



Research Update:

# French Investment Holding Company Wendel 'BBB-/A-3' Ratings Affirmed; Outlook Stable

## Overview

- We have reviewed Wendel under our revised criteria for rating investment holding companies, published on Dec. 1, 2015.
- Our ratings on Wendel continue to be supported by the sound creditworthiness of its key listed assets, and we factor in erosion in the group's financial flexibility given the recent sustained portfolio activity.
- We are therefore affirming our 'BBB-/A-3' ratings on Wendel and removing them from under criteria observation.
- The stable outlook reflects our expectation that the company's loan-to-value ratio will remain below 35% over our forecast horizon of the next 12-18 months.

## Rating Action

On Dec. 17, 2015, Standard & Poor's Ratings Services affirmed its 'BBB-' long-term and 'A-3' short-term corporate credit ratings on French investment holding company Wendel. The outlook is stable.

We also affirmed our 'BBB-' issue rating on Wendel's senior unsecured debt.

At the same time, we removed the ratings from under criteria observation, where we placed them on Dec. 1, 2015.

## Rationale

The affirmation follows our review of Wendel under our revised criteria for investment holding companies (see "Methodology: Investment Holding Companies," published Dec. 1, 2015, on RatingsDirect).

Wendel's business risk profile remains supported by the listed nature and solid, investment-grade creditworthiness of its key listed assets, manufacturer and distributor of construction materials Compagnie de Saint-Gobain and professional services company Bureau Veritas, which are underpinned by their world-leading competitive positions and ability to generate free operating cash flow (FOCF) over the economic cycle. Since the announcement of its €2 billion investment program for the period 2013-2017, portfolio activity has been sustained with investments, which were profitable and undertaken on a timely basis (which is what leads us to use the higher anchor of 'bbb-', versus 'bb+', for Wendel). Early this year, we viewed

positively the accelerated book building on Bureau Veritas, as capital was directed toward new lines within the portfolio (including a €640 million--prior to the €100 million syndication with Maxburg Capital Partners and Wendel's €31 million cash infusion--investment in Austria-based flexible packaging manufacturer Constantia Flexibles and more recently the \$687 million equity investment in the Security Solutions provider Allied Barton), featuring attractive growth prospects, resilience to economic downturns, and satisfactory cash flow generation given the limited capital expenditures required.

Another benefit of Wendel's investment strategy was that the group's asset exposure--pro rata Wendel's ownership--outside Western Europe almost doubled, accounting for about 58% of the total. Meanwhile, construction--which used to dominate with about 60% (of which more than half stemmed from renovation)--declined to 25%, in line with the contribution from the group's energy/infrastructures and industry division.

We now consider that Wendel has completely optimized its shareholding in Bureau Veritas. Although we believe Wendel retains some financial flexibility from its stake in Compagnie de Saint-Gobain given the shareholder agreement in place throughout 2021, we think that the room to maneuver is still limited given Compagnie de Saint-Gobain benefits in terms of asset quality.

Conversely, the asset concentration on Bureau Veritas (34% of assets) and Compagnie de Saint-Gobain (26%) heavily exposes Wendel to share price fluctuations. Furthermore, we think that the weaker creditworthiness of Wendel's unlisted assets strains Wendel's overall asset quality.

Our assessment of Wendel's financial risk profile is based on our view of the group's capital structure, with total debt of €4.1 billion, which translates into financial expenses of some €190 million annually. We expect the group to maintain a loan-to-value (LTV) ratio below 35% under normal operating conditions and expect management will take action if the ratio were to exceed such level over a sustained period. As of Dec. 15, 2015, we estimated Wendel's loan to value at 34%, still in line with our requirement.

## Liquidity

The short-term rating is 'A-3'. We have reassessed the group's liquidity position as strong from adequate because of the availability under its committed credit lines. We project that sources of liquidity will likely comfortably exceed liquidity uses by 1.5x in the next 12 months, even in the event of an unforeseen decline in dividends from portfolio companies.

We calculate the following liquidity sources for the next 12 months:

- Net cash and cash equivalents of €1.5 billion (including €334 million of financial investments) as of Nov. 18, 2015;
- Dividends from portfolio companies of about €170 million, which is well below the average €200 million given its reduced exposure to Bureau Veritas;

- €850 million undrawn under debt with margin calls, of which €350 million is available until 2019 while the remainder is available until March 2020; and
- And €650 million undrawn on a syndicated revolving credit facility that matures in November 2019.

We calculate the following liquidity uses for the same period:

- Short-term maturities of €644 million (more than €0.7 billion of debt matures in the subsequent 12 months);
- Operating expenses of approximately €56 million;
- Interest expenses of about €180 million-€190 million;
- Dividends of €2 per share, amounting to about €96 million, potentially complemented by share repurchases;
- €31 million contribution to Constantia Flexibles' capital increase for the funding of acquisitions; and
- \$687 million, for a 96% ownership in Allied Barton.

## Outlook

The stable outlook on Wendel reflects our expectation that the group's LTV ratio will remain below 35% over our forecast horizon for the next 12-18 months. This is despite fur -620.0Feflectsp20.0Feflectsp2-6000 0 1 54.0 45ou -61 0 0 1 65.338

Business risk: Satisfactory

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

Financial risk: Significant

- Leverage/Cash flow: Significant
- Funding and capital structure: Neutral

Anchor: bbb-

Modifiers

- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

## Related Criteria And Research

### Related Criteria

- Methodology: Investment Holding Companies, Dec. 1, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Ratings Above The Sovereign-Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

### Related Research

- Ratings On 12 Investment Holding Companies Affirmed Following Review Under Revised Criteria, Dec. 17, 2015
- New Criteria Published For Investment Holding Companies; Ratings Placed Under Criteria Observation, Dec. 1, 2015

## Ratings List

Ratings Affirmed

Wendel

Corporate Credit Rating

BBB-/Stable/A-3

Senior Unsecured

BBB-

**Additional Contact:**

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