S&P Global
Ratings

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Research Update:

Euronext N.V. Ratings Lowered To 'A-/A-2' On Rising Leverage; Off CreditWatch; Outlook Stable

May 31, 2019

Overview

- Euronext N.V. is on track to acquire a majority stake in Oslo Børs VPS after its main competitor Nasdaq withdrew its offer. While Euronext has secured 53.4% of the shares, it still aims to acquire 100% of Oslo Børs VPS.
- We expect Euronext's leverage to rise, as measured by increasing debt to EBITDA and falling funds from operations to debt, on the back of the announced acquisition and because of Euronext's ongoing growth strategy.
- We are lowering our long- and short-term issuer credit ratings on Euronext to 'A-/A-2' from 'A/A-1'. We are also lowering to 'A-' from 'A' our issue credit rating on the company's senior unsecured bonds.
- The stable outlook reflects our expectation that Euronext will sustain its market position and successfully integrate Oslo Børs VPS in the next two years, while maintaining financial leverage consistent with an 'A-' long-term rating.

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Rating Action

On May 31, 2019, S&P Global Ratings lowered its long- and short-term issuer credit ratings on Euronext N.V. to 'A-/A-2' from 'A/A-1'. At the same time, we removed the ratings from CreditWatch negative, where we placed them on May 21, 2019. The outlook is stable.

We also lowered our issue credit rating on Euronext's senior unsecured debt to 'A-' from 'A' and removed it from CreditWatch negative.

Rationale

The one-notch downgrade reflects an increase in Euronext's financial leverage over the next few quarters on the back of the announced acquisition of up to 100% of Norwegian market infrastructure operator Oslo Børs VPS. The downgrade also reflects our view that due to Euronext's ongoing debt-financed growth strategy, it will maintain higher leverage in the coming one-to-two years. This aside, we see Euronext as remaining highly cash-generative, and the Oslo Børs VPS deal as having improved Euronext's revenue diversity.

Euronext is soon to formally acquire at the very least an incremental 45.2% of Oslo Børs VPS' capital, which, with the 8.2% that it already owns, will be enough to take control of the entity. Euronext aims to acquire 100% of Oslo Børs VPS, but this would require all the remaining Oslo Børs VPS shareholders to accept Euronext's offer.

We believe that the acquisition will reinforce Euronext's business model by adding a presence in the Nordic market and increasing the revenues--including post-trade revenues--in its business mix. The deal will therefore modestly enhance Euronext's revenue stability, thanks to higher diversification.

While the matter remains uncertain, in our base-case scenario, we assume that Euronext will acquire more than the 45.2% of Oslo Børs VPS shares that it has already secured. We also consider that Euronext will continue to use its cash-generative business model to acquire companies to accelerate its growth ambitions, instead of retaining cash on the balance sheet to swiftly lower its net debt. Under these assumptions, we believe that Euronext's financial risk profile will weaken following the acquisition. We anticipate that Euronext's S&P Global Ratings-adjusted debt to EBITDA will average 1.75x-2.00x through end-2020, and funds from operations (FFO) to debt will average around 40% over the same time frame.

At the same time, and because Euronext is the debt issuer and holding company of the group, we have reviewed whether, relative to creditors at the main operating companies, Euronext's creditors would face a discernable difference in default prospects due to structural subordination.

We maintain our view of Euronext as an operating holding company, and see no greater default risk than for any other group operating company. We therefore equalize the ratings on Euronext with Euronext's 'a-' group credit profile, which reflects our assessment of the creditworthiness of the group as a whole. This view acknowledges that Euronext is not an exchange itself, but reflects the company's Dutch regulatory status and prudential requirements as a market operator, and its role as the contractual counterparty with clients in terms of data revenues. While Euronext passes these revenues through to its subsidiaries, we see it as entwined in the contractual arrangements and operating cash flows of the whole group. We understand that Euronext has unfettered access to the group's central cash pool, beyond the limited amount of restricted cash in some jurisdictions.

Outlook

The stable outlook on Euronext reflects our view that the company will maintain its leading position as a pan-European market operator. While the company will likely continue to undertake some bolt-on acquisitions, we expect that it will remain disciplined about leverage in the next two years, consistent with the modest financial risk profile.

Downside scenario

We would likely lower the ratings on Euronext if the company increased its leverage beyond our expectations, particularly if this increase was not offset by an improvement in the company's business risk profile. For example, we would be very likely to lower the ratings if, on a sustained basis, the adjusted debt-to-EBITDA ratio moves above 2.25x or FFO to debt falls below 40%.

Upside scenario

We do not anticipate any short-term upward rating momentum for Euronext because the company is pursuing a steady growth strategy that we expect will lead to it sustaining higher leverage. However, we could raise the ratings if Euronext deleverages at a faster pace than we expect, and management indicates clearly that it will maintain lower leverage going forward. In particular, this would happen if the company sustained adjusted debt to EBITDA below 1.75x and FFO to debt above 50%.

Ratings Score Snapshot

	To	From
Issuer Credit Rating:	A-/Stable/A-2	A/Watch Neg/A-1
Business Risk:	Satisfactory	Satisfactory
Country risk:	Low	Low
Industry risk:	Low	Low
Competitive position:	Satisfactory	Satisfactory
Financial Risk:	Modest	Minimal
Preliminary anchor:	bbb+	a
Clearing and settlement risk:	0	0
Anchor:	bbb+	a
Modifiers:		
Diversification/Portfolio Effect:	Neutral (0)	Neutral (0)
Capital Structure:	Neutral (0)	Neutral (0)
Financial Policy:	Neutral (0)	Neutral (0)
Liquidity:	Strong (0)	Strong (0)
Management and Governance:	Satisfactory (0)	Satisfactory (0)
Comparable ratings analysis:	Positive (+1)	Neutral (0)
GCP:	a-	a

Additional factors: 0 (we rate Euronext N.V. in line with the GCP)

Related Criteria

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Financial Institutions | General: Key Credit Factors For Financial Market Infrastructure

Companies, Dec. 9, 2014

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Euronext N.V. 'A/A-1' Ratings Placed On CreditWatch Negative On Rising Leverage Due To Oslo Børs Acquisition, May 21, 2019
- Too Early To Conclude On Rating Implications For Euronext Of Possible Acquisition Of Oslo Børs, Jan. 15, 2019
- No Immediate Impact On Euronext N.V. 'A/A-1' Ratings From Possible Oslo Bors Acquisition, Dec. 24, 2018
- Euronext N.V., May 9, 2018
- Euronext N.V.'s EUR500 Million Senior Unsecured Bond Rated 'A', April 11, 2018

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Euronext N.V.		
Issuer Credit Rating	A-/Stable/A-2	A/Watch Neg/A-1
Euronext N.V.		
Senior Unsecured	A-	A/Watch Neg