

Research Update:

French Investment Holding Wendel 'BBB-/A-3' Ratings Affirmed On Willingness To Support Loan To Value; Outlook Stable

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Overview

- On Feb. 17, 2016, Wendel announced it's in exclusive negotiations with ALD Automotive for the disposal of its French car leasing business, Parcours, for an estimated €300 million.
- We view positively this portfolio development, given current turbulent equity market prices. Pro forma the transaction, we anticipate loan to value (LTV) to be just in line with our 35% threshold for the current ratings.
- We are therefore affirming our 'BBB-/A-3' ratings on Wendel.
- The stable outlook reflects our expectation that management will continue to be proactive in order to maintain the company's LTV ratio below 35% over the next 12 months.

Rating Action

On Feb. 19, 2016, 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.

At the same time, we affirmed the issue ratings at 'BBB-'.

Rationale

The affirmation follows Wendel's announcement that it will sell its controlling stake in the French business-to-business car leasing company, Parcours, to ALD Automotive, yielding net proceeds of about €250 million. Given the sustained portfolio activity over the past 12-18 months, we expect the funds raised to be earmarked to support the LTV ratio.

Since year-end 2015, the company's LTV has been rising toward 35%, impaired by the poor performance of the equity share price of its two key listed assets, the French building materials company Compagnie de Saint-Gobain (BBB/Stable/A-2) and the French professional services player Bureau Veritas (not rated). This downward trend in both stock prices was broadly in line with that of the CAC 40 French stock market index. The deterioration in LTV has gradually picked up since the beginning of the year as growing uncertainties over the Chinese market, paired with the sharp drop in oil prices, have taken their toll on global stock markets. Under these circumstances, as of Feb. 16,

2016, Saint-Gobain's share price had dropped by 13% since the beginning of the year, and Bureau Veritas' by 6%, leading to an LTV ratio just below 37%. We therefore view positively the contemplated disposal of Parcours as it underpins management's willingness to maintain the group's LTV in line with our guidance for the current ratings, despite a persistently gloomy equity market. Pro forma the Parcours transaction, LTV will fall to just below 35 -600.0 ocWe

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 Wendel's average of €200 million, given its reduced share in Bureau Veritas after the accelerated bookbuild in 2015;
- €850 million undrawn under debt with margin calls, of which €350 million is available until end-2019, while the remainder is available until March 2020; 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 (about €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, complemented by announced minor share repurchases;
- A €31 million contribution to Constantia Flexibles' capital increase for the funding of acquisitions and a €26 million investment in Sterigenics' debt; and
- \$687 million (€645 million) to acquire a 96% share in Allied Barton.

Pro forma the contemplated transaction, the group would gain some further €250 million of inflows, which we expect to be allocated to partial debt repayment.

Outlook

The stable outlook reflects our expectation that management will continue to be proactive in order to maintain Wendel's LTV ratio below 35% over the next 12 months.

policy than we currently expect, which could lead to a LTV ratio higher than

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- 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
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- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

Wendel

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

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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

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