

Rating Action: Moody's assigns a Baa2 rating to Hella's proposed bond and EUR450 million RCF

Global Credit Research - 28 Apr 2017

Frankfurt am Main, April 28, 2017 -- Moody's Investors Service, ("Moody's") has today assigned a Baa2 rating to the proposed senior unsecured bond issuance of Hella Finance International B.V., a subsidiary of Hella KGaA Hueck & Co. (Hella - Baa2, stable) and a Baa2 rating to the EUR450 million revolving credit facility of Hella. The assigned rating to the proposed instrument reflects the unconditional and irrevocable guarantee from the parent Hella and the expectation that the proceeds of the issue will be used to refinance existing debt.

RATINGS RATIONALE

Hella's Baa2 ratings reflect as positives the company's: (a) leading position in the lighting technology and original equipment electronics markets; (b) meaningfully sized aftermarket business unit which is generally more stable and profitable than the original equipment business; (c) diversification through its Special Applications segment which reduces exposure to the automotive end market; (d) track record in reducing operational costs and improving operational efficiency; (e) increase in customer and geographical diversification; (f) conservative financial policy which includes limited shareholder distribution and the maintenance of a large cash (& equivalents) balance; and (g) strong credit metrics rendering the rating well positioned within the current category (debt / EBITDA of 1.8x).

Nevertheless, the ratings also reflect as negatives the company's: (a) strong dependency on the automotive end market which is highly cyclical; (b) low profitability, as reflected in an operating margin of 6.6% - albeit at a level which is average for the industry; (c) significant expenditure on research & development (R&D) activities, around 9-10% of revenue; and (d) limited recent free cash flow generation, resulting from high capital expenditure.

RATIONALE FOR HELLA'S STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Hella will continue to deliver mid-single digit revenue growth and stable profitability underpinned by a generally growing level of automotive production. Moreover, we would expect leverage (debt / EBITDA) to remain below 2.5x and EBIT margins above 6%. Additionally, the agency would expect -- as part of a balanced financial policy - Hella to generate generally positive levels of FCF albeit with some volatility.

WHAT COULD MOVE THE RATING UP / DOWN

Moody's could upgrade Hella's ratings if the company were to maintain leverage (as measured by debt / EBITDA) below 2x, with EBIT margins in the high single digits, RCF / net debt above 40% and with meaningful free cash flow (FCF) generation. Conversely, Moody's could downgrade the ratings if leverage were to increase above 2.5x (or net debt / EBITDA above 2x), with EBIT margins below 5%, RCF / net debt below 30% or with materially negative FCF.

List of affected ratings:

Assignments:

..Issuer: Hella Finance International B.V.

...BACKED Senior Unsecured Regular Bond/Debenture, Assigned Baa2

..Issuer: Hella KGaA Hueck & Co.

...Senior Unsecured Bank Credit Facility, Assigned Baa2

Outlook Actions:

..Issuer: Hella Finance International B.V.

...Outlook, Assigned No Outlook

The principal methodology used in these ratings was Global Automotive Supplier Industry published in June 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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