FitchRatings

27 Nov 2019 | Affirmation

Fitch Affirms Caisse des Depots et Consignations at 'AA'; Outlook Stable

Fitch Ratings-Paris-27 November 2019:

Fitch Ratings has affirmed Caisse des Depots et Consignations' (CDC) Long-Term Issuer Default Rating (IDR) at 'AA' with Stable Outlook. A full list of rating actions is detailed below.

CDC's EUR18.5 billion Euro medium-term notes (EMTN) programme has also been affirmed at 'AA' and 'F1+' and its EUR1.5 billion negotiable European medium-term notes (Neu MTN) programme at 'AA'. Its EUR20 billion negotiable European commercial paper (Neu CP) programme has been affirmed at 'F1+' and its EUR30 billion global commercial paper (ECP and USCP) programme at 'F1+'.

Fitch classifies CDC as a government-related entity (GRE) of the French state (AA/Stable/F1+) under its GRE Criteria and equalises CDC's ratings with those of the sovereign. The ratings reflect, in Fitch's view, strength of linkage between CDC and the state and very strong incentive from the latter to support CDC. Accordingly, we believe that the French state would provide CDC with timely extraordinary support in case of need.

Caisse des Depots et Consignations (CDC); Long Term Issuer Default Rating; Affirmed; AA; RO:Sta
----; Short Term Issuer Default Rating; Affirmed; F1+
----senior unsecured; Long Term Rating; Affirmed; AA
----senior unsecured; Short Term Rating; Affirmed; F1+

Key Rating Drivers

Our assessment of the following four rating factors results in an overall support score of 55, out of a maximum 60, and the equalisation of the ratings with those of the state.

Status, Ownership and Control: Very Strong

CDC is a public agency ("Etablissement public") with the status of a fully controlled special agency, which is unique in France. This legal status provides CDC with immunity to liquidation and bankruptcy law (article L 631-2 and L640-2 under the French Commercial Code) and decisions on its dissolution are made by the French state. Pursuant to the Law of July 1980 on French public establishments, Fitch considers that the state is ultimately bound to ensure CDC's solvency and has the legal and financial means to enable it to meet its debt service obligations in a timely manner.

CDC is closely supervised by the French state. Its CEO is appointed by the French President for a five-year term. CDC's supervisory board, the majority of which comprises members of French parliament and top-ranking civil servants, is overseen by French parliament under the French Monetary and Commercial Code.

As per the 'PACTE' Law (Plan d'Action pour la Croissance et la Transformation des Entreprises) passed in May 2019, CDC's supervisory board will become a deliberative body with strengthened prerogatives on CDC's strategic positioning and subsidiaries, the implementation of the entity's public interest mandates and investment strategy and monitoring the entity's financial position. Fitch does not view the law as affecting the very strong links between CDC and the state as it ensures a strong presence of state representatives on CDC's supervisory board and its tight monitoring by French parliament. The PACTE law also provides that the French banking regulator (ACPR) will supervise CDC from 2020 onwards, under a framework which will take into account its general interest specificities.

Support Track Record and Expectations: Strong

One of CDC's key mandates is to centralise, hold on behalf of and manage the funds collected in tax-exempt savings deposits by French banks, notably 'Livret A' savings, through the entity's savings funds division. Those funds, which amounted to EUR275 billion at end-2018, benefit from a full state guarantee.

Although CDC has not needed any extraordinary state support over the last decades, it would have, as an Etablissement Public, access to the state's emergency liquidity support mechanisms in case of need, such as emergency loans or the purchase by the French treasury of CDC's long-term bonds or short-term notes issued through CDC's 'Section Generale'. Fitch sees no legal or regulatory restrictions on support.

Socio-Political Implications of Default: Very Strong

CDC has a highly strategic role for the French state as it is mandated to perform public interest missions in key government policies (environment, social housing development, local government financing, infrastructure). CDC's mandates also include the administration of several public pension schemes and of saving funds, the deposits of legal professions and the management of unclaimed accounts of individuals held at French banks. CDC is also the institutional custody account manager of ACOSS (AA/Stable), the French social security agency. In Fitch's view, a default would thus endanger the continued provision of essential public services with significant political and social implications.

In addition, CDC acts as a long-term investor in support of France's economic and local development. It holds strategic subsidiaries whose default would have significant socio-political implications, such as EPIC Bpifrance (AA/Stable/F1+), the government arm to finance French SMEs and guarantee export finance contracts; SFIL, the public development bank for French local and regional governments (LRGs) and public hospitals; and La Poste (A+/Stable/F1+), the French postal operator.

Since the PACTE law, the French state is no longer a mandatory majority shareholder of La Poste, which however must be fully owned by public-sector entities. As a result, CDC will take over 66% of La Poste in 2020 and will transfer its 40.9% stake in CNP Assurances to La Banque Postale (LBP; A-/Stable/F1). We understand from management that La Poste will become a key contributor to CDC's earnings in replacement of CNP Assurances. As part of the creation of a large public bank-insurer group with the merger of CNP Assurances and LBP, CDC will also take over 99.99% of SFIL, with the state retaining its remaining stake. Fitch views these strategic shareholdings as confirming CDC's key role in supporting French economic and territorial development.

Financial Implications of Default: Very Strong

CDC is a proxy funding vehicle for the French state, performing numerous state-mandated financial missions. A default would notably disrupt French local governments and social housing funding and pension funds management. CDC is also a large and regular issuer in markets with its EUR18.5 billion EMTN programme (EUR15 billion outstanding at end-2018), EUR1.5 billion Neu MTN programme, EUR20 billion Neu CP programme and EUR30 billion global CP programme (ECP and USCP) (EUR14 billion outstanding at end-2018 in short-term programmes). CDC also issued a EUR500 million green bond in 2017 and a EUR500 million sustainable bond in June 2019, with the aim to regularly issue on this market. In this respect, Fitch considers a default by CDC would have a large impact on the French state's credit standing, and on the borrowing capacity of other French GREs (especially Etablissements publics) by eroding investor confidence in the state's ability and willingness to support these entities.

Financial Profile

CDC is involved in banking and insurance through CNP Assurances, postal services through La Poste and lending sectors through Bpifrance and SFIL. It also operates in infrastructure, real estate and housing through its subsidiaries and strategic participations, and has private-equity operations. CDC additionally has stakes in large and diversified listed French and European companies. At end-2018, CDC's consolidated assets amounted to EUR163 billion (EUR174 billion at end-2017).

Fitch believes CDC's profitability can be volatile due to the entity's large equity portfolio and yields on fixed-income securities. In 2018, CDC's Section Generale posted a sound consolidated net profit after allocation of non-controlling interests of EUR1.8 billion (EUR1.9 billion in 2017), mainly driven by the contribution of its banking and insurance subsidiaries (CNP Assurances and La Poste; EUR741 million). CDC's equity/assets ratio remained stable at 24% at end-2018.

CDC's solid liquidity profile is sustained by sizeable reserves on the entity's social accounts and stable outstanding deposits from legal professions (EUR49 billion at end-2018). Liquidity needs are also covered by CDC's global CP programme, Neu CP, EMTN and Neu MTN programmes. CDC's strong overall liquidity cushion is also underpinned by stable savings accounts (EUR275 billion at end-2018), albeit segregated in the savings funds division, and by a large equity portfolio of EUR21 billion at end-2018.

RATING SENSITIVITIES

Positive rating action on CDC's IDRs would result from an upgrade of the sovereign's ratings.

Negative rating action could result from a downgrade of France's ratings, or from a significantly weaker assessment of strength of linkage or incentive-to-support factors, leading to a score below 45 points under our GRE Criteria, and a top-down assessment minus one notch.

Changes to CDC's IDRs would also be reflected in the entity's issuance programmes and senior unsecured bonds ratings.

ESG Considerations

ESG credit relevant is a score of 3, meaning that ESG issues are credit-neutral. Given the missions of the issuer and the institutional framework, these issues are minimally relevant to the rating.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Government-Related Entities Rating Criteria (pub. 13 Nov 2019)
Rating Criteria for International Local and Regional Governments (pub. 13 Sep 2019)
Short-Term Ratings Criteria (pub. 02 May 2019)

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