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### Research Update:

## France-Based Operating Holding Company Wendel Outlook Revised To Positive On Reduced Leverage; 'BB-/B' Ratings Affirmed

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## Overview

- In the past 12 months, French operating holding company Wendel has made significant disposals totaling about €1.3 billion.
- Following these asset divestments, Wendel's loan-to-value ratio has declined, despite current equity market unrest.
- We believe that Wendel's investment activity is likely to remain limited in the near future.
- The positive outlook reflects our expectation that Wendel's loan-to-value ratio will remain well below 50%.

## Rating Action

On July 29, 2011, Standard & Poor's Ratings Services revised to positive from stable its outlook on France-based operating holding company Wendel. At the same time, we affirmed our 'BB-/B' long- and short-term corporate credit ratings on the company. The recovery rating is unchanged at '3', indicating our expectation of meaningful (50%-70%) recovery in an event of payment default.

## Rationale

The outlook revision to positive reflects that Standard & Poor's loan-to-value ratio (LTV) for Wendel has been decreasing toward levels commensurate with a 'BB' rating, namely around 45% on a sustainable basis. At end-July 2011, Wendel's LTV ratio stood at about 45%, pro forma for the Parcours and Mecatherm acquisitions. Because part of the debt that Wendel used to finance the acquisition of a stake in Compagnie de Saint-Gobain is subject to margin calls, we consolidate this debt in our LTV calculation, although it is technically nonrecourse to Wendel.

Three listed assets represented over 80% of Wendel's portfolio value at end-June 2011, namely: Saint-Gobain (BBB/Stable/A-2), in which Wendel holds a 17% interest; Bureau Veritas (not rated), 52% owned; and Legrand (BBB+/Positive/A-2), 11%-owned. Large majority stakes in much smaller but highly leveraged unlisted corporate entities round out Wendel's portfolio. The relatively strong creditworthiness of Saint-Gobain, Legrand, and Bureau Veritas and their listed, potentially liquid nature, support our ratings. We also note Wendel's willingness to deleverage, as shown by the sale of Legrand shares and of Stallergenes in the past 12 months. While being beneficial to

the financial profile, the disposals somewhat undermine the portfolio's credit quality, as they increase its concentration on Saint-Gobain.

In 2010, all three listed subsidiaries recorded both robust revenue growth and operating margin improvement. Wholly-owned unlisted subsidiaries also performed strongly compared with 2009. After the debt restructuring in the first half of 2010, debt has become more manageable for Deutsch (leverage was about 4.5x net debt to EBITDA on Dec. 31, 2010) and Stahl (3.3x), while debt remains high at Materis, with leverage still well above 7x. Such positive developments in subsidiaries' activities were confirmed overall in the first quarter of 2011. Though this has translated into some recovery in share prices, we consider that Wendel's financial flexibility is still stretched, and that an aggressive financial risk profile remains the main rating constraint for the company. In addition, we note that cash burn remains significant at the holding level, with a total coverage of fixed charges by dividends at about 0.5x in both 2009 and 2010.

### **Liquidity**

We view Wendel's liquidity profile as adequate under our criteria. We take into account near-term uses of funds and longer-term available sources of liquidity at the company's disposal. After early debt repayments in the first half of 2011, Wendel has no financial debt maturing before 2013. The company will not face any sizable maturities before 2014, when a €700 million bond and about €800 million of Saint-Gobain financing come due. On the basis of the cash position communicated recently (end of May 2011), the company has about €1,200 million in cash pro forma for the two recently announced acquisitions and the Legrand share disposal. In addition, the €1.2 billion revolving credit facility, of which €950 million is available until September 2013 and €250 million until September 2014, was undrawn. We believe the covenants on the facility leave adequate headroom.

### **Recovery analysis**

Wendel's €2.8 billion unsecured notes and €1.2 billion unsecured revolving credit facility (RCF) are rated 'BB-', the same level as the corporate credit rating. The recovery ratings are '3', indicating our expectation of meaningful (50%-70%) recovery in an event of payment default. The recovery ratings are supported by our view of Wendel's portfolio composed of three robust companies, namely Saint-Gobain, Legrand, and Bureau Veritas, which all have an investment-grade profile, in our view. The recovery ratings are constrained by the existence of prior ranking debt linked to the acquisition of Saint-Gobain's shares, which could be triggered in our waterfall under certain circumstances (by way of margin calls), and by the relatively creditor-unfriendly jurisdiction of France. In particular, the recovery ratings on the unsecured debt (comprising the notes and the RCF) are also constrained by their unsecured nature and very low documentary protection against further secured debt being raised. We assume that the notes and the RCF would rank pari passu at default even though the RCF's documentation suggests higher protection through maintenance financial covenants. Recovery

prospects for the rated debt are supported by our assumption that, in a default, Wendel would most likely be liquidated, since the bulk of the portfolio is listed. In order to determine recoveries, we simulate a default scenario. Our hypothetical scenario includes a decline in the portfolio value of about 60% from the current level combined with a marked decrease of dividend inflows to Wendel from subsidiaries. This scenario would lead to a default in 2014, triggered by the group's inability to refinance its €700 million unsecured bonds maturing that year.

Wendel is based and headquartered in France. We consider France to be a relatively less creditor-friendly jurisdiction for senior secured creditors (see "Debt Recovery For Creditors And The Law Of Insolvency In France," March 22, 2007). After simulating a 60% decline in asset value, we estimate the stressed portfolio value at the point of default would be about €3.6 billion. After deducting priority liabilities comprising mainly enforcement costs and margin loans, residual value available to unsecured debtholders would be about €1.8 billion.

At default, we assume €2.8 billion of unsecured notes outstanding (including notes and six months of prepetition interest; assuming the RCF will remain undrawn) leading to a recovery rating for the notes of '3'.

## Outlook

The outlook on Wendel's ratings is positive. We expect the company to continue improving its financial risk profile.

For an upgrade, we would look for a track record of an LTV ratio below 45% and signs that Wendel would be able to maintain this. A further prerequisite would be a reduction of cash burn at the holding level. In addition, we would expect acquisitions to be pre-financed by disposals to a large extent. Failure to manage the LTV ratio within Standard & Poor's rating threshold could lead in a first step to a revision of the outlook to stable, or, though less likely at this stage, to a negative rating action if higher financial risk is not commensurate with the current ratings. In addition, changes in portfolio characteristics or composition may trigger a revision of the LTV threshold we deem acceptable for the ratings.

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Debt Recovery For Creditors And The Law Of Insolvency In France, March

22, 2007

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Wendel		
Corporate Credit Rating	BB-/Positive/B	BB-/Stable/B
Senior Unsecured	BB-	
Recovery Rating	3	

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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