

## Research Update:

# France-Based Investment Holding Company Wendel Affirmed At 'BBB-/A-3'; Outlook Stable

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## Research Update:

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## Overview

- We believe Wendel is building a track record of increasingly conservative debt management.
- Wendel's portfolio is currently concentrated on one large asset, but we expect this weakness to be mitigated by the redeployment of capital, which we expect will increase the diversity of assets within a year.
- We are therefore affirming our 'BBB-/A-3' ratings on Wendel.
- The stable outlook reflects our expectation that, over the next 12 months, Wendel's loan to value will not sustainably exceed 20% and management will make investments that meaningfully improve the portfolio's diversification.

## Rating Action

On April 11, 2018, S&P Global Ratings affirmed its 'BBB-/A-3' long- and short-term issuer credit ratings on French investment holding company Wendel. The outlook is stable.

At the same time, we affirmed our 'BBB-' and 'BBB-p' issue ratings on Wendel's senior unsecured debt.

## Rationale

The rating affirmation follows our review of Wendel's financial risk profile, which in our view has improved since 2017, owing to a decline in consolidated debt (holding and investees) and despite strong portfolio dynamism. In March 2017, the portfolio's loan-to-value (LTV) ratio fell to low double digits after staying below 20% during 2017. The deleveraging was thanks to the sale of part of Wendel's stake in St. Gobain, the proceeds of which were largely used for debt reduction. In our base case, we expect redeployment of up to €1 billion in capital during the next 12-18 months. However, given the low LTV ratio, which we estimate at close to 13%, we believe Wendel can maintain an LTV ratio at approximately 20%, compared with our previous assumption of 30%. We understand Wendel's management is committed to keeping net debt below €2.5 billion, which we believe allows for some headroom against the 20% LTV figure.

Nevertheless, we believe Wendel's business risk has increased over the past year, since the size of listed assets has shrunk and Wendel's portfolio is

heavily concentrated in its largest asset. Bureau Veritas now constitutes more than 40% of the total portfolio, and is the only listed asset together with the remaining 2.6% stake in St. Gobain. This high concentration is a weakness for the overall business risk profile and is only partly mitigated by our assumption of new investments in 2018. We expect no substantial reduction of the share of listed assets in the portfolio after the partial disposal of St. Gobain shares in 2017, since we understand Wendel intends to maintain a fair balance between listed and unlisted assets over time. Furthermore, we believe that the evolution of the portfolio's overall credit quality adds uncertainty at this stage. The current portfolio enjoys relatively solid credit quality, and any dilution would not be supportive of Wendel's business risk profile.

In our opinion, the stronger financial risk profile is thus partly offset by higher uncertainty regarding new investments, their timing, and the impact on the portfolio's liquidity and credit quality. For this reason, the long-term issuer credit rating remains at 'BBB-'. We perceive, however, that management is committed to reinvesting and broadening Wendel's investment portfolio within the next year.

In our base case, we assume:

- Up to €1 billion of new investments, not entirely funded by debt, in the next 12 months.
- No substantial deterioration in the share of listed versus unlisted assets.
- No material change in the overall solid credit quality of the portfolio.

Based on these assumptions, we arrive at the following credit measures:

- Average cash flow ratios of about 1.1x.
- An LTV ratio of approximately 20%.

### **Liquidity**

Our assessment of Wendel's liquidity as strong reflects our expectation that its sources of liquidity will likely comfortably exceed liquidity uses by 1.7x in the next 12 months, even if there is an unexpected decline in dividends from portfolio companies. Our assessment is supported by Wendel's generally good access to the bond market, solid relations with banking counterparties, and comfortable headroom under covenants.

We calculate the following liquidity sources for the 12 months started Jan. 1, 2018:

- Net cash and cash equivalents of €1.73 billion as of Dec. 31, 2017;
- Dividends from listed portfolio companies of €110 million-€120 million;  
and
- €750 million available on a revolving credit facility.

We estimate the following liquidity uses for the same period:

- €350 million of short-term debt maturing in April 2018, with no further debt maturities in the ensuing 12 months, since we anticipate the ZC exchangeable bonds will be repaid in shares;
- Operating expenses of €65 million-€75 million;
- Interest expenses of €110 million-€120 million;
- Dividends likely to exceed €110 million; and
- Redeployment of capital of up to €1 billion.

## **Outlook**

The stable outlook reflects our expectation that, over the next 12 months, Wendel's LTV ratio will not sustainably exceed 20%, after 11% at year-end 2017. We anticipate that Wendel's management can redeploy capital and assume investments of close to €1 billion in 2018 that will be only partly debt financed. These factors lead us to believe that the current asset concentration in Wendel's portfolio is transitory, and we anticipate broader asset diversification in the future.

### **Downside scenario**

We could consider a negative rating action if the LTV ratio increases beyond 20% for a prolonged period. We see this risk as being linked to a more aggressive financial policy than we currently expect. Pressure on the rating could also build if portfolio concentration on a single large asset became permanent.

### **Upside scenario**

We believe that any potential positive rating action would need to reflect a consistent reduction of asset risk. Considering Wendel's guidance on the share of listed versus unlisted assets, and the increasing weight of investments in Africa, we believe that a substantial improvement in asset credit quality and liquidity is unlikely. We therefore view an upgrade as remote over the next 12 months.

## **Ratings Score Snapshot**

Issuer Credit Rating: BBB-/Stable/A-3

Business risk: Fair

- Country risk: Low
- Industry risk: Intermediate
- Investment position: Fair

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: bbb-

#### Modifiers

- Liquidity: Strong (No impact)
- Management and governance: Satisfactory (No impact)
- Comparable ratings analysis: Neutral (No impact)

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Ratings Affirmed

Wendel

Corporate Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
Senior Unsecured	BBB-p*

\*The 'p' suffix indicates that the rating addresses the principal portion of the obligation only and that the interest is not rated.

**Additional Contact:**

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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