

Global Credit Portal

RatingsDirect®

January 6, 2011

Summary:

Wendel

Primary Credit Analyst:

Eric Tanguy, Paris (33) 1-44 20 6715; eric_tanguy@standardandpoors.com

Secondary Contact:

Yuval Torbati, Tel Aviv (972) 3-753-9714; yuval_torbati@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Wendel

Credit Rating: BB-/Stable/B

Rationale

The ratings on France-based investment holding company Wendel reflect Standard & Poor's Ratings Services' assessment of its financial risk profile as "aggressive" and of its business risk profile as "satisfactory."

Worth about €8.3 billion on Nov. 23, 2010 (net of the Saint-Gobain shares protected by puts), Wendel's investment portfolio mainly includes three listed assets representing almost 90% of the company's portfolio value: Compagnie de Saint-Gobain (Saint-Gobain, BBB/Stable/A-2), in which Wendel holds a 17.5% interest; Bureau Veritas (not rated), 52% owned; and Legrand S.A. (Legrand; BBB/Stable/A-2), 19.4% owned. Majority stakes in three much smaller and highly leveraged unlisted corporate entities--Materis, Stahl, and Deutsch--round out Wendel's portfolio.

High gearing and an aggressive financial risk profile remain the main rating constraints for Wendel, in our view. A substantial portion of the shares held in Saint-Gobain, Legrand, and Bureau Veritas (worth about €4.0 billion at end-November 2010 according to our calculations) are still pledged to secure €3.7 billion of bank debt raised originally in 2007 to finance the acquisition of the Saint-Gobain stake at historically high share prices. This debt continues to weigh on Wendel's financial profile and constrains the company's financial flexibility.

Key business and profitability developments

In 2010, Wendel concluded sizable disposals and pursued its efforts to streamline its capital structure. In September, Wendel sold a 5.5% stake in Legrand for €346 million in cash proceeds and in November the company received €359 million from its full disposal of Stallergenes, in which it had a 46% stake.

The strong ability to generate cash in 2010 and the generally sound and stable creditworthiness of Saint-Gobain, Bureau Veritas, and Legrand support the quality of Wendel's portfolio. All three companies are listed, and Wendel's only controlling stake is in Bureau Veritas. We consequently view the portfolio's liquidity as adequate.

Low diversity remains the main weakness of Wendel's portfolio, in our opinion, with Wendel's three main stakes amounting to nearly 90% of the estimated value of its holdings as of Nov. 23, 2010. Wendel's other assets are majority equity interests in its unlisted subsidiaries, namely Materis, Stahl, and Deutsch. All three are still highly leveraged, albeit to varying degrees, and each company underwent debt restructuring plans in late 2009-early 2010, including equity injections or other means of shareholder support. They also represent relatively small net equity value for Wendel. The three companies reported improved underlying operating performance in 2010.

On a consolidated basis (Materis, Stahl, Deutsch, Stallergenes, and Bureau Veritas are fully consolidated; Legrand and Saint-Gobain are accounted under the equity method), Wendel generated a €123 million net profit from business sectors attributable to the group, excluding nonrecurring items, in the first half of 2010, compared with a €11 million net loss for the same period in 2009.

A continuation of this performance upturn, if confirmed in 2011, may provide a basis for some upward value adjustments for Wendel's unlisted assets.

Key cash flow and capital-structure developments

At holding company' level, relative to the estimated value of the asset portfolio, Wendel's loan-to-value (LTV) ratio was 43.7% on Nov. 23, 2010, by our calculations. This is below the 50% maximum that we think is appropriate for the current rating. We note the improved LTV ratio in recent months, primarily thanks to share price increases in Wendel's listed assets and recent asset disposals, against 52.9% at end-June 2010.

Because part of the debt that Wendel used to finance the acquisition of its stake in Saint-Gobain is subject to margin calls (about €2.7 billion gross debt), we consolidate this debt in our LTV computation although it is technically nonrecourse to Wendel. We do not, however, consolidate the €970 million Saint-Gobain acquisition-related debt that is economically-hedged through put options, as it is contractually nonrecourse to Wendel, not subject to margin calls, and most importantly, protected by put options. To ensure consistency, the retained asset base is net of the Saint-Gobain shares protected through the puts.

Liquidity

The short-term rating is 'B'. We consider Wendel's liquidity to be adequate, based on the medium- to long-term nature of the company's debt, in particular unsecured debt, and sizable cash balances. At end-November 2010, Wendel had €1.9 billion of cash, of which €1.3 billion was unpledged.

The next bond maturity (€336 million, net of buybacks and exchange offer) is due in February 2011 and is more than fully-covered by available cash. Other senior unsecured debt matures from November 2014 and beyond.

In October 2010, Wendel extended its debt maturity profile through a €300 million tap issue of an unsecured bond maturing in 2016. We understand it used the proceeds to repay part of its Saint-Gobain related debt.

Outstanding bonds are free of financial covenants, cross-defaults with Wendel's subsidiaries' debt, and rating triggers. They do not benefit from any negative pledge however. Wendel has an undrawn €1.2 billion committed bank facility maturing in 2013. Covenants related to the market value of its portfolio restrict the use of this facility. Wendel has been in compliance with these covenants for over a year.

The company's €3.7 billion gross debt relating to the Saint-Gobain transaction is split between €2.7 billion gross debt subject to margin calls, carrying maturities stretching over 2013-2015 and €970 million non-margin call debt, partly protected by puts, maturing over 2011-2012. Non-margin call debt of €544 million due in 2011 has already been significantly reduced (down from €850 million by midyear 2010), and it could be partly self-liquidating (the debt is secured by the pledge of Saint-Gobain shares and economic risk is covered by puts). In addition, Wendel has €900 million available under the Saint-Gobain bank financing agreements containing margin call mechanisms, which the company could use to refinance or manage its Saint-Gobain exposure.

Outlook

The stable outlook reflects our view that Wendel will continue to focus on gradual debt reduction and keep its LTV ratio below 50% throughout 2011.

Sizable disposals associated with redeeming existing debt and an increase in asset value effectively led to an improvement in Wendel's financial risk profile by year-end 2010. Only a material deterioration in the share prices of Wendel's key listed investments or a financial policy more aggressive than we currently expect could lead us to consider a negative rating action. Improved corporate governance, less aggressive risk tolerance, and reduced

complexity in the financing structure will continue to be driving factors for the ratings on Wendel in the future. A positive rating action would be possible if Wendel maintains an LTV ratio well below 45% on a sustainable basis and it simplifies its debt structure, and we continue to see strong operating performance for its listed investments, and a track record of improving profitability measures for weaker unlisted subsidiaries.

Related Criteria And Research

Rating Methodology for European Investment Holding and Operating Holding Companies, May 28, 2004

Additional Contact:

Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

Additional Contact:

Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.