

June 25, 2008

**Research Update:**

# Wendel 'BBB-/A-3' Ratings On Watch Negative On Weakening Credit Metrics And Equity Markets

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## Rationale

On June 25, 2008, Standard & Poor's Rating Services placed its 'BBB-/A-3' long- and short-term corporate credit ratings on French investment holding company Wendel on CreditWatch with negative implications, as the group's gearing has increased as a consequence of depressed market conditions and the continued reduction in the share price of some of its assets over the past couple of weeks.

The CreditWatch placement reflects the deterioration of financial markets and the resulting pressure on Wendel's adjusted loan-to-value (LTV) ratio. This has offset the positive effects of the company's recent asset disposals.

Share prices have significantly fallen, notably on two out of Wendel's three main listed assets, Compagnie de Saint-Gobain (BBB+/Stable/A-2) and Legrand S.A. (BBB/Stable/A-2), which are down 21% and 13%, respectively, since the beginning of June. This has mechanically increased Wendel's adjusted LTV ratio to 45%, despite the €500 million net cash proceeds received from the disposal of Editis in May 2008. This level is excessive for the 'BBB-' rating, and we believe that the current environment, including the overall negative perception of the construction sector, combined with depressed equity markets, could make it increasingly difficult for Wendel to improve its LTV ratio.

The company remains heavily exposed to further negative equity market movements. Failure to restore the company's LTV ratio could lead to a downgrade.

Alternatively, we may affirm the ratings if share prices of Wendel's listed assets increase significantly, or if the company takes further action to significantly reduce leverage, so that its LTV ratio returns to levels commensurate with the rating in the near term.

The ratings nevertheless continue to reflect our expectations that the group will adopt a more cautious investment strategy and will continue to take actions to reduce leverage. The ratings also reflect our opinion that the company's financial flexibility and liquidity remain adequate. Wendel's investment portfolio has an adjusted value of €7.7 billion, with the bulk of it (85%) now invested in three listed assets: Saint-Gobain (28%), Bureau Veritas (not rated; 35%), and Legrand S.A. (18%), which all have solid business profiles and are liquid assets--factors that support the credit quality of Wendel's portfolio.

## Liquidity

Wendel's liquidity remains adequate, underpinned by the long-term nature of its debt and current ample cash balances, which have increased following the

€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 liquidity to stay at this level 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.

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Wendel		
Corporate Credit Rating	BBB-/Watch Neg/A-3	BBB-/Negative/A-3
Senior Unsecured		
Local Currency	BBB-/Watch Neg	BBB-

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