

24 Jun 2021 - Scope Ratings GmbH

Scope Ratings affirms the BBB-/Stable issuer rating for of Ceconomy AG

The rating action reflects the group's comparatively solid performance in the last 18 months and an expected improvement in free operating cash flow generation in the second half of fiscal 2021.

The latest information on the rating, including rating reports and related methodologies, is available on this [LINK](#).

Rating action

Scope Ratings GmbH (Scope) has today affirmed its BBB-/Stable issuer rating and S-2 short-term rating to Ceconomy AG. Senior unsecured debt has been assigned a rating of BBB- as well as for the issued EUR 500m senior unsecured bond maturing in 2026.

Rating rationale

The rating action reflects Ceconomy's resilient financial performance over the last 18 months given the unfolding coronavirus crisis. Some quarters were stronger than others, depending on the degree to which lockdowns affected the store network. Overall though, Ceconomy benefited greatly from its 'hybrid' status as a multi-channel electronics retailer, affording consumers additional flexibility during the crisis. The implications of the coronavirus crisis for the group's business risk profile have little impact on its ratings in Scope's view. At the same time, Ceconomy's financial risk profile, including its liquidity situation, was strongly supported by management's credit-friendly approach. This was confirmed by the mainly equity funded and non-cash nature of the minority buyout of Convergenta's 21.62% stake in Media Markt Saturn Retail Group.

With regard to Ceconomy's business risk profile, Scope believes that the group's performance has been resilient, given that a large percentage of its total store network was shut down at times, especially in Germany and the Netherlands. The group was able to significantly grow the share of its online business (almost half of group sales in the second quarter), which greatly mitigated and at times even overcompensated for the loss of physical shop sales. This was, however, probably driven by the one-off effect generated by cocooning and the initial home office effect. Thus, Ceconomy was able to generate a significant online presence in the crisis from a rather low basis of about 10% of group sales just two years ago. Management guidance is cautious for the remainder of the year, given a weaker second quarter and still limited visibility. However, Scope believes that this former weakness has been addressed by a much-improved online market share, which may prove sustainable. Thus, while Ceconomy's overall business risk profile did not change materially during the crisis, Scope considers the increase in online market shares to be positive.

Contrary to Scope's previous base case, Ceconomy's financial risk profile did not deteriorate in fiscal 2020 compared to the previous year but actually improved. This was driven by: i) a much less negative impact

from the coronavirus crisis than initially expected; and ii) management's swift implementation of a stringent cash preservation policy after the crisis broke out. Businesswise, the trends described above stabilised top-line performance. Credit metrics were also greatly helped by a positive swing of almost EUR 700m from working capital changes compared to fiscal 2019. This was achieved despite significant inventory expansion driven by the sharp rise in online business. Free operating cash flow generation of EUR 479m in fiscal 2020 was mainly triggered by the elevated sales levels in the fourth quarter, which increased payables significantly at the end of fiscal 2020. As this was clearly a one-off reflecting the strong demand in the fourth quarter of the previous year, it reversed strongly in the first half of fiscal 2021 in combination with the pay back of suppliers from temporarily extended payment terms in the first quarter of the current year. The resulting cash outflow of EUR 852m from working capital changes in the first half of the current year led to an according deterioration in credit metrics. Scope-adjusted debt (SaD)/EBITDA increased to 2.2x on a last twelve months' basis, from the level of 1.6x reached in fiscal 2020.

Outlook and rating-change drivers

The Stable Outlook reflects Scope's expectations that Ceconomy's financial risk profile will not deteriorate significantly in fiscal 2021 and that the working capital-led deterioration at the half-year stage will come to an end in the second half of the year. Specifically, current credit metrics continue to reflect the BBB category, as indicated by Scope-adjusted funds from operations/SaD of 35%-40% and a SaD/EBITDA ratio of below 2.5x.

A positive rating could be triggered by an improved business risk assessment. This could, for example, be achieved through better operating margins and free cash flow via successful restructuring measures and by keeping SaD/EBITDA below 2x on a sustained basis.

A negative rating action could result from a more aggressive financial policy or a sustained, negative deviation from ratios commensurate with the present ratings, as expressed by leverage exceeding 2.5x.

Long-term and short-term debt ratings

Long-term debt rating has been assigned at BBB-, the same level as the issuer rating. Ceconomy's S-2 short-term rating reflects its generally sound credit quality and is supported by the group's adequate liquidity position.

Stress testing & cash flow analysis

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (Rating Methodology: Retail and Wholesale Corporates, 17 March 2021; Corporate Rating Methodology, 26 February 2020), are available on <https://www.scooperatings.com/#!/methodology/list>. Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited. Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://www.scooperatings.com/#!/governance-and-policies/regulatory-ESMA>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://www.scooperatings.com/#!/methodology/list>.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.

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The issuer Credit Ratings/Outlook was first released by Scope Ratings on 27 June 2017. The Credit Rating/Outlook was last updated on 16 September 2020.

The short-term Credit Rating was first released by Scope Ratings on 27 June 2017. The Credit Rating was last updated on 16 September 2020.

The senior unsecured debt Credit Rating was first released by Scope Ratings on 24 June 2021.

Potential conflicts

See www.scoperatings.com under Governance & Policies/EU Regulation/Disclosures for a list of potential conflicts of interest related to the issuance of Credit Ratings.

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