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**Research Update:**

# Investment Holding Wendel Ratings Affirmed At 'BBB-/A-3'; Off Watch Neg; Outlook Negative

**Primary Credit Analyst:**

Pierre Georges, Paris (33) 1-4420-6778; pierre\_georges@standardandpoors.com

**Secondary Credit Analyst:**

Nicolas Baudouin, Paris (33) 1-4420-6672; nicolas\_baudouin@standardandpoors.com

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# Investment Holding Wendel Ratings Affirmed At 'BBB-/A-3'; Off Watch Neg; Outlook Negative

## Rationale

On April 17, 2008, Standard & Poor's Ratings Services affirmed its 'BBB-/A-3' long- and short-term corporate credit ratings on French investment holding company Wendel and removed them from CreditWatch with negative implications, where they were placed on Jan. 21, 2008. The outlook is negative.

The rating affirmation reflects our expectations that the group will adopt a more conservative investment strategy and will take actions to reduce leverage, following its highly leveraged investment in Compagnie de Saint-Gobain (BBB+/Stable/A-2). The affirmation also takes into account our expectation of an improved level of disclosure from the company going forward, notably regarding the Saint-Gobain investment, and the stabilization in the value of Wendel's assets over the past weeks. The rating action also reflects our opinion that the company's financial flexibility and liquidity remain adequate.

Wendel's investment portfolio has an adjusted value of €8.6 billion, with the bulk of it (78%) now invested in three listed assets: Saint-Gobain (31%), Bureau Veritas (not rated; 29%) and Legrand S.A. (BBB/Stable/A-2; 18%), which all have solid business profiles and are liquid assets--factors that support the credit quality of Wendel's portfolio. Following the investment in Saint-Gobain and the IPO of Bureau Veritas in 2007, Wendel's portfolio diversification has slightly improved. That said, current volatility on the financial markets leading to depressed share prices combined with the highly leveraged investment in Saint-Gobain, have put pressure on the company's gross asset value since the beginning of 2008 and partly offset the credit quality of the underlying assets.

We have decided to reconsolidate debt that is subject to margin calls when calculating Wendel's loan-to-value (LTV) ratio, despite the nonrecourse features of this debt. This is because of the strategic importance of the 21.5% stake in Saint-Gobain within Wendel's portfolio, Wendel's proven support to the related investment vehicles by following the margin calls for substantial amounts so far (about €1.1 billion as of March 31, 2008, on top of €1.3 billion invested as part of the transaction), and the mechanism and frequency of these margin calls. Accordingly, the market value of Saint-Gobain shares is also taken into account in our valuation of the portfolio. Following these adjustments, LTV was 50% as of March 31, 2008, a level which is excessive for a 'BBB-' rating but mitigated by our expectations that the company will take actions to strengthen its balance sheet and reduce this LTV ratio below current levels in the near to medium term; the current features of Wendel's investment portfolio; and the specific treatment related to the consolidation of nonrecourse debt with margin calls.

## Liquidity

Wendel's liquidity remains adequate, underpinned by the long-term nature of Wendel's debt and current ample cash balances. The earliest debt maturity falls in 2009, and the next bond maturity will be in 2011.

Wendel has about €1.3 billion in available cash (as of March 31, 2008), and an available undrawn committed bank facility of €1.25 billion maturing in 2012, with two options to extend by one year each. The group still has significant headroom within the financial covenants. We expect liquidity to stay at this high level in order to cover any significant additional margin calls linked to the Saint-Gobain investment. Bonds outstanding are free of any covenants, cross defaults, or ratings triggers. They do not benefit from any negative pledge.

## Outlook

The negative outlook primarily reflects excessive leverage, combined with the uncertainties and high volatility of the current financial environment, which together could pressure ratings if share prices were to significantly fall.

We expect the group to take actions to reduce leverage in the near to medium term. There is currently no headroom within the ratings for additional investments. We also expect the group to maintain the current features of its investment portfolio, including liquidity, asset quality, and diversification.

## Ratings List

	To	From
Corporate credit ratings	BBB-/Negative/A-3	BBB-/Watch Neg/A-3

NB: This list does not include all ratings affected.

### Additional Contact:

Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

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