

Fitch Affirms CCE'S IDR at 'BBB+/F2'; Outlook Stable

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has affirmed Coca-Cola Enterprises, Inc.'s (CCE) ratings as follows:

--Long-term Issuer Default Rating (IDR) at 'BBB+';

--Short-term IDR at 'F2';

--Bank credit facility at 'BBB+';

--Senior unsecured notes at 'BBB+';

--Commercial paper at 'F2'.

The Rating Outlook is Stable. At Sept. 27, 2013, CCE had \$3.9 billion of total debt.

Key Rating Drivers

CCE's ratings reflect its stable cash flows, strong market position, and exclusive right to manufacture, sell and distribute Coca-Cola brand beverages in Western Europe. Coca-Cola products have leading market share that allows for premium pricing of the Coca-Cola brands within CCE's non-alcoholic ready-to-drink portfolio for each of its territories. In the LTM period ending Sept. 27, 2013, CCE generated approximately \$8.1 billion of net sales with almost 65% coming from its two largest markets, Great Britain and France.

The ratings incorporate CCE's net debt-to-EBITDA target range of 2.5x to 3.0x,

increased leverage, and the firm's good free cash flow (FCF) generation. Fitch views the low-to-mid end of CCE's leverage goal as appropriate for the 'BBB+' rating. CCE is managing through the difficult economic environment in Western Europe which is characterized by lower consumer spending, higher unemployment and the negative impacts of austerity programs. Currently CCE does not anticipate any material effects from potential new excise tax measures in 2014.

During the first three quarters ended Sept. 27, 2013, net sales increased 1% to \$6.2 billion. Volumes, which decreased 2% during the first half, improved in the third quarter to 2.5% reflecting better weather and successful execution of summer marketing programs. For the full year, CCE expects volume will be flat to up modestly, which Fitch believes is reasonable. Cost of sales per case increased 1.5% in the third quarter and 2.0% for the first nine months of 2013 but net pricing per case rose only 0.5% for the quarter and year-to-date period as CCE has taken a more modest and balanced approach to pricing this year given current economic and competitive conditions. CCE's long-term pricing target is 2%-3% growth, as the company expects pricing to cover cost of goods sold increases in 2014.

Liquidity

At June 28, 2013, CCE had good liquidity of \$1.5 billion inclusive of \$488 million of cash and full availability under the firm's \$1 billion multi-currency credit facility expiring in September 2017. FCF for the LTM period ended Sept. 27, 2013 was \$311 million. Given that the option to acquire The Coca-Cola Company's German operations has expired, CCE increased the target for share repurchases to at least \$1 billion during 2013 to be funded with FCF, debt and cash. Share repurchases totaled \$888 million for the first three quarters of 2013.

Fitch views CCE's 2013 reduced guidance of low single-digit sales growth, low single-digit operating income growth, and FCF of \$450 million-\$500 million as achievable. FCF, which Fitch defines differently as cash flow from operations less capital expenditures and dividends, averaged \$353 million for 2011 and 2012.

CCE's FCF will be modestly below historical levels in 2013 due to a \$125 million one-time cash restructuring charge for 2013 and higher dividend payments following a 25% increase in the firm's dividend earlier this year. Consequently, Fitch expects annual

dividend payments in excess of \$200 million for 2013 with paid dividends of \$161 million for the first nine months of 2013. CCE paid \$187 million in dividends for 2012. Capital expenditures are expected to approximate \$325 million during 2013, moderately below the \$378 million spent in 2012. Cash restructuring charges should reduce materially in 2014. As a result, Fitch expects FCF should improve moderately for 2014.

Credit Metrics

CCE's credit metrics are in line with Fitch's expectations. At Sept. 27, 2013, total debt-to-operating EBITDA was 2.9x and operating EBITDA-to-gross interest expense was 13.5x. Fitch currently expects total debt-to-operating EBITDA at the upper end of the 2x range for 2013. This translates to the lower half of CCE's 2.5x-3.0x net leverage target. Longer term, Fitch expects CCE will manage to the midpoint of its net leverage targets. Fitch views sustained gross leverage of 3.0x or less as acceptable for the current ratings.

Consequently, given the increase in leverage, Fitch believes CCE's cushion within the ratings has lessened. The increased share repurchases and dividends have caused net leverage to increase materially from historical levels of less than 2.0x. The higher long-term leverage is a concern as Fitch anticipates that acquisitions could occur, but in the near term are not probable. This could pressure the ratings in the event of a large debt-financed transaction as leverage (total debt-to-EBITDA) would increase above 3x.

Fitch believes CCE greatly values its current 'BBB+' and 'F2' long-term and short-term ratings. As a result, expectations are that CCE would use FCF to quickly reduce leverage back within its targeted range in a 12-to-18-month timeframe. In addition, Fitch expects CCE would limit share buybacks if leverage increased as a result of an acquisition and/or any material deterioration in future operating performance occurred.

At Sept. 27, 2013, CCE had \$594 million of debt maturing over the next 12 months, including \$400 million senior notes due in November 2013 and \$100 million in February 2014. Material maturities in 2015 are \$475 million. The majority of CCE's debt obligations remain dollar-denominated and Fitch expects the company will continue to narrow the currency mismatch between the firm's debt balances and its cash flow through opportunistically refinancing its debt.

Rating Sensitivities

Future developments that may, individually or collectively, lead to a positive rating action include:

--Gross debt-to-operating EBITDA consistently below 2.3x or net leverage below management's targeted range of 2.5x to 3.0x due to operating income growth and continued strong FCF generation that results in debt reduction;

--Significant additional geographic diversification concurrent with lower leverage and/or an equity stake and board representation by The Coca-Cola Company.

Future developments that may, individually or collectively, lead to a negative rating action include:

--Gross debt-to-operating EBITDA sustained above 3.0x;

--Persistent declines in volumes concurrent with material margin compression and significantly lower FCF that could be driven by the mature economies, increased excise taxes and/or obesity concerns;

--Continued debt-financed share repurchases concurrent with materially weaker volumes and margin contraction;

--Material size debt-financed acquisitions, given declining room in current ratings.

Additional information is available at ' www.fitchratings.com '

Disclosure: Veronique Morali, Vice Chairman of Fitch Group, Inc. and a member of its board, is also a member of the board of Coca-Cola Enterprises, Inc. Ms. Morali does not participate in any Fitch rating committees, including that of Coca-Cola Enterprises, Inc.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology', dated Aug. 5, 2013;

--'Parent and Subsidiary Rating Linkage', dated Aug. 5, 2013.

Applicable Criteria and Related Research:

Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

Parent and Subsidiary Rating Linkage Fitch's Approach to Rating Entities within a Corporate Group Structure

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=714476

Additional Disclosure

Solicitation Status

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