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Research Update:

French Holding Co. Wendel Ratings Affirmed At 'BBB-/A-3'; Off Watch Neg; Outlook Negative

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Rationale

On Aug. 13, 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 June 25, 2008. The outlook is negative.

The affirmation reflects Wendel's efforts and commitment to gradually restore its financial profile and financial flexibility in line with our expectations for the rating. In addition, we expect that the group will adopt more conservative investment strategies following the highly leveraged investment in Compagnie de Saint-Gobain (BBB+/Stable/A-2) last year, which has weighed on Wendel's performance.

Share prices have significantly fallen since the beginning of June 2008, notably on two out of Wendel's three main listed assets, Compagnie de Saint-Gobain and Legrand S.A. (BBB/Stable/A-2). This has mechanically increased Wendel's adjusted loan-to-value (LTV) ratio (computed on spot values), to 43% as of Aug. 12, 2008. This level is excessive for the 'BBB-' rating. We believe, however, that the company will prudently take further action to reduce financial leverage through ongoing portfolio rotation. As a result, we expect the LTV ratio to fall to below 40% by year-end 2008 and Wendel to strive to further reduce it to below 35% in 2009, in line with expectations for the 'BBB-' rating.

Wendel's investment portfolio has an adjusted value of €8.1 billion (as estimated by Standard & Poor's), with the bulk of it (79%) now invested in three listed assets: Saint-Gobain (29%), Bureau Veritas (not rated; 34%), and Legrand (18%), which all have solid business profiles. In addition, Wendel's shareholdings in these listed entities are also highly liquid--providing key support to the the holding company's credit quality. In addition, following the investment in Saint-Gobain and the IPO of Bureau Veritas in 2007, Wendel's portfolio diversification has slightly improved. That said, financial market volatility, leading to depressed share prices--combined with the highly leveraged investment in Saint-Gobain--have lowered the company's gross asset value since the beginning of 2008 and partly offset the credit quality of the underlying assets. However, Wendel has strengthened its financial flexibility and liquidity position, following the successful disposal of Editis in May 2008 and the extension of financing arrangements in its Saint-Gobain-related investment vehicles. We expect the group to continue to improve liquidity and financial flexibility over the coming quarters.

Liquidity/Short-term credit factors

Wendel's liquidity remains adequate, underpinned by the long-term nature of its debt and current ample cash balances (an estimated €1.5 billion of available cash, following €500 million net cash proceeds from the disposal of Editis). The earliest debt maturity falls in 2009, and the next bond maturity will be in 2011.

Wendel also has 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 the group to continue to strengthen its liquidity position and to maintain an adequate level of liquidity in order to cover any significant additional margin calls linked to the Saint-Gobain investment. Bonds outstanding are free of covenants, cross defaults, and ratings triggers. They do not benefit from any negative pledge.

In addition, Wendel successfully negotiated extensions on the financings with margin calls on the Saint-Gobain stake, with debt now maturing between 2011 and 2013, which provides additional financial flexibility on the investment.

Outlook

The negative outlook primarily reflects current excessive leverage. We expect Wendel to take further actions to reduce leverage and return to an adjusted LTV ratio strictly below 40% by the end of 2008. We also expect the company to continue reducing its leverage and to operate with an adjusted LTV below 35% over the medium to long term. This assumes that Wendel will maintain its current favorable portfolio profile including ample liquidity, asset quality, and diversification.

There is currently no headroom for additional significant investments at the current ratings.

The outlook could be changed to stable if Wendel reduces debt or if the share prices of the company's listed assets increase significantly to the extent that the LTV ratio would permanently remain below 40% in 2008 and 35% thereafter. Alternatively, failure to restore the company's LTV ratio to levels commensurate with the ratings will lead to a downgrade.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Wendel		
Corporate Credit Rating	BBB-/Negative/A-3	BBB-/Watch Neg/A-3
Senior Unsecured (6 issues)	BBB-	BBB-/Watch Neg

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