



Fitch Ratings – Kingfisher PLC

Date: 10th May 2013

Published by: Reuters US Edition

RPT-Fitch Affirms Dat 'BBB'; Outlook Stable

Fitch Ratings has affirmed Kingfisher's Long-term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB'. The Short-term IDR has been affirmed at 'F2'. The Outlook is Stable.

The ratings reflect Kingfisher's steady credit metrics showing the resilience of its business profile despite the ongoing difficult economic environment in its core markets (UK, France and Poland) and external factors (adverse weather conditions) but also Fitch's expectation that the company will continue to maintain its prudent financial profile.

KEY RATING DRIVERS

Steady Credit Metrics

Group lease-adjusted net debt/EBITDAR remained unchanged at 2.5x (or funds from operations (FFO) adjusted net leverage at 2.9x) in FYE13. Net debt was GBP33m in 2013 (FY12:GBP155m), reflecting the continued focus on cash flow generation and improved profitability. Most of Kingfisher's adjusted debt leverage ratio is linked to the capitalisation of the group's operating leases. FFO fixed charge coverage remains stable at 2.7x in FY13 (FY12:2.9x). These ratios are adequate for the current rating.

Prudent financial policy

Fitch expects that Kingfisher will maintain its current prudent financial policy. The company has prepaid and repaid a little over GBP1bn of debt over the past three years. The ratings factor no additional cash returns to shareholders at this stage, either in the form of a dividend or share buybacks, as it wants to maintain a certain degree of financial flexibility and a firm commitment in keeping a credit profile commensurate to a 'BBB' rating. Kingfisher has a medium term dividend cover target of around 2.5x.

Challenging consumer market continues

Fitch expects a difficult trading environment in France and the UK in 2013/2014 (which together contributed to 81% of retail profit in FY13) because of the government austerity measures and unemployment rate remaining high. This will likely put pressure on the overall DIY market and Kingfisher's operating performance and hamper its recovery following a tough FY13.

Creating the Leader programme

Fitch expects Kingfisher to rely on its "Creating the Leader" programme to establish itself as a sustainable business through cycles over the longer term. Profit margins have benefited from cost reductions, as well as improvements to stores and the product range through increase in common and



direct sourcing. EBIT margin was 6.6% in FY13, down from 7.3% in FY12 (due in part to adverse weather conditions during summer 2012), but this is still higher than 5.5% in FY10. Fitch expects margin expansion to continue as a result of the company's self-help initiatives, mitigated by further price investments.

Geographical spread

The ratings reflect Kingfisher plc's leading DIY position in its core markets: the UK, France and Poland. Kingfisher's geographically diversified business has traditionally been a strength compensating each other in times of adversity in each country. The French and Polish operations together contributed about 65% of FY13 group retail operating profit. The ability of Kingfisher to improve its product mix and maintain pricing discipline will be critical to the group's overall margin performance, especially in the UK and France.

RATING SENSITIVITIES

Positive: Future developments that could lead to a positive rating action include:- Continued progress in Kingfisher's Create the Leader programme such that EBIT margin is sustainably above 9%

- Lease-adjusted net debt/EBITDAR below 1.5x or the equivalent FFO adjusted net leverage below 2x
- EBITDAR/net interest including rents above 5x or FFO fixed charge coverage above 4.5x
- Positive free cash flow (FCF) generation

Negative: Future developments that could lead to a negative rating action include:

- EBIT margin below 6.5%
- Lease adjusted net debt/EBITDAR above 3x, or the equivalent FFO adjusted net leverage above 3.5x
- EBITDAR/net interest and rent below 3.0x or FFO fixed charge coverage below 2.5x
- Negative FCF generation

Link: <http://www.reuters.com/article/2013/05/10/fitch-affirms-kingfisher-plc-at-bbb-outl-idUSFit65732820130510>