S&P Global
Ratings

RatingsDirect®

Research Update:

Car Rental Company Sixt SE Rated 'BBB' On Solid Balance Sheet And Profitability; Outlook Stable

January 15, 2024

Rating Action Overview

- Germany-headquartered international car rental company Sixt SE benefitted from strong travel demand in the first nine months of 2023 after two years of record pricing and peak profitability.
- We think Sixt's focus on profitable revenue growth, premium positioning, and strategy of fleet acquisitions (mostly under buyback agreements), alongside its moderate debt levels, place it in a good position to withstand the impending slowdown in demand and higher interest rates in the near-to-medium term.
- We therefore assigned our 'BBB' long-term issuer credit rating to Sixt.
- The stable outlook reflects that we expect Sixt to continue to show robust and profitable top-line growth as well as maintain adjusted EBIT interest coverage of well above 3.5x and funds from operations (FFO) to debt of about 30%.

PRIMARY CREDIT ANALYST

Lukas Paul
Frankfurt
+ 49 693 399 9132
lukas.paul
@spglobal.com

SECONDARY CONTACT

Margaux Pery
Paris
+ 33 14 420 7335
margaux.pery
@spglobal.com

Rating Action Rationale

We foresee the normalization of demand to continue in 2024. We foresee a continued recovery of air travel in 2024, with revenue passenger kilometers growing by at least 4% in Europe and the U.S. this year. That said, we expect consumers' propensity to spend on travel and tourism to further normalize in Europe and the U.S., falling from the recent post-pandemic boom. Combined with improving fleet availability, we think this will cause Sixt's revenue per day rates (RPDs) to decline by 1%-5% in 2024 and 2025, after our forecast of 4%-7% decline in 2023. As a result, we forecast that Sixt's profitability will reduce, and EBIT interest coverage will slide to 5.7x in 2023 and further to 4.0x-5.0x in 2024-2025. However, we forecast that top-line growth in the U.S. and key European rental markets, as well as Sixt's van and truck and subscription business, will support an EBIT margin of 15%-17% in 2024-2025, which is above historical levels. Despite higher interest rates, we expect this will result in Sixt posting credit metrics comfortably in line with the 'BBB' rating.

Peak demand and pricing have contributed to record profitability in the past two years. Strong post-pandemic travel demand in Sixt's key markets, and a shortage of rental vehicles in the wake of the automotive supply chain crisis saw Sixt's adjusted EBIT margin climb to new all-time highs of 21% in 2021 and 19% in 2022, compared with 13.9% in 2019. These factors took pricing to new heights, with RPD in 2022 about 45% higher than in 2019. These benign industry conditions, coupled with low interest rates, also boosted the company's credit metrics, with our adjusted EBIT interest coverage ratio jumping to 11x-13x (about 9x in 2019) and our adjusted FFO to debt approaching 40% over that period.

Sixt's premium positioning supports profitability comparable with that of larger industry peers. Differentiation through a premium offering is a centerpiece of Sixt's market strategy. This involves a much higher share of premium cars in the fleet than peers, as well as differentiation through a high-quality branch experience, customer service, and state-of-the-art digital customer interfaces. In the first nine months of 2023, the share of premium cars in Sixt's fleet stood at 57%, and it has been consistently at or above 50% since 2019. We view the company's premium focus favorably because it allows Sixt to tap market segments with lower price elasticity and, as a result, higher revenue and profitability per unit. Moreover, we think some of the segments addressed by Sixt may be less competitive than the wider industry, where competitive intensity remains high overall. In 2022, for example, Sixt's revenue per vehicle was between 30%-40% higher than for key peers Avis and Hertz. This contributes to profitability levels that we view as favorable when taking into account Sixt's smaller fleet size compared with peers such as Avis and Hertz, for example.

Extensive use of buyback agreements with short holding periods allows for quick fleet adjustments. In 2022, Sixt acquired 72% of its fleet through buyback or leasing agreements (also known as not-at-risk vehicles) and targets 80% for full-year 2023. Such agreements typically specify a minimum holding period of six months and a maximum holding period of nine months. During this window, Sixt has the right to return the vehicles to auto original equipment manufacturers (OEMs), except in a very narrowly defined set of circumstances. We view this fleet purchasing model as a credit strength because it enables the company to quickly reduce its fleet in an industry downturn. This is crucial, as fleet expenses and the associated depreciation represent one of the company's largest cost items (36% of sales in the first nine months of 2023). At the outset of the COVID-19 pandemic in the second quarter of 2020, Sixt was able to reduce its fleet by about 12% in just three months and maintain fleet utilization at about 60% (compared with 72%-75% under normal conditions), whereas utilization of some peers dropped to materially lower levels in the same quarter. Likewise, rapid fleet reduction releases significant amounts of cash, bolstering the company's resilience when operating profits are low. This was also evident in 2020, when fleet reduction resulted in Sixt's adjusted free operating cash flow soaring to a high of €675 million. Given that Sixt typically finances its fleet at well below 100% loan-to-value and uses unsecured debt, a sizable share of cash released from a shrinking fleet can remain in the business to offset weaker non-fleet-related operating cash flow in the short term.

The high share of buyback agreements reduces residual value risk and enhances margin stability. Another advantage of Sixt's use of buyback agreements is that they allow the company to return the vehicles at a pre-agreed price (adjusted for issues such as damages). This implies that Sixt is not exposed to residual value risk on these vehicles, which to a large extent shields the company's profitability from unexpected movements in used car prices. This leads us to expect, all other things being equal, a higher degree of margin stability compared with peers whose margins rely to a much greater extent on the realization of proceeds from fleet disposals. In addition, Sixt has generated a consistently positive re-marketing result since 2015 from its limited share of "at-risk" vehicles. We expect the company to have taken some impairments on certain battery electric vehicles during 2023, driven by a decline in new and used car prices for BEV models. Still, the downside risk for 2024 should be contained by the limited number of "at-risk" BEVs, of which Sixt had less than 5,000 units in stock as of December 2023.

Sixt's U.S. market position is expanding from a very low base. With our forecast of about 165,000 vehicles on average in 2023, we consider Sixt to have a weaker position than peers such as global market leaders Enterprise Holdings, Avis, and Hertz as far as fleet size is concerned. Although Sixt's premium offering partly compensates for its smaller scale, we think scale can be beneficial with respect to fixed cost absorption, e.g., in areas such as software and technology, marketing, and general overheads. Likewise, Sixt's geographic coverage is more limited relative to the aforementioned peers when excluding countries served through the franchise model. We view geographic diversity as credit positive, as it can offer protection against weaker demand or particularly fierce competition in individual countries. We note that, with just under 3% market share in 2022, Sixt is underrepresented in the large and profitable U.S. car rental market, which is dominated by Enterprise, Avis, and Hertz. The company has a stated target of increasing its U.S. market share, with a focus on the U.S. airport market. Currently, Sixt is represented at more than 40 of the top 50 U.S. airports, and aims for a 10% share at these locations in the medium term. We consider further diversification into the U.S. as positive, but we believe this process will take time and may prompt competitive reactions by the incumbents.

Sixt's financial policy is predictable, but may allow for some additional leverage. Sixt intends to maintain an equity ratio of at least 20%. It targets dividend payments of 35%-60% of net income, with the flexibility to make higher or lower distributions depending on market conditions. For example, Sixt did not pay dividends in 2020 and 2021 (except a minimum of €800,000 on the preferred shares), but remunerated shareholders with a regular and special dividend for 2022 (paid in 2023) totaling €287 million, equivalent to a payout ratio of 74%. Sixt has adhered to this policy for the last 20 years, which creates good predictability, in our view. Sixt has also maintained an equity ratio of well above its 20% target for more than a decade, reaching peaks of about 39% in 2021 and 36% in 2022. We expect the company will continue to maintain solid headroom above its target threshold, although we believe that Sixt may accept a decrease from the recently very high levels to support further business growth. We regard the risk of large debt-funded acquisitions as low, because Sixt remains strongly focused on profitable organic growth.

Outlook

The stable outlook reflects that we expect Sixt to achieve robust top-line growth and avert a sharp decline in profitability even with a normalization of pricing conditions. In our view, this will be supported by the continued recovery of air traffic, Sixt's expansion in North America, the van and truck and subscription business, and the company's focus on premium customers. This should enable the company to maintain EBIT interest coverage of well above 3.5x, and FFO to debt of at least 30%.

Downside scenario

We could lower the rating if weaker demand and more intense competition constrain Sixt's top-line growth and profitability, which--combined with higher interest costs--could result in EBIT interest coverage falling below 3.5x or FFO to debt approaching 25% on a sustainable basis. We could also lower the rating if operating setbacks and intense competition resulted in a sustained deterioration of Sixt's market shares in its key markets, accompanied by our adjusted EBIT margin sliding toward 12% or higher-than-expected margin volatility. Although not expected at this stage, we could lower the rating if our assessment of Sixt's liquidity were to weaken due to the increasing use of short-term funding.

Upside scenario

We could raise the rating if Sixt manages to materially increase its market share in the U.S. and exhibits profitable growth in other markets, resulting in a larger and more diversified revenue base that supports positive adjusted margins during major industry downturns. This is in addition to the company maintaining EBIT interest coverage of more than 3.5x and FFO to debt above 30% in normal industry conditions. Alternatively, we could raise the rating if profitable growth and a more conservative financial policy help Sixt to increase its FFO to debt toward 45% while maintaining EBIT interest coverage of more than 6.0x, paired with a firm commitment to maintain these levels.

Company Description

Sixt SE is one of the top five international car rental companies. In 2022, the company operated an average fleet of 138,400 vehicles, excluding vehicles held by franchisees (270,900 including franchises). In 2022, Sixt generated total revenue of about €3.1 billion, of which 29% was in its home market of Germany, 42% in other European countries (notably France, Spain, Italy, and the U.K.), and 29% in the U.S. Sixt is listed on the German M-DAX midcap stock index, while the Sixt family holds about 58% of the common shares and voting rights in the company.

Our Base-Case Scenario

Assumptions

- Estimated real GDP growth of 0.6% in the eurozone in 2023, followed by 0.8% in 2024, and 1.5% in 2025, after 3.6% in 2022. Real GDP in the U.S. expanding by 2.4% in 2023, followed by a moderate slowdown to 1.5% in 2024, and 1.4% in 2025, compared with 2.1% in 2022.
- Improved vehicle availability for car rental companies compared with 2021–2022 and first-half 2023 due to the combination of softening passenger car demand and reduced supply constraints in car production. We project global light vehicle production to increase by 0%-2% in 2024 and 1%-3% in 2025, after our expected 3%-5% to be reported for 2023, and 6.7% in 2022.
- Sixt's average fleet to expand to about 180,000 in 2024 and 200,000 in 2025, after our estimate of about 165,000 in 2023 and 138,400 in 2022. In 2023, growth was driven by Sixt's response to still-strong demand for travel in both Europe and the U.S., and continued strategic expansion in the U.S. market. Although we expect travel demand to soften in 2024, we expect 8%-12% fleet growth in 2024 and 2025 due to the expansion of the fleet in North America and selected European countries (mainly the U.K. and Italy).
- Reported RPD decline by 4%-7% in 2023 from very benign 2022 levels as travel demand gradually normalizes, and decreasing by 1%-4% annually in 2024 and 2025.
- Total revenue increase of 17% in 2023, by about 6% in 2024, and 9% in 2025, mainly as a

function of the larger fleet.

- Reported fleet expenses as a percentage of sales moderately increased to 21%-22% in 2023, reflecting cost inflation on various items, followed by 21%-23% over 2024-2025.
- Fleet depreciation at a rate of about 1% per vehicle per month, in line with recent trends and reflecting Sixt's stable OEM relationships.
- Reported personnel expenses at 18%-19% of sales in 2023-2025, compared with 18.5% in 2022, and 17.8% in 2021, mainly driven by the company's expansion in the U.S. and selected other markets, hiring in strategic central functions, and labor cost inflation.
- Increasing capital expenditure (capex) is mainly driven by Sixt's investments in adding and upgrading stations and spending on digitization and software capabilities.
- We assume dividend payments to return to about 50% of net income in 2024 and 2025, well within the company's target corridor of 35%-60% and in line with Sixt's long-term average, after 74% in 2023.

Key metrics

Sixt SE--Key forecast ratios

	--Fiscal year ending Dec. 31--						
	2019a	**2020a**	**2021a**	**2022a**	**2023f**	**2024e**	**2025f**
Main KPIs							
Average fleet (units)	150,700.0	113,800.0	125,300.0	138,400.0	164,696.0	179,519.0	201,061.0
Fleet value (end of year, € mil.)	3,033.0	2,205.0	2,857.0	3,833.0	4,544.0	4,825.0	5,372.0
Operating income (rep. € mil.)	338.6	(48.7)	479.2	588.8	555.0	592.7	667.6
S&P Global Ratings-adjusted metrics							
Revenue	2,501.4	1,532.1	2,282.4	3,066.2	3,590.9	3,797.2	4,129.4
EBITDA (reported)	857	409	849	1,135	1,300	1,393	1,539
Plus: Operating lease adjustment (OLA) rent	75	61	54	47	47	47	47
Plus/(less): Other	2	2	3	2	0	0	0
EBITDA	934.6	472.0	906.4	1,184.8	1,347.6	1,440.8	1,586.3
Less: Cash interest paid	(34)	(44)	(38)	(42)	(99)	(141)	(143)
Less: Cash taxes paid	(137)	(22)	(91)	(82)	(134)	(133)	(154)
Funds from operations (FFO)	763.8	405.9	777.5	1,060.6	1,114.2	1,166.5	1,288.8
EBIT	347	(10)	486	599	562	600	675
Interest expense	37.6	41.6	41.7	46.9	99.1	141.4	143.5
Cash flow from operations (CFO)	(77)	698	129	(161)	(107)	209	34
Capital expenditure (capex)	40	22	35	65	90	100	110
Free operating cash flow (FOCF)	(117)	675	94	(226)	(197)	109	(76)
Dividends	101	1	1	174	287	164	163
Discretionary cash flow (DCF)	(221)	669	93	(400)	(484)	(55)	(239)

Sixt SE--Key forecast ratios (cont.)

	--Fiscal year ending Dec. 31--						
	2019a	2020a	2021a	2022a	2023f	2024e	2025f
Debt (reported)	3,028	2,011	1,617	1,968	2,645	2,936	3,378
Plus: Lease liabilities debt	718	599	609	847	847	847	847
Plus: Pension and other postretirement debt	3	3	3	3	3	3	3
Less: Accessible cash and liquid Investments	(147)	(735)	(249)	(19)	(13)	(39)	(24)
Plus/(less): Other	(943)	--	--	--	--	--	--
Debt	2,660	1,879	1,981	2,799	3,482	3,746	4,203
Equity	1,363	1,395	1,746	1,979	2,021	2,183	2,398
Adjusted ratios							
FFO/debt (%)	28.7	21.6	39.3	37.9	32.0	31.1	30.7
CFO/debt (%)	(2.9)	37.1	6.5	(5.7)	(3.1)	5.6	0.8
FOCF/debt (%)	(4.4)	35.9	4.8	(8.1)	(5.7)	2.9	(1.8)
DCF/debt (%)	(8.3)	35.6	4.7	(14.3)	(13.9)	(1.5)	(5.7)
Annual revenue growth (%)	(14.6)	(38.8)	49.0	34.3	17.1	5.7	8.7
EBITDA margin (%)	37.4	30.8	39.7	38.6	37.5	37.9	38.4
EBIT margin (%)	13.9	(0.7)	21.3	19.5	15.6	15.8	16.3
Return on capital (%)	8.3	(0.3)	13.9	14.1	10.9	10.5	10.8
Return on total assets (%)	6.5	(0.2)	10.3	11.3	9.0	8.8	9.2
EBIT interest coverage (x)	9.2	(0.2)	11.7	12.8	5.7	4.2	4.7
Debt/capital (%)	66.1	57.4	53.1	58.6	63.3	63.2	63.7

All figures are adjusted by S&P Global Ratings, unless stated as reported. KPI--Key performance indicator. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Sixt's liquidity as adequate, based on a ratio of liquidity sources to uses of about 1.2x over the next 12 months. Our assessment is further supported by the company's sound relationships with banks, reflected in its ability to secure a variety of different types of bank debt, including its main revolving credit facility (RCF) and promissory notes, at favorable terms.

Our principal liquidity sources for the 12 months started Oct. 1, 2023, include:

- Cash, excluding cash that is not immediately accessible, of €4 million.
- €650 million availability under the company's €950 million RCF due 2028.
- FFO of €900 million-€1.0 billion.
- Net issuance of new promissory notes of about €264 million completed since Sept. 30, 2023.
- Ability to issue debt for incremental fleet growth of about €500 million.

Our principal liquidity uses for the 12 months started Oct. 1, 2023, include:

- Maturities of short-term debt of about €1.1 billion.
- Net investments in the fleet (vehicles purchases less disposals) of about €800 million.
- Non-fleet related working capital cash outflows of up to €50 million.
- Minimum required capex of about €50 million.

Covenants

Sixt is not subject to any financial maintenance covenants in its debt documentation.

Environmental, Social, And Governance

Environmental factors are a neutral consideration in our credit rating on Sixt SE. Although road travel with combustion engine cars will face increasingly stringent regulation and rising costs, we think this is mitigated by Sixt's aim to shift the composition of its fleet to electric vehicles, with a target of 70%-90% of battery electric vehicles in Europe by 2030.

Governance and social factors are a neutral consideration for our issuer credit rating on Sixt. While we believe Sixt will benefit, to some degree, from growth of car usage patterns such as subscriptions and sharing, we think the bulk of its earnings will continue to rely on traditional rental products in the medium term. Car rental companies' top lines are strongly correlated to passenger air travel and leisure activities, which in turn are sensitive to health and safety factors as demonstrated by the COVID-19 pandemic. Sixt, however, has shown that it is able to quickly adjust its fleet and operating costs and, hence, was able to largely mitigate the negative impact from the pandemic in the short term.

Ratings Score Snapshot

Issuer Credit Rating	**BBB/Stable/--**
Business risk:	Satisfactory
Country risk	Low
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk:	Modest
Cash flow/leverage	Modest
Anchor	bbb+
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)

Issuer Credit Rating	BBB/Stable/--
Comparable rating analysis	Negative (-1 notch)

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Operating Leasing Industry, Dec. 14, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating	
Sixt SE	
Issuer Credit Rating	BBB/Stable/--