FitchRatings

RATING ACTION COMMENTARY

Fitch Places Ceconomy AG on Rating Watch Positive

Wed 06 Aug, 2025 - 14:13 ET

Fitch Ratings - Milan - 06 Aug 2025: Fitch Ratings has placed Ceconomy AG's 'BB' Long-Term Issuer Default Rating (IDR) and senior unsecured rating with a Recovery Rating of 'RR4' on Rating Watch Positive (RWP).

The placement on RWP follows the signing of investment and shareholder agreements by JD. com, Inc. It reflects Fitch's expectations that following the public takeover JD will become a strategic investor with a stronger credit profile. This will result in an upgrade of Ceconomy's ratings under Fitch's Parent-Subsidiary Linkage (PSL) Criteria. Completion of the transaction remains subject to regulatory approvals and is expected during the first half of 2026.

Ceconomy's current rating reflects its large-scale, well-diversified product offering, omnichannel capabilities, and its pan-European footprint. We expect continued profit recovery. Rating constraints are low operating margins in a competitive market, a history of volatile free cash flow (FCF) and tight EBITDAR fixed-charge cover.

KEY RATING DRIVERS

JD Takeover Rating Positive: The voluntary takeover completion will likely lead to an upgrade of Ceconomy's 'BB' rating, reflecting JD's stronger credit profile with the exact notching uplift dependent on our assessment of legal, strategic and operational linkages under our PSL Criteria. Based on the announced plan we expect the strategic incentive to support Ceconomy to be the strongest, with JD intending to accelerate Ceconomy's growth strategy and boosting its presence in Europe through its over 1,000 stores and online channel. We also expect Ceconomy to benefit from JD's knowledge in technology, logistics and supply chain management.

Stronger New Parent: We consider JD's credit profile stronger than Ceconomy's, stemming from its leading market position as largest online retailer in China, greater scale of USD160 billion revenue and USD6.9 billion EBITDA in 2024, albeit with high exposure to the single market of China. Nearly half of its revenue comes from electronics and home appliances sales. JD's EBITDA margin of about 4% is in line with sector averages, but its financial profile benefits from a more conservative capital structure with reported net cash position at end-2024.

Founder family shareholder Convergenta will maintain an about 25.4% stake, and JD intends to take Ceconomy private by June 2026 from the current 36% free float. Under existing recent EUR500 million bond documentation, a change of control clause will be triggered at 30% and while the intention is to maintain existing funding arrangements, we expect the stronger parent to support Ceconomy in case of earlier repayment requirement.

Ceconomy To Remain Independent: According to the signed investment agreement, Ceconomy will remain independently run, with its own strategy, brands, headquarters and stores, IT systems, no workforce reductions, board, and no material change to its organisational structure for at least five years after the completion. JD has committed to no domination or profit and loss transfer agreement for three years. This is likely to lead to our assessment of low operational incentive to support from the new parent under our PSL Criteria.

Profitability Improvement: Ceconomy operates in the largely commoditised mass market of appliances and consumer-electronics retailing, which is exposed to intense competition, limited customer loyalty and high online market penetration. Its profit margins are low, but we expect recovery towards 2.5% by the financial year ending September 2026 (FY26) and forecast EBITDA to rise towards EUR600 million by FY27 from about EUR360 million in FY24. This will be aided by a recovery in demand, cost-efficiency measures, a shift of the product mix to private label and an increasing contribution from the services and solutions business and media services.

Leading European Consumer Electronics Retailer: Ceconomy is the largest consumer electronics retailer in Europe, but we place its business profile between the 'BBB' and 'BB' categories due to the fiercely competitive and volatile market. It benefits from a strong brand name, sizeable operations with a pan-European footprint, and a well-diversified product offering with adequate omnichannel capabilities.

Diversification Offsets Macroeconomic Challenges: Geographic diversification helped Ceconomy offset weak sales in its key German market during FY23-FY24, where consumers were tightening spending on major non-discretionary items, with the strength of the Turkish, Dutch and Spanish markets.

Execution Risks: In its biggest markets, Ceconomy is shifting from largely relying on third-party distributors and stocking products in its stores, to a model with one large nationwide hub, complemented by smaller regional ones. We see this as having some execution risks but believe that it will lead to more agile inventory management, enabling the company to operate with lower stock, and, once the automation project is implemented, reduced operating costs. Risks are mitigated by the good progress already achieved. JD's know-how and technology should help enhance this.

Tight Fixed-Charge Coverage: We see weak EBITDAR fixed-charge coverage remaining at around 1.6x-1.8x, corresponding to low 'b'. This is balanced by an actively managed leased store network, mitigating the impact of inflation indexation, and broadly flat lease payments combined with modest cash debt service. Tightening fixed-charge coverage ratios would signal less effective property management and could put the ratings under pressure.

Lower Leverage Following Criteria Change: Fitch anticipates EBITDAR net leverage of near 2x over FY25-FY27, placing Ceconomy's financial structure score in the 'BBB' rating category. Under our updated criteria, we use reported IFRS16 lease liabilities instead of capitalising lease expense (at 7x multiple previously) leading to around 2x lower leverage for Ceconomy. Short-term leases with under three years remaining on average is reflected in IFRS16 based leverage metric, with additional flexibility from early termination clauses, usually linked to store-based profitability metrics.

PEER ANALYSIS

Ceconomy's rating combines the 'BBB' traits of its sizeable operations, market position and product offering, with 'B' operating profitability and fixed charge coverage. We regard the highly commoditised consumer electronics markets in which the company operates as a rating constraint, with exposure to demand volatility and rising competing online penetration. Consequently, its credit profile is in line with that of the consumer electronics retail sub-sector.

Ceconomy's closest Fitch-rated peer is FNAC Darty SA (BB+/Stable), which is almost three times smaller by revenue but has slightly stronger profitability due to its greater focus on premium subsectors, editorial products and subscription services, and a demonstrated ability to pass on price increases and protect margins. FNAC's EBITDA margin is higher, reflected in the one-notch rating differential, although we expect Ceconomy's margin to gradually improve towards 3%.

Ceconomy has similarly strong positions in its respective markets as Kingfisher plc (BBB/Stable), the largest DIY group in UK and Poland, combined with scale and good diversification. Ceconomy's financial policy of a maximum 2.5x net debt (including leases)/EBITDAR and well-managed leased property portfolio are positive for its credit profile, although this is offset by considerably lower profitability and weaker coverage metrics versus Kingfisher. This is reflected in the three-notch rating differential.

Pepco Group N.V (BB/Stable), a European value retailer with leading positions in central and eastern European markets, is smaller in scale but has stronger growth prospects and higher profit margins than Ceconomy. Pepco has slightly better coverage metrics and similar leverage to Ceconomy.

KEY ASSUMPTIONS

- Low single-digit revenue growth over FY25-FY28

- Fitch-defined EBITDA margin to improve to 2% in FY25 and gradually expand towards 2.5% in FY27

- Marginally positive working capital cash inflow over FY25-FY28

- Capex at around EUR275 million a year over FY25-FY28

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, lead to Negative Rating Action/Downgrade

- We would remove the RWP if the takeover by JD does not go ahead

- Decline in profitability and like-for-like sales, for example, due to increased competition or a poor business mix, with EBITDA margin remaining below 2%

- EBITDAR fixed-charge coverage below 1.6x

- EBITDAR net leverage consistently above 3.5x

- Mostly negative FCF

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- We would look to upgrade Ceconomy's standalone rating when takeover is approved by the regulator and JD becomes a strategic investor holding at least 31.7% (equity commitments to sell by current shareholders) and establishing a PSL relationship. The extent of the upgrade will depend on our assessment of legal, strategic and operational linkages with JD after the takeover under our PSL criteria.

- Improved profitability and like-for-like sales, for example, due to a strengthened competitive position or an improved business mix, with Fitch-defined EBITDA margin sustained above 2.5%

- EBITDAR net leverage consistently below 2.5x

- EBITDAR fixed-charge coverage above 2.0x

- Neutral to marginally positive FCF generation and improved cash flow conversion leading to lower year on year trade working capital volatility

LIQUIDITY AND DEBT STRUCTURE

We estimate Ceconomy's readily available cash balance at about EUR1 billion at FYE25, which is adequate for its limited debt service requirements in the absence of material contractual debt maturities until FY27. We project low single-digit FCF margins before any shareholder distributions.

Ceconomy has access to an undrawn committed revolving credit facility of EUR900 million due in 2028, as well as a EUR500 million commercial paper programme to support short-term financing needs (EUR25 million utilised at March 2025), although we do not include the latter in our liquidity calculation. Ceconomy has two bonds outstanding totalling EUR644 million, in addition to three promissory note loans totalling EUR72 million and a EUR151 million convertible bond due in 2027.

Under Ceconomy's latest EUR500 million 6.25% senior unsecured bond due 2029 document, holders can declare the bond due and demand redemption under a change-of-control clause (30% threshold). However, to exercise this option under the remaining

EUR144 million bond due in 2026, the threshold is at 50% and a downgrade of the issuer's or bond's rating must also have occurred.

We do not restrict the cash balance for working capital purposes, as we view its cash position in the fourth quarter of its financial year as a fair representation of the average annual level.

ISSUER PROFILE

Ceconomy is a leading European consumer electronics retailer and service and solution provider. It operates over 1,000 stores across Mediamarkt and Saturn brands in 11 countries and generates nearly 25% of sales online.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	RECOVERY ⬍	PRIOR ⬍

Ceconomy AG	LT IDR BB Rating Watch On		BB
senior unsecured	LT BB Rating Watch On	RR4	BB

PREVIOUS Page 1 of 1 10 rows NEXT

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 27 Jun 2025) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 27 Jun 2025)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Ceconomy AG	EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating s

READ MORE

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch's solicitation status policy can be found at www.fitchratings.com/ethics.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.