

CNH Industrial (CNHI)

Proactive Liabilities Management Appreciated

Yesterday (31 August), CNHI launched a cash tender offers on its 2018, 2019 and 2021 notes for a maximum acceptance amount of EUR 650M, while issuing a EUR 650M 2025 bond to fund the bond buyback. We appreciate CNHI's proactive financial management aimed at simplifying its debt structure, reducing interest expenses, and extending the debt maturity profile. We maintain our NEUTRAL Credit View on CNHI, after mixed 2Q17 results and raised guidance on EPS and sales at the upper-end of the range for 2017, pointing to an almost stable credit profile, as well as potential further guidance revision at the release of the 3Q17 results in October. We also confirm our BUY recommendation on CNHI's bonds (CSPP-eligible after S&P's upgrade), as we believe a rating upgrade to IG is possible also by Moody's in 2018, driven by a recovery in agricultural equipment expected in 2018.

- Tender Offers and New 2025 Bond.** Yesterday (31 August), CNHI announced the launch of a cash tender offers for its 2018, 2019 and 2021 notes for a maximum acceptance amount of EUR 650M (although it has the right to increase it at its sole discretion) until 7 September, as follows: 1) EUR 1.2Bn 2018 notes at a purchase price determined by reference to a yield of -0.25% (purchase price of around 103.3, vs current price of 103.27); 2) EUR 1Bn 2019 notes at a purchase price determined by reference to a yield of -0.10% (purchase price of around 104.38, vs current price of 104.19); and 3) EUR 700M 2021 notes at a purchase price determined by reference to a purchase spread of MS + 55bps (purchase price of around 109.13, vs current price of 108.95). Yesterday, CNHI also placed a new EUR 650M 2025 bond (MS +130bps) and intends to use the proceeds from the new issue to fund the tender offers, together with its cash on hand.
- NEUTRAL Credit View confirmed.** We welcome CNHI's proactive financial management aimed at simplifying its debt structure, reducing interest expenses and extending the debt maturity profile, also through ALM transactions (tender offers on short-term high coupon bonds and issue of new longer notes with lower coupon). We also point out that during the 2Q17 Conference Call, CNHI said that the upgrade to IG by S&P was just the starting point, as it aims to grow into the IG grid, in order to close the gap with its peers. We also highlight that CNHI has recently revised its 2017 guidance on EPS and sales at the upper-end of its previous range, stating that 2017 guidance could be revised again after the 3Q17 results, given improvement in AG's markets across all regions, except NAFTA. As a result, we continue to believe that Moody's could also upgrade CNHI's rating to IG in 2018, driven by a recovery in agricultural equipment expected in 2018.
- BUY CNHI's bonds.** In the year to date, CNHI's 5Y CDS has sharply outperformed the 5Y Crossover index (-111bps, to 88bps, vs -52bps, to 237bps, respectively). CNHI's EUR-denominated bonds have performed on average almost in line with the ML HY index for BB-rated bonds in EUR (-68bps, to 167bps), while they have outperformed in USD terms (-29bps, to 227bps), though they remain expensive (117bps tighter on average vs the EUR index and by 97bps vs the USD index). However, we note that CNHI's EUR-denominated bonds trade wider compared with the JPM Capital Goods for BBB-rated index on average by 25bps, with CNHI's 09/21 and 05/22 bonds remaining the most attractive, in our view (38bps and 64bps ASW premiums respectively). After S&P's upgrade to IG in June, we believe Moody's could also upgrade CNHI's rating to IG in 2018. As such, we confirm our BUY recommendation on CNHI's notes, noting that they are CSPP-eligible, and are our investment ideas (table on the next page).

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CREDIT VIEW
NEUTRAL

Capital Goods
Company Update

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Credit ratings		
	S&P	Moody's
Issuer	BBB-	Ba1
Bond	BBB-	Ba2/Ba1
Outlook	Stable	Stable

Source: rating agencies

Key results		
USD M	2Q16	2Q17
Revenues	6,753	6,948
Operating Profit	488	523
Margin (%)	7.2	7.5
	1Q17	2Q17
Industrial net debt	2,123	2,064
Leverage (x)	1.0	1.0

Source: Company data

Investment recommendations on CNHI's bonds						
	Senior	Chg	Sub	Chg	Hybrid	Chg
Investment Grade		-	-	-	-	-
High Yield	BUY	c	-	-	-	-

Note: c = confirmed. Source: Intesa Sanpaolo Research

Report priced at market close on day prior to issue (except where otherwise indicated).

See page 3 for full disclosures and analyst certification

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- Potential rating upgrade by Moody's.** We remind that, on 15 June, S&P upgraded CNHI's rating by one notch to BBB-/Stable. S&P said it could upgrade CNHI's ratings if: 1) its EBITDA margins increase to 11% or higher, including improving margins in its CV and CE businesses; 2) the debt/EBITDA ratio decreases to less than 2x; and 3) the FFO/debt ratio increases to more than 45% through-the-cycle. In contrast, S&P stated that it could lower CNHI's ratings over the next two years if: 1) the debt/EBITDA ratio rises above 3x; 2) the FFO/debt ratio decreases below 30%; and 3) CNHI adopts a more aggressive financial policy that incorporates large debt-funded acquisitions or share repurchases, resulting in a similar increase in its leverage. After S&P's upgrade to IG, and in order to return to the IG category, CNHI's rating could be upgraded also by Moody's (CFR Ba1/Stable). According to Moody's, an upgrade of CNHI's rating could be considered if: 1) its EBITA margins rise to 8% (3.2% LTM1Q17); 2) EBITA/interest expense rises to 4.0x (0.8x); and 3) debt/EBITDA falls below 3.0x (4.1x). We believe this could occur in the next 12-18 months, driven by the expected recovery in the AG industry conditions.

Investment ideas on CNHI's bonds (ASW spread, bps)							
Date	Bond	Buy/Sell	Entry level	Current level*	Pick-up	Status	
16.06.17	CNHI 2 7/8 09/27/21	BUY	73.3	62.9	10.4	OPEN	
	JPM Capital Goods BBB 3-5Y	SELL	36.7	19.0	-17.7		
16.06.17	CNHI 1 3/8 05/23/22	BUY	85.6	88.5	-2.9	OPEN	
	JPM Capital Goods BBB 3-5Y	SELL	36.7	19.0	-17.7		

Note*: spread on 31.08.17 at market close. Source: Bloomberg, Intesa Sanpaolo Research elaboration

CNHI's bonds/CDS (bps)															
	Type	Outst.	Price	YTM	SPRD TYPE	SPRD			YTD ¹	52-week range		Ratings			
						-1W	-1M			max	min	Mdy	S&P	Fitch	BBG
		EUR M	%			31.08.17			2.1.17						
CNHI Fin. Europe 6 1/4 03/09/18	FX	1,200	103.3	-0.1	ASW	14	-11	-14	-25	123	14	Ba2	BBB-	-	BB+
CNHI Fin. Europe 2 3/4 03/18/19	FX	1,000	104.2	0.0	ASW	26	-7	-6	-76	190	26	Ba2	BBB-	-	BB+
CNHI Fin. Europe 2 7/8 09/27/21	FX	700	109.0	0.6	ASW	62	-8	-1	-90	216	62	Ba2	BBB-	-	BB+
CNHI Fin. Europe 1 3/8 05/23/22	FX	500	101.7	1.0	ASW	89	9	11	-36	138	74	Ba2	BBB-	-	BB+
CNHI Fin. Europe 2 7/8 05/17/23	FX	500	108.5	1.3	ASW	111	9	14	-99	263	95	Ba2	BBB-	-	BB+
CNHI Fin. Europe 1 3/4 12/09/25 ¹	FX	650	NA	NA	ASW	NA	NA	NA	NA	NA	NA	Ba2	BBB-	-	BB+
USD M															
CNHI NV 4 1/2 08/15/23	FX	600	105.1	3.5	ASW	172	10	32	-77	308	130	Ba2	BBB-	-	BB+
CNHI Capital 3 5/8 04/15/18	FX	600	100.8	2.3	ASW	95	2	21	-58	182	45	Ba1	BBB-	-	BB+
CNHI Capital 3 7/8 07/16/18	FX	600	101.3	2.4	ASW	95	3	35	-41	232	7	Ba1	BBB-	-	BB+
CNHI Capital 3 3/8 07/15/19	FX	495	101.6	2.5	ASW	95	4	6	-64	199	49	Ba1	BBB-	-	BB+
CNHI Capital 4 3/8 11/06/20	FX	600	104.5	2.9	ASW	127	4	12	-52	272	91	Ba1	BBB-	-	BB+
CNHI Capital 4 7/8 04/01/21	FX	500	105.7	3.2	ASW	154	6	23	-37	277	107	Ba1	BBB-	-	BB+
CNHI Capital 3 7/8 10/15/21	FX	400	102.7	3.2	ASW	147	6	22	-70	268	112	Ba1	BBB-	-	BB+
CNHI Capital 4 3/8 04/05/22 ¹	FX	500	104.5	3.3	ASW	159	5	21	-54	224	131	Ba1	BBB-	-	BB+
CNHI CDS 5Y						88	0	5	-111	277	77				
CNHI CDS 10Y						148	4	10	-118	356	127				

Notes: 1) YTD from launch date for bond issued in 2017. Type: FX = Fixed. YTM: yield to maturity or yield to call for callable bonds. SPRD TYPE: ASW = Asset Swap. Ratings: reported in the table refer to individual issues. Source: Intesa Sanpaolo Research elaboration on Bloomberg data on 31.08.17 at market close.

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Corporate credit view key

Credit rating key	
Credit view	Definition
POSITIVE	We expect an improvement in fundamentals over the next six months
NEUTRAL	We expect substantially stable fundamentals over the next six months
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Historical credit views

CNHI- Historical credit views (-1Y)	
Date	Credit View
27/07/2017	Neutral
04/07/2017	Neutral
16/06/2017	Neutral
09/06/2017	Neutral
28/04/2017	Neutral
26/04/2017	Neutral
13/02/2017	Neutral
22/12/2016	Neutral
09/12/2016	Neutral
01/11/2016	Neutral
19/09/2016	Neutral
27/07/2016	Neutral

CNHI- Historical credit views (-1Y)	
Date	Senior Unsecured
27/07/2017	Buy
04/07/2017	Buy
23/06/2017	Buy
16/06/2017	Buy
09/06/2017	Hold
28/04/2017	Hold
26/04/2017	Hold
13/02/2017	Hold
22/12/2016	Hold
09/12/2016	Hold
01/11/2016	Hold
19/09/2016	Hold
27/07/2016	Hold

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of which Intesa Sanpaolo's clients* (%)	40	75	50

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Recommendation	Definition
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