Sodexo Finance DAC - Affirming our short-term corporate rating at SR1

Company: Sodexo
Sector: Services

Neu CP Rating	ESG Score
SR1	...

Rating rationale

Published on **05 May 2022**

Mickael KEREZEON
Lead analyst
mickael.kerezeon@ethifinance.com

Marc PIERRON
Analyst
marc.pierron@ethifinance.com

We reaffirm our SR1 short-term rating, the second-highest grade in our rating scale, for the €1.75bn NEU CP instrument of Sodexo Finance DAC. Sodexo S.A. is guarantor of the NEU CP instruments issued by Sodexo Finance DAC.

Our SR1 rating continues to reflect Sodexo's large scale, global market presence, and the benefits from diversified activities servicing various end-markets - which we see as strong competitive advantages compared to local, smaller rivals, enabling Sodexo to offer diverse integrated services in many countries. The dominant positions enjoyed by Sodexo's businesses and an adaptation of its services have enabled a gradual recovery of Sodexo's financial performance as the economic and health conditions improved from the peak of the pandemic. We view positively the group's credit profile, which benefits from a prudent financial policy, along with satisfactory cash generation and moderate indebtedness.

Founded in 1966, Sodexo is a France-based provider of food services and facility management services to various end-markets (Education, Corporate Services, Healthcare, Sports & Leisure). The group is one of the leading global companies in its sector and is relatively well-diversified in terms of geographic mix, with an operating presence across 55 countries as of the end of February 2022 (down from 64 due to divestments of some non-core activities). Sodexo is listed on Euronext Paris with a market capitalization of €10.6bn as of April 28th 2022. It is controlled by the family-owned holding company Bellon SA (42.8% of Sodexo shares and 57.4% of the voting rights as of end-February 2022).

Through 2021 and into 2022 the group's performance has recovered well from the impacts of the Covid-19 pandemic. Indeed, Sodexo's revenues for the twelve months to end-February 2022 were at €19.0bn, up by 18% (versus €16.2bn over the previous 12-month period). Each business unit has grown over the period from March 2021 to February 2022. Revenue growth in the period was strongest for the two divisions which were particularly impacted by the Covid-19 pandemic, namely Business & Administration and Education, respectively at 17% and 34%. This is mainly due to the progressive reopening of corporate and university collective catering following the easing of measures to limit the spread of the virus. Sodexo's global activities have still not returned to their pre-crisis level. However, assuming that the health situation improves further in the months ahead, and that the Russia-Ukraine conflict and higher inflation do not derail global economic activity, we expect continued sales growth, especially in North America, which is slightly behind Europe in terms of recovery post-pandemic.

At end-February 2022, Sodexo's net adjusted leverage ratio (EthiFinance Ratings' net adjusted debt/EBITDA) stood at 3.1x, compared to 7.8x at the same point last year. The high adjusted leverage ratio from last year was due to a very low level for EthiFinance Ratings' adjusted EBITDA generated during the period (€495m versus €1.3bn for the 12 months to end-February 2022). The current adjusted leverage ratio at 3.1x remains higher than its historical level, ranging between 1.8x and 2.1x. We estimate that Sodexo will be able to decrease further its net adjusted leverage ratio with improving profitability as operations normalize to reach the high-end of its pre-Covid range by August 2024, barring a major event such as significant debt-funded acquisitions or the large macroeconomic or geopolitical adverse events.

Going forward, we forecast strong growth in consolidated revenues for the fiscal year 2022 (to end-August 2022) at €20.4bn compared to €17.4bn for the group's FY21, equivalent to a 17% increase. Over the remainder of our three-year forecast period, we expect continued revenue growth, of c.5.2% in FY23 (€21.5bn), c.3.5% for FY24 (€22.2bn), and c.3.5% for FY25 (€23.0bn). Profitability is expected to follow the growth of revenues over the period. We forecast improving EBITDAR margins as the business normalizes from c.6.7% in FY22 to c.8.3% in

FY25, which would still remain slightly lower than pre-Covid level (c.8.5% for the years 2018 and 2019). The gradual increase of profitability fueled by the operating recovery should drive the group's credit metrics close to levels seen prior to the Covid-19 pandemic, again provided that health situation improves in a sustainable manner.

Debt structure

As of end-February 2022, the group reported a gross financial debt of €5.7bn and €2.1bn net of cash, both figures excluding operating leases related to IFRS 16. Including IFRS 16 (€873m in February 2022), pensions (€301m), and the reintegration of a portion of the restricted cash linked to the BRS activity (€782m), we calculate a net adjusted debt of €4.0bn. The indebtedness is almost exclusively composed of bonds with maturities ranging from January 2024 to April 2031. In this regard, in October 2021, Sodexo exercised the 3-month call provision of its €600m senior bond initially due to mature in January 2022 to proceed to its early repayment.

In addition to the existing bonds, Sodexo has access to multicurrency credit facilities for a total of €1.8bn, which were all undrawn at end-February. The main maturity of these facilities (amounting to €1.3bn) will occur only in July 2026, which means a strong liquidity position for Sodexo. Finally, Sodexo has two commercial paper programs (NEU CP) both amounting to €1.75bn. Borrowings under these programs were also nil over the twelve months to end-February 2022. Note that the issuing companies are Sodexo SA and Sodexo Finance DAC. However, the NEU CP instrument of Sodexo Finance DAC benefits from the independent, autonomous irrevocable and unconditional guarantee of the parent company (Sodexo SA), which runs until February 28th, 2025.

Sound liquidity profile

The liquidity profile of Sodexo is good with of score of 3 which is the maximum score according to our methodology. This is due to the significant amount of cash available and to the appropriate maturity profile of its bonds. Indeed, as of end-February 2022, Sodexo had €2.6bn of cash-on-hand and €221m of highly liquid financial assets from the BRS activities (we are excluding €0.8bn of restricted cash related to the BRS activity from the calculation of cash) and a large amount of undrawn facilities (€1.8bn). Note that Sodexo's next debt maturities concern the bilateral undrawn credit facility, amounting to €300m due in December 2023 and the €500m senior bond due in January 2024.

Credit Metrics Expected Evolution (CMEE): Positive

We assess the CMEE to be Positive as we expect a significant improvement of Sodexo's credit metrics over the next 12 months due to the recovery expected with the easing of the Covid-19 pandemic. We forecast Sodexo's net adjusted leverage ratio (EthiFinance Ratings' net adjusted debt/EBITDAR) to decrease to 2.8x by the end of August 2022 (vs. 3.7x at the end August 2021), stemming from a material improvement in operating earnings.

Rating sensitivity

Sodexo Finance DAC stands in the middle range of our SR1 rating range, and thus an upgrade to SR0 is rather improbable at present. It would require a material improvement of the group's financial metrics, in particular a net adjusted leverage below 2.0x on a sustainable basis.

A downgrade to SR2 could be considered, if the leverage ratio remains significantly high on a sustainable basis which would impact our assessment of the group's financial policy.

Regulatory disclosures

SPRR/2022/000738/RAT/05/05/2022

Sodexo's LEI: 969500LCBOG12HXPYM84

Initiation report: No.

Rating initiation: SR1 on 24 May 2018

Last rating action: Affirmed at SR1 on 7 May 2021

Rating nature: Solicited short-term public rating.

With rated entity or related third party participation: Yes

With access to internal documents: No

With access to management: Yes

Ancillary services provided to the rated entity: Yes, EthiFinance Ratings provides ancillary services to subsidiaries within the group.

EthiFinance Ratings also provides solicited public ratings to Bellon, the main owner of Sodexo.

This report was published after having been reviewed by the issuer.

Name of the rating committee chair: Thomas Dilasser, Senior Credit Analyst.

Material sources used to support the rating decision:

- Financial statements 1H22, FY21, FY20, FY19, FY18, FY17, FY16
- Discussions with Sodexo management

Limitation of the Rating action:

EthiFinance Ratings believes the quality and quantity of information available on the rated entity is sufficient to provide a rating.

EthiFinance Ratings has no obligation to audit or verify the accuracy of data provided.

Principal methodology used in this research available at:

https://files.qivalio.net/documents/compliance/SrLongTermCorporateRatingMethodology.pdf

https://files.qivalio.net/documents/compliance/SrShortTermCorporateRatingMethodology.pdf

https://files.qivalio.net/documents/compliance/QIVALIO-ESG-Considerations.pdf

Qivalio SAS

20 boulevard Eugène Deruelle

69003 Lyon

Disclaimer

THIS INFORMATION IS DESTINED TO PRIVILEGED PERSONS ONLY, WHO ARE QIVALIO'S CLIENTS AND, AS SUCH, HAVE ACCEPTED AND SIGNED A CONFIDENTIALITY AGREEMENT PRIOR TO RECEIVING QIVALIO'S SERVICES. ANY UNAUTHORIZED PERSON RECEIVING THIS INFORMATION SHOULD PROMPTLY DELETE IT AND SHALL NOT, UNDER ANY CIRCUMSTANCES, MAKE ANY USE WHATSOEVER OF THIS COMMUNICATION, NOR TRANSFER IT TO ANY THIRD PERSON.

All information contained in this communication has been obtained by QIVALIO from generally accepted public sources and is believed to be accurate and reliable. QIVALIO makes no representation or warranty as to the accuracy and completeness of any such information. Under no circumstances shall QIVALIO 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 QIVALIO 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 QIVALIO IN ANY FORM WHATSOEVER.