodiaal International, the financing holding of the group.

Sodiaal International's financial debt is mainly composed of private placements (Euro PP, US PP, Shuldschein) and a revolving credit facility, which was undrawn at end-2019.

Sodiaal Union's net adjusted leverage was 4.8x at end-2019. The difference with the ratio reported by the company (3.0x) derives from our adjustments, mainly factoring debt, as well as operating leases and employee benefits.

## Liquidity profile

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Sodiaal's liquidity profile is still driven by a sizeable committed RCF maturing in 2025 - undrawn at end-2019 - but is somewhat constrained by significant factoring debt and rather high short-term debt. Nevertheless, given the credit quality of Sodiaal's customers, we have no reason to believe factoring contracts may be terminated in the short term, which eases potential concerns on the liquidity front. Sodiaal may also adapt its level of capex if it needs to in order to preserve good liquidity.

## Credit outlook

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The Stable outlook reflects our view that credit metrics will remain broadly unchanged over the next twelve months: we expect slightly lower EBITDA in 2020 because of the Covid-19 impact, before some improvement in 2021, only to see net debt slightly increase between 2020 and 2021, thus partly offsetting the potential benefits of better operating performance.

## Rating sensitivity

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Sodiaal is positioned at the low-end of the SR3 category, making an upgrade unlikely in the short term. We may, however, upgrade our rating if Sodiaal's EBITDA margin and geographic diversification were to improve significantly over the medium term, leading to better credit metrics.

Meanwhile, we may downgrade our rating if EBITDA declines, leading to further deterioration in credit metrics, and/or if its liquidity continues to shrink.

## Regulatory disclosures

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SPRR/2020/00526/RAT/04/11/2020

Review report on solicited short-term rating

**Initiation report:** No

**Rating initiation:** SR3 on November 8, 2018

**Latest rating action:** Reaffirmed at SR3 on November 5, 2019

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

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

Material sources used to support the rating decision:

- Consolidated financial statements 2015, 2016, 2017, 2018, 2019
- Company presentation and 2019 annual report
- Details of financial debt at end-2019
- Call with Sodiaal Head of Financing

**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

Principal methodologies used in this rating:

<https://www.spreadratings.com/wp-content/uploads/2019/12/SrShortTermCorporateRatingMethodology.pdf>

<https://www.spreadratings.com/wp-content/uploads/2019/12/SrLongTermCorporateRatingMethodology.pdf>

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