Scope places Ceconomy's BBB- rating under review for possible downgrade

The rating action reflects significant uncertainty in the wake of the current Covid-19 pandemic, which is likely to considerably reduce consumer electronics retail activity in 2020.

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

Rating action

Scope Ratings has today placed its BBB- issuer rating and short-term rating of S-2 on Ceconomy AG under review for a possible downgrade.

Rating rationale

The outbreak of the Covid-19 pandemic is having a significant negative impact on many industrial sectors, including consumer electronics retail in which Ceconomy operates. The final credit impact on Ceconomy’s business risk and financial risk profiles is not clearly visible from today’s perspective and therefore remains uncertain. The ultimate consequences of the crisis for the rating thus depend on a number of evolving factors, in Scope’s view.

With regard to Ceconomy’s business risk profile, key factors will be the length and depth of the crisis (leading to reduced shop-based revenues) as well as time it takes to return to normality. Scope understands that most of the company’s shops have opened again in the first days of May and that the lockdowns in most European countries will further recede until the end of the month. The company has adopted short-time working hours for most of its operational staff. In addition, management is negotiating with landlords regarding the ‘burden-sharing’ of its rental payments. While costs thus appear to be under control, revenues are likely to take a significant hit in 2020, compared to the year before, even assuming a gradual reopening of shops in May. From a technical point of view it will be possible to normalise business conditions efficiently at the company once restrictions have been lifted. Whether consumer behaviour will be supportive and normal buying patterns resume swiftly remains to be seen, however. Scope also understand that Ceconomy is not facing significant supply chain disruptions at present and that it has sufficient product availability for customers.

Scope believes that Ceconomy’s financial risk profile will be more heavily affected by the crisis in 2020 than its business risk profile. EBITDA in particular is very likely to be significantly below the level achieved in normal years. Scope’s current expectation is that business conditions will return to normal for Ceconomy in 2021, limiting the likely key credit metric deterioration to 2020. This is reflected in Scope’s rating action – compared to an outright downgrade – which is also supported by Ceconomy’s low level of financial debt (only about EUR 300m at the end of last fiscal year), and by a supportive financial policy – including the cancellation of the 2020 and 2021 dividends. Based on these factors and ongoing online sales generation (accounting for more than half of group sales in April 2020), Scope sees no liquidity issues at Ceconomy. Management has made the cautious move of applying for a revolving credit facility with KfW, the German state-owned bank handling the government’s financial support measures to the economy.

Outlook and rating-change drivers

Scope aims to resolve the review as soon as possible, within three months at the latest, depending on further developments and visibility on 2021. The ratings could be affirmed if Ceconomy’s shops were able to gradually reopen from now on generating levels of past revenues and if 2021 visibility increased with regard to cash generation. A potential downgrade by a maximum of one notch could result from the current crisis lasting much
longer than currently envisaged, with developments in fiscal year 2021 significantly worse than expected by Scope.

Stress testing & Cash flow analysis
No stress testing was performed. Scope performed its standard cash flow forecasting for the company.

Methodology
The methodology used for this rating and rating outlook (Corporate Ratings Methodology, 26. February 2020) is available on https://www.scoperatings.com/#/methodology/list. Information on the meaning of each rating category, including definitions of default and recoveries can be viewed in the “Rating Definitions - Credit Ratings and Ancillary Services” published on https://www.scoperatings.com/#/governance-and-policies/rating-scale. Historical default rates of the entities rated by Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/#/governance-and-policies/regulatory-ESMA. Please 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’s definitions of default and rating notations can be found at https://www.scoperatings.com/#/governance-and-policies/rating-scale. Guidance and information on how Environmental, Social or Governance factors (ESG factor) are incorporated into the rating can be found in the respective sections of the methodologies or guidance documents provided on https://www.scoperatings.com/#/methodology/list.

Solicitation, key sources and quality of information
The rated entity and/or its agents did participate in the rating process.
The following substantially material sources of information were used to prepare the credit rating: public domain, the rated entity, Scope-internal sources.
Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope’s ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the rating or outlook action, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Regulatory disclosures
This credit rating and/or rating outlook is issued by Scope Ratings GmbH, Lennestrasse 5, D-10785 Berlin, Tel. +49 30 27891-0.
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The ratings/outlooks were first released by Scope on 27 June 2017. The rating was last updated 3 July 2019.

Potential conflicts
Please see www.scoperatings.com for a list of potential conflicts of interest related to the issuance of credit ratings.

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