

CREDIT OPINION

15 December 2021

 Rate this Research

RATINGS

Action Logement Services

| | |
|------------------|--------------------------------|
| Domicile | France |
| Long Term Rating | Aa2 |
| Type | LT Issuer Rating - Fgn Curr |
| Outlook | Stable |

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Action Logement Services (France)

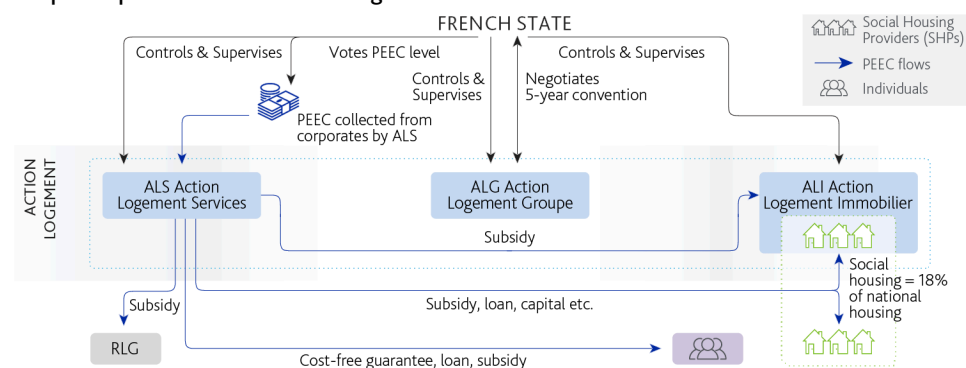
Update to credit analysis

Summary

[Action Logement Services](#)'s (ALS) issuer rating of Aa2 with stable outlook reflects its key role in implementing the country's housing policy, an important element of the French welfare system. ALS can be considered as the financing department of the Action Logement (AL) structure, whose mission is to finance housing policies through the exclusive collection and distribution of a tax-like mandatory contribution from employers (PEEC) and the management of the biggest group of French social housing providers. Since it has a public mandate and was created by decree, ALS benefits from a very strong oversight by the [Government of France](#) (Aa2 stable). Because of its public policy mandate, AL's key role in the French social housing sector and government oversight, there is no meaningful distinction between ALS and French CG from a credit perspective. We expect the coronavirus outbreak to have a moderately negative impact on AL's revenues, but its credit profile remains anchored to the sovereign's.

Exhibit 1

Simplified presentation of Action Logement



Source: Action Logement, Moody's Investors Service

Credit strengths

- » High degree of central government support and supervision
- » A key player in the social housing sector

Credit challenges

- » A recent set-up in a changing environment
- » No formal guarantee or legal provision ensuring timely support

Rating outlook

The stable outlook reflects our expectation that the strong institutional, financial and operational linkages with the Central Government will remain unchanged.

Factors that could lead to an upgrade

An upgrade of the ratings would require an upgrade of France's sovereign rating. However, this is unlikely given the Government of France's current Aa2 rating with stable outlook.

Factors that could lead to a downgrade

Any material change in ALS's institutional and financial framework, or any sign of weakening support from the national government, could negatively affect the rating. In addition, a downgrade of France's sovereign rating would lead to a downgrade of ALS's rating.

Key indicators

Exhibit 2

Action Logement Services (consolidated accounts) EUR million

| | 2017 | 2018 | 2019 | 2020 |
|--------------------|-------|---------|---------|---------|
| PEEC income | 1.480 | 1.507 | 1.536 | 1.600 |
| Net banking income | 177 | 152 | 134 | 125 |
| Surplus/deficit | 253 | 436 | 399 - | 1.906 |
| Total debt | 1.423 | 1.296 | 2.373 | 2.314 |
| Debt-to-assets | 7% | 6% | 10% | 11% |
| Net debt | - | 2.218 - | 2.744 - | 3.588 - |
| CET Ratio | 81% | 83% | 81% | 73% |

Provided forecasts are confidential

Source: Action Logement, Moody's Investors Service

Detailed credit considerations

The credit profile of ALS, as expressed in its Aa2 stable rating, reflects our assessment of a very high likelihood of extraordinary support from the central government were it to face acute liquidity stress.

Baseline credit assessment

High degree of central government support and supervision

ALS was created by decree in 2016 and can only be dissolved by decree. It is part of the Action Logement structure and shares the same public mandate with other entities of the group: to finance housing policies, in particular for employees. Action Logement has financed the government's social housing and urban policies and French social housing providers (SHPs) since 1953, although not under its current form. Action Logement's current form results from a long merger process of several de-centralized entities in an effort to (1) maximize the efficiency of the PEEC uses and to (2) speed up the implementation of the national housing policy. AL finances housing through the exclusive management of a tax-like mandatory resource, PEEC (*or Participation des Entreprises à l'Effort de Construction*) voted by Parliament in 1992 at 0.45% of payroll, collected from all French corporates of more than 50 employees. ALS acts as the financing department, while Action Logement Groupe (ALG, Aa2 stable) acts as the strategic and supervisory board, and Action Logement Immobilier (ALI, Aa2 stable) acts as the operational branch. The French Parliament defined in a law (*loi d'habilitation*), the creation and role of the 3 entities, how assets and liabilities were transferred from previous CIL (*comités interprofessionnels du logement*, the committees in charge of the PEEC collection before 2016) to current ALS and ALI, their joint-governance and fiscal status, and the cash-flows within AL. A parliamentary vote would be required to change any of these elements.

The entities of Action Logement follow the same joint-governance structure: they are jointly managed by major unions representing both employers and employees, along with 3 representatives from the French Government, with veto rights, from the housing, economy and finance ministries. Through a 5-year agreement, Convention Quinquennale (CQ), negotiated with ALG, the central

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government effectively dictates the structure's priorities and strategy. The government is involved in the definition of strategic targets but also more operational targets such as sales of social housing dwellings, energetic renovation, first-time buyer aids for employees while it also establishes the level of spending of each of AL's entity (capex and operating expenses) and its debt management (e.g. target leverage and type of debt).

The central government is highly involved in the entity's operations with regular meetings with each entity of AL, where its commissioners have veto rights, and has been instrumental in setting-up the new structure of Action Logement. For instance, it has helped set-up ALS's banking license by taking part of meetings with the French banking regulator. Twice a year ALG must send to the central government, (1) a report on the implementation of the *Convention Quinquennale*, with predefined KPIs and highlights on some targets, such territorial distribution of subventions or decrease of operating expenses, and (2) ALI's and ALS's budget executions. The central government also scrutinizes Action Logement's management, with a reduction target on its operating expenses for instance.

The three entities are subject to verification from the national court of accounts as well as the scrutiny of ANCOLS (*L'Agence nationale de contrôle du logement social - the regulator of the French social housing sector*). Their accounts are also externally audited. Finally, the central government is entitled to place any entity of AL under administration in case of financial distress or misuse of the PEEC proceeds as per the French Construction and Housing Code (*Code de la construction et de l'habitation, L.342-14*). Being a financial institution, ALS is also subject to the ACPR's oversight (*Autorité de contrôle prudentiel et de résolution*, the French banking supervisory authority).

From a credit risk perspective, it is not meaningful to distinguish between ALS and the French government because of the intrinsic ties between the two. Therefore, ALS's rating derives from the application of the approach for GRIs rated solely on support, as our [Government-Related Issuers rating methodology](#) describes. ALS acts as a financing department and as such its standalone metrics are essentially meaningless: it has one shareholder, ALG, that cannot cede its shares and a significant part of its business is not a commercial activity (*droit de réserve*, subsidies, cost-free guarantees) while the rest (loans granting) is not intended to be profitable (rates are defined by CG and ALG with no reference to market rate). Furthermore, the current 5-year agreement states that if there were to be lasting and substantial deficits, the convention would be reexamined, providing comfort in the central government's ongoing support.

A key player in the social housing sector

Action Logement's mandate is to finance housing policies, in particular for employees, the structure collects and distributes the PEEC and has a critical role in financing French social housing and housing policies. ALS collects the PEEC, which it uses in (1) non-commercial expenses (subsidies to individuals/ local governments) and capital injection to SHPs (30% of expenses); (2) top-up unsecured loans to individuals (20%); (3) loans to SHP (50%). Activities (2) and (3) are not meant to generate profit but just to reach financial equilibrium. ALS holds a banking license, and is thereby regulated by the ACPR but ALS is not a deposit-taker. ALS's critical activity is also to pre-book housing units to employees of PEEC contributors with SHPs funded by ALS and it also performs other non-commercial activities of social care. ALS has no autonomy over its strategy; ALG and CG define (1) the pricing and type of loans offered; (2) the underwriting guidelines; and (3) the annual detailed operational roadmap of ALS. The current CQ was revised in Q1 2021, through an amendment, to redistribute spending with the government's new objectives. The involvement of AL in France's recovery plan, through exceptional covid-19 housing aids, additional support for units development and urban renewal demonstrates its importance for housing policies. The new CQ will be discussed and agreed with the central government during 2022, but as our approach relies on the link with government, we expect the changes to the CQ to have a limited credit impact.

Social housing is a key sector for France, representing 17% of total housing with 5 million dwellings, housing an estimated 10 million people (or 15% of the French population) in 2019¹, while it made up 23% of construction in 2019². Action Logement is by far the biggest group French social housing providers, with 1 million dwellings, 2.5x more than the runner-up, CDC Habitat (unrated), and by far the biggest French social housing builder, with 20 thousands of dwellings built in 2020. Action Logement also is the second biggest funding source for social housing providers after [Caisse des Dépôts Et Consignations](#) (CDC, Aa2 stable) and finances several public policies, such as urban renovation. As the financer of public policies, the exclusive collector and distributor of the PEEC and the main social housing provider, Action Logement is a key stakeholder for the central government's housing policies.

A recent set-up in a changing environment

Over the last three years, the French social housing sector underwent important changes, without however compromising the strength of the sector as a whole. A social housing reform (Loi ELAN) enacted in 2018 contributes to the reshaping of the sector with two main goals. Firstly, it aims at promoting building of social dwellings by encouraging sales, with the creation of a dedicated entity to handle assets disposals (*Opérateur National des Ventes*, ONV owned by ALS). The financial trajectory of the ONV was revised downward and is now expected to generate €143 million of annual revenue by 2022 as opposed to €300 million expected previously (40k units until 2030). However the ambition to boost the construction of new housing units remains achievable. Secondly, it aims at promoting pooling and equalization, including through mergers (SHPs with less than 12k units under management merged by March 31st, 2021). The central government also decided a rent cut corresponding to 6.5% of the French social housing providers' 2016 turnover, applicable gradually from 2018. Although the rent cut was slightly reduced in June 2019, and its second phase was postponed to 2021 due to the coronavirus outbreak, margins will shrink, leading to implementation of cost efficiency measures and consolidation movements.

Action Logement's current structure and strengthened presence in the social housing sector is recent; the coordination and interaction of the three entities ALG, ALI and ALS has not been tested yet, representing some level of uncertainty. As agreed with the central government, Action Logement Services will tap the capital market to fund two-thirds of the additional €9B from *Plan d'Investissement Volontaire*, a first for this entity. €3 billion of sustainable bonds were already issued in 2019 and 2021 by ALS.

Action Logement's contribution to national housing policy might change as an indirect result of the covid-19 crisis. Indeed, scrutiny on the PEEC uses and the efficiency of the model continues. The government deducted €0.5 billion from AL's budget in 2020 and a further €1 billion in 2021, to use the entity's comfortable liquidity positions and reserves for the national recovery plan. No deductions for 2022 have been announced. However the track record of changes brought to the structure up until now point to a reinforced central government's monitoring over AL, a credit positive.

No formal guarantee or legal provision ensuring timely support

Contrary to other rated peers, Action Logement does not benefit from a formal guarantee or a legal provision ensuring timely support³. We note that most of its French peers, rated using the same approach, benefit from their status as a public establishment (EPA or EPIC) and cannot go bankrupt nor have their assets seized as a result of non-payment of claims. Although Action Logement's institutional framework is solid, with its main revenue being voted by Parliament and with the high scrutiny it is placed under, the central government is not the ultimate recourse for Action Logement's creditors.

This is mitigated by the central government's high involvement and willingness to maintain a functioning system. In 2006, when the law raised the PEEC's collecting threshold to 20 employees from 10 employees, the central government awarded a financial compensation to the group (80.25% of a local tax on offices for 10 years). The lifetime of this compensation was not fixed in time, it was thus renewed by the French government until Action Logement was able to absorb this change. Similarly, while the 2019 *Pacte* law (*Loi relative à la croissance et la transformation des entreprises*) changed the threshold to 50 employees from 20, AL negotiated with the government a compensation for 2019: the payment of a special tax on insurance policies (TSCA). Although the compensation was reconducted in 2020 for €238 million, this compensation was removed in 2021. In our view the removal of this compensation has no credit impact, because AL's cash position is sound and the central government remains committed to maintaining AL's financial sustainability. We expect the budgetary covid-induced pressure to be limited to 2021, given the lower PEEC which evolves in line with the GDP growth of the previous year. As such the PEEC collection should reach pre-pandemic levels by 2022.

Another mitigant is legal: transferring the activity of AL to other entities would require a parliamentary vote, making the substitution of ALS or ALI difficult and supporting our view of a very high probability of support from the CG.

ESG considerations

How environmental, social and governance risks inform our credit analysis of ALS

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Action Logement's entities, the materiality of ESG to its credit profile is as follows:

Environmental risks are not material to AL's credit profile. Like many other social housing providers in France, its main environmental risk exposure relates to flood risk. This risk is largely managed by national authorities and therefore the financial burden of adapting to flood risk will not significantly fall on AL's entities.

AL is exposed to social risks stemming from socially-driven policy agendas, demographic trends and demand for social housing. Nevertheless, these risks have limited impact to the credit profile of AL, given its strategic role for the country and the very high support coming from the government of France. We view the coronavirus outbreak as a social risk under our ESG framework. The associated relief measures taken by the Central Government to support economy, involving AL's participation as well as the economic deterioration will impact AL's spending and revenue.

Governance considerations are material to AL's credit profile. The governance framework is intrinsically intertwined with the supporting government, which exerts strong control over the entities and heavily influences the definition of their strategies.

Further details are provided in the *Detailed credit considerations* section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing ESG Risks](#).

Rating methodology and scorecard factors

In assessing ALS's credit profile, we apply our [Government-Related Issuers Methodology](#), published in February 2020.

Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Ratings

Exhibit 3

| Category | Moody's Rating |
|---------------------------------------|----------------|
| ACTION LOGEMENT SERVICES | |
| Outlook | Stable |
| Issuer Rating | Aa2 |
| Senior Unsecured -Dom Curr | Aa2 |
| PARENT: ACTION LOGEMENT GROUPE | |
| Outlook | Stable |
| Issuer Rating | Aa2 |

Source: Moody's Investors Service

Endnotes

1 https://www.union-habitat.org/sites/default/files/articles/pdf/2018-10/les_hlm_en_chiffres_2018.pdf

2 <https://www.union-habitat.org/actualites/cahiers-de-l-union-les-hlm-en-chiffres-edition-2020>

3 ALS's current debt benefits from a State guarantee, but its future debt won't

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