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Research Update:

French Intermediary Housing Provider in'li Upgraded To 'A' On Parent ALI's Stronger Creditworthiness; Outlook Stable

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Rating Action Overview

- We believe that Action Logement Immobilier's (ALI's) creditworthiness has improved thanks to increased visibility on its multiyear financial planning and strategy that will sustain its strong financial profile over the medium term.
- Since we view in'li as a strategically important subsidiary of ALI, the company's controlling shareholder, there is a resulting positive effect on in'li's creditworthiness.
- We are therefore raising our ratings on in'li and its senior unsecured debt to 'A' from 'A-'.
- The stable outlook reflects our view that in'li's strong business model and shortage of housing in Paris should enable the company to generate at least steady revenue in the next 24 months, maintain prudent leverage, and remain a strategically important subsidiary of ALI.

Rating Action Rationale

The upgrade stems fromthe strengthened credit quality of ALI, the controlling shareholder of in'li. In our view, ALI's multiyear financial planning and strategy should structurally sustain a strong financial profile over the coming years. We assess that ALI's S&P Global Ratings-adjusted EBITDA margins will exceed 25%, its high debt (more than 20x adjusted EBITDA) will be mitigated by solid interests coverage (at over 3x adjusted EBITDA), and it will sustain a very strong liquidity position. We also believe that ALI will maintain adequate transparency. ALI, France's largest social housing group, is a non-asset-holding company that controls 58 social housing providers (SHPs). It is active in traditional social housing activities and manages over 930,000 social housing units across France (or over 17% of France's total). ALI owns 99.28% of in'li, the largest of its five companies that provide intermediary housing for middle-income households. In our assessment of ALI's credit quality, we consider, among other factors, the low-risk nature of its social housing assets in all French regions, where demand is particularly high, explaining overall low vacancy.

in'li is likely to receive financial support from ALI if needed, given its strategically important subsidiary status. We believe it is unlikely that ALI would sell in'li given the nature of its operations and the role it plays in providing intermediary housing solutions for Paris region. We also think in'li is important to ALI group's long-term strategy. Therefore, our stronger assessment of ALI's stand-alone credit quality leads us to upgrade in'li.

That said, we believe that in'li, unlike ALI, would likely not receive any exceptional government support. We would expect the French government to provide exceptional support to ALI's social housing activities if needed (on top of ongoing support mechanisms available to all French SHPs), but that ALI's intermediary housing activities (such as in'li) would not benefit from such extraordinary government support. This is because intermediary housing is a competitive sector with private players. As such, our assessment of ALI's group support to in'li incorporates only ALI's intrinsic credit quality, without factoring in extraordinary government support.

Outlook

The stable outlook reflects our view that in'li's strong business model, under which the company rents out residential assets located in undersupplied areas at below-market rates, should enable the company to generate at least steady revenue in the next 24 months.

We also anticipate the company will maintain moderate leverage, in line with its current financial policy of keeping its reported loan-to-value ratio below 35%-40% over the long-term.

Furthermore, we expect that in'li will remain a strategically important subsidiary for ALI, and that ALI will maintain its current solid creditworthiness.

Downside scenario

We could consider lowering the rating if we perceived that any indication that ALI would provide in'li less financial support than we expect, or if we thought in'li's role within the group had weakened. Such developments would lead us to reassess in'li's status within the group.

A downgrade of in'li would occur if ALI's creditworthiness deteriorated. This could emerge, for example, due to pressure on the group's financial profile through materially deteriorating EBITDA margins or lower quality of its financial disclosures.

Rating pressure could also come from any deterioration of in'li's stand-alone credit profile (SACP), which could result from higher-than-expected leverage or a change of business strategy. But this scenario is currently unlikely, in our view.

Upside scenario

Since we cap our rating on in'li by the parent's credit quality, upside potential for our rating on in'li is subject to seeing an improvement in ALI's credit quality. This would reflect a stronger view of ALI's financial profile--including structural deleveraging (with debt burden structurally below 20x adjusted EBITDA). That said, we view this scenario as unlikely at this time.

We could revise up our SACP assessment for in'li if the company displayed a tighter financial policy. This could result from its adjusted debt-to-debt plus equity sustained below 35% over the long-term and debt-to-EBITDA below 7.5x.

Company Description

France-based in'li owns a portfolio worth €7.9 billion as of year-end 2018 (appraisers' valuation is conservatively based on block rather than unit sales) comprising residential assets located solely in the greater Paris region (Ile-de-France). in'li's assets are in the intermediary market segment ("logement intermédiaire"), defined under French law since 2014, and reserved for households with specific tranches of income.

Against a favorable tax regime, French intermediary housing providers offer housing to middle-income households, i.e., those with too high an income to have access to highly-subsidized French social housing, but whose income is too low to afford free-market rents, especially in high-demand and congested areas, such as the greater Paris region.

in'li is a 99.28%-owned subsidiary of the Action Logement group via ALI, a key player in France's social housing sector. We view in'li as a strategically important subsidiary of ALI.

Ratings Score Snapshot

Issuer Credit Rating:	A/Stable/--
Business risk:	Strong
Country risk:	Low
Industry risk:	Low
Competitive position:	Strong
Financial risk:	Intermediate
Cash flow/Leverage:	Intermediate
Anchor:	bbb+
Modifiers:	
Diversification/Portfolio effect:	Neutral (no impact)
Capital structure:	Neutral (no impact)
Financial policy:	Neutral (no impact)
Liquidity:	Strong (no impact)
Management and governance:	Fair (no impact)
Comparable rating analysis:	Neutral (no impact)
Stand-alone credit profile:	bbb+
Entity status within group:	Strategically important (+2)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded

	To	From
in'li		
Issuer Credit Rating	A/Stable/--	A-/Stable/--
Senior Unsecured	A	A-