

RatingsDirect®

Wendel

Primary Credit Analyst:

Bertrand P Jabouley, CFA, Paris (33) 1-4420-7335; bertrand.jabouley@standardandpoors.com

Secondary Contact:

Carole Missoudan, Paris (33) 1-4420-6723; carole.missoudan@standardandpoors.com

Recovery Analyst:

David W Gillmor, London (44) 20-7176-3673; david.gillmor@standardandpoors.com

Table Of Contents

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Company Description

Business Risk: Satisfactory

Financial Risk: Significant

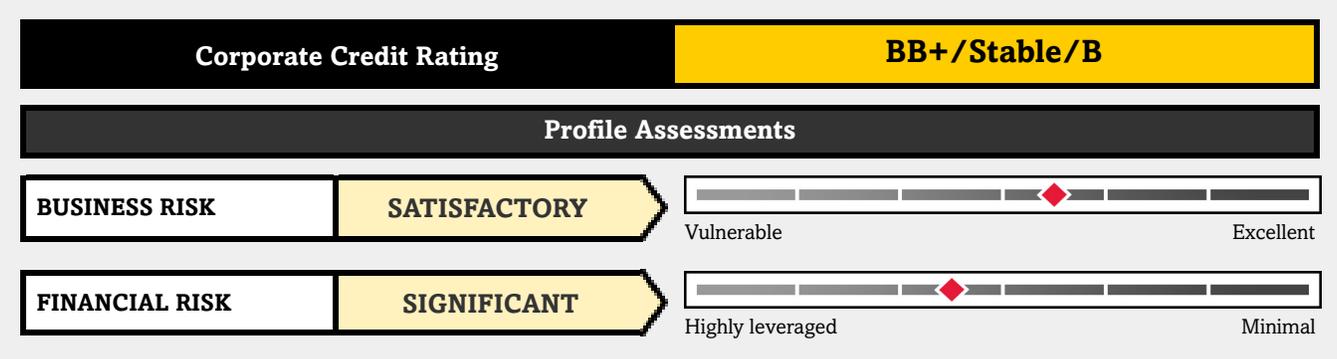
Liquidity: Adequate

Covenant Analysis

Recovery Analysis

Related Criteria And Research

Wendel



Rationale

Business Risk: Satisfactory	Financial Risk: Significant
<ul style="list-style-type: none"> • Good creditworthiness of key listed investments. • Robust track record of asset rotation, supporting our view of the company's adequate portfolio liquidity. • Substantial asset concentration on Bureau Veritas and Saint-Gobain. • Modest liquidity of Bureau Veritas, given Wendel's controlling ownership in this company, which we view as being its crown jewel. 	<ul style="list-style-type: none"> • Appetite for acquisitions, which could slow deleveraging. • Continued sizable operating cash burn at parent company level. • Financial flexibility from listed shareholdings and balanced debt maturities.

Outlook: Stable

The stable outlook on French investment holding company Wendel reflects Standard & Poor's Ratings Services' expectation that, based on the company's current portfolio composition and asset flexibility, it should be able to maintain a loan-to-value (LTV) ratio below about 40%, and liquidity well within our adequate category.

Downside scenario

A pronounced drop in the share prices of Wendel's key listed investments or a financial policy more aggressive than we currently expect, leading to a deterioration of the LTV ratio, could lead us to consider a negative rating action.

Upside scenario

We could consider a positive rating action, assuming broadly unchanged portfolio liquidity, quality, and diversity, if we saw that Wendel had established a track record of an LTV ratio below about 35% and appeared able to maintain it. This would likely necessitate stabilization of the cash burn at holding company level, with dividends received covering at least net interest expense (as in 2013), and a slowdown of current investment activity, unless acquisitions were prefunded by disposals to a large extent.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> Approximately €220 million in dividends from Wendel's main shareholdings, Bureau Veritas (€108 million) and Saint-Gobain (€111 million), to be received in 2014, growing moderately thereafter. Broadly stable operating and interest expenses at the parent company level. Moderate merger and acquisitions, given, among others Wendel's recent investment option in Moroccan insurer Saham Group and the potential needs for fresh capital at its Nigerian asset, IHS Holding. 	2013a	2014e	2015e	
	Interest coverage* (x)	1.1	1.0-1.2	1.0-1.3
	Total coverage ratio§ (x)	0.8	0.7-0.9	0.7-1.0
	Loan-to-value† (%)	32.1	Less than 40	Less than 40
<p>* Interest coverage = dividends and management fees received/operating, tax and net interest expenses. § Total coverage = dividends and management fees received/operating, tax and net interest expenses and dividends paid. † Actual figure on March 17, 2014. For 2014e and 2015e, we show our threshold for the current rating. a--Actual. e--Estimate.</p>				

Company Description

Wendel is a France-based publicly listed investment holding company, tracing its history back to the eighteenth century and the steel industry. Wendel Participations, a family vehicle representing the individual interests of some

1050 Wendel family members, holds the largest stake in the company, about 35% on Dec. 31, 2013. Wendel's investment portfolio was worth €10.4 billion on March 17, 2014, and mainly included a 16.3% stake in building materials designer, manufacturer, and distributor Compagnie de Saint-Gobain (36% of assets) and 51.5% owned in testing, inspection and certification business Bureau Veritas (46%). Stakes in smaller, typically more leveraged and unlisted corporate entities round out the company's portfolio.

Business Risk: Satisfactory: Satisfactory

Portfolio characteristics depend largely on Bureau Veritas' fortunes

Wendel's "satisfactory" business risk profile is supported by the listed nature and solid investment-grade creditworthiness of Saint-Gobain and Bureau Veritas, underpinned by their worldwide leading competitive positions and ability to generate free operating cash flow (FOCF) over the economic cycle. The company's first inroads in Africa, through its investments in Nigeria-based telecommunications infrastructure provider IHS Holdings (successive equity contributions totaling \$475 million for a 35% stake) and Moroccan insurance company Saham Group, improve its diversification of revenues by geography. In addition, the ongoing and planned disposals of two divisions of specialty construction chemicals and materials maker Materis (calcium aluminate cement manufacturer Kerneos and mortars producer Parex) will reduce the exposure of Wendel's asset portfolio to construction. Pro rata for Wendel's ownership, revenues generated outside Western Europe account for about one-half of the total, and the largest sector, construction, for roughly 60% (of which more than half stems from renovation). Despite management's willingness and ability to rotate assets, we believe Wendel's actual asset liquidity may be lower than the ratio of listed assets suggests (85% of the portfolio on March 17, 2014), the sizable, strategic investment in Saint-Gobain and controlling stake in Bureau Veritas. In addition, the asset concentration on this company (46% of assets) and also on Saint-Gobain (36%) heavily expose Wendel to their share price fluctuations. Lastly, we believe that the lower creditworthiness of Wendel's unlisted assets tempers its overall asset quality.

S&P Key Portfolio Developments

In 2013, the performance of Wendel's companies that are exposed to construction markets reflected to some extent the sector's unsupportive trading conditions, and global businesses were affected by negative foreign exchange swings. Bureau Veritas, high-performance coatings and leather finishing products manufacturer Stahl, and the Oranje-Nassau Développement companies posted broadly resilient figures for the period.

Wendel has indicated it is examining a number of acquisition opportunities. The company's latest transactions include the acquisition of Japan pump specialist Nippon Oil Pump Co., Ltd for €23 million, a 13.3% stake in Saham Group for €100 million, and \$199 million contributed to IHS Holding's latest capital increases in March and April 2014. We currently understand that Wendel still has a number of investment projects, both in new stakes, and in existing assets, including potential additional equity injections in IHS Holding and a €150 million option exercisable for an additional 14.5% in Saham's capital. We consider that the recent openings of investment offices in Casablanca, New York, and Singapore demonstrates Wendel's renewed investment ambitions. Given our understanding of the scale of contemplated targets--up to €500 million, primarily in unlisted assets--we anticipate that Wendel's portfolio liquidity, quality, and diversity characteristics will likely remain unchanged over our 2014-2015 outlook horizon.

Peer comparison

Table 1

Wendel Peer Comparison						
(Mil. €)	Wendel	Franz Haniel & Cie GmbH	Dogus Holding A.S.	EXOR SpA	Koç Holding A.S.	
Country	France	Germany	Turkey	Italy	Turkey	
Corporate credit rating on April 25, 2014	BB+/Stable/B	BB+/Positive/B	BB/Negative/B	BBB+/Stable/A-2	BBB-/Stable/A-3	
Date of figures	Mar. 17, 2014	Mar. 31, 2014	Dec. 31, 2013	Sep. 30, 2013	Dec. 31, 2013	
Business risk profile	Satisfactory	Fair	Weak	Satisfactory	Satisfactory	
Portfolio quality	Strong	Adequate	Weak	Adequate	Adequate	
Portfolio diversification	Weak	Very weak	Weak	Adequate	Adequate	
Portfolio liquidity	Adequate	Adequate	Weak	Adequate	Adequate	
Portfolio as adjusted	10,424	5,349	7,774	8,791	7,863	
Controlled assets (% portfolio)	59.7	29.6	76.3	72.5	46.3	
Listed assets (% portfolio)	83.5*	72.8	42.9	81.3	51.3	
Three largest assets (% of portfolio)	81.5§	83.4	55.7	71.1	51.5	
Financial risk profile	Significant	Intermediate	Intermediate	Modest	Intermediate	
Net financial debt as adjusted	3,351	321	2,327	(542)	(338)	
Loan to value (%)	32.1	6.0	29.9	(6.2)	(4.3)	
Loan-to-value ceiling (%)	40.0	30.0	30.0	20.0	25.0	
Operating cash flow, three-year average						
Dividend & fees income	213	228	148	160	270	
Operating and tax expenses	43	51	70	31	58	
Interest expense/ (income)	209	120	(1)	14	(35)	
Returns to shareholders	77	38	54	117	172	
Total coverage (x)	0.6	1.1	1.2	1.0	1.3	

*Includes treasury shares. §Saint-Gobain and Bureau Veritas only, because Wendel does not individual valuation of its unlisted assets.

Financial Risk: Significant: Significant

Current financial flexibility will likely decrease

The main constraint on Wendel's capital structure remains its hefty total debt of €3.8 billion, which translates into financial expenses of some €200 million annually. Consequently, the coverage of operating charges, interest expenses, and returns to shareholders through dividends received has been historically below 100%, the level we generally view as commensurate with an investment-grade rating. Tempering these weaknesses are management's demonstrated track record in rotating assets to protect the rating and prudent management of company's liquidity, through the early refinancing all debentures. In March 2013, Wendel officially unveiled its aim to achieve an investment-grade rating in the coming four years. We factor in that debt at operating subsidiaries will remain nonrecourse to, and will not be cross defaulted with, Wendel's debt.

S&P base-case cash flow and capital-structure scenario

- Steady flow of upstreamed dividends from listed stakes, with amounts broadly comparable to historical figures, adjusted for Wendel's recent disposal of Legrand.
- Net financing costs of about €200 million annually, reflecting stable to higher net debt, less expensive refinanced debt, and lower negative carry.
- Operating costs at about €50 million, and dividends to shareholders in the €80 million-€90 million range.
- As a result of the factors above, a ratio of total coverage of about 0.8x in 2014, comparable to 2013 figure.
- Some acquisitions in 2014, with Saham and IHS Holding probably translating into outflows only just exceeding €300 million.
- Wendel's LTV ratio of 31% on April 10, 2014, by our calculations, which was well placed compared with our expectation of 40% for the ratings. On that date, it would have taken an overall decline in asset value of more than 20% for LTV to weaken to our threshold. We estimate that €100 million reinvested on that date would increase LTV by about 0.6%.

Financial summary

Table 2

Wendel Financial Summary			
(Mil. €)	2013	2012	2011
Portfolio as adjusted	10,423.7	10,067.3	9,208.9
Net debt as adjusted	3,351.0	3,473.0	4,085.0
Loan to value (%)*	32.1	34.5	44.4
Dividend & fees income	244.0	204.0	192.0
Operating charges and tax expenses	40.0	43.5	46.0
Net interest expenses/ (income)	185.0	188.9	254.0
Dividend paid	83.0	87.1	61.2
Total cover (x)	0.8	0.6	0.5

*Portfolio data on March 17, 2014, March 18, 2013, and March 12, 2012, respectively.

Liquidity: Adequate

Saint-Gobain and Bureau Veritas dividend distribution policy supports the company's liquidity

The short-term rating is 'B'. We assess Wendel's liquidity as "adequate" under our criteria, based on our view that sources of liquidity will likely well exceed needs by 20% in the next 12 months, even in the event of an unforeseen decline in dividends from portfolio companies.

Principal Liquidity Sources

Wendel's liquidity sources as of March 17, 2014, include:

- Net cash and cash equivalents of €547 million.
- Dividends from portfolio companies of close to €220 million to be received in 2014, by our estimates.
- €1.5 billion undrawn under two Saint-Gobain financing-related facilities, including €0.7 billion available until 2017, and €0.8 billion until 2020. We understand that the documentation of these facilities would allow any use to refinance part of the currently unpledged Saint-Gobain shares.
- €600 million undrawn on a syndicated revolving credit facility (RCF) that matures in 2018.

Principal Liquidity Uses

These liquidity sources compare well with the company's potential liquidity uses in excess of €0.8 billion by end March 2015, comprising:

- Short-term maturities of €460 million (close to €0.4 billion of debt matures in the subsequent 12 months).
- Operating expenses of below about €50 million.
- Net interest expenses of about €200 million.
- Dividends announced of €1.85 per share, amounting to about €90 million, potentially complemented by share repurchases.
- Some acquisitions, the likelihood and amount of which vary (including IHS Holding and Saham) and are difficult for us to quantify at the time of writing. We think Wendel's investments will amount to €300 million at a minimum.

Covenant Analysis

Wendel's €600 million RCF bears two LTV covenants, which are tested semiannually when the facility is drawn. On Dec. 31, 2013, the company complied with these covenants, and had significant headroom under them.

Compliance Expectations

We expect Wendel to have adequate headroom, meaning 15%, under its covenants.

Recovery Analysis

Key analytical factors

- We rate Wendel's €3.7 billion senior unsecured notes 'BB+', the same level as the corporate credit rating. The '3' recovery ratings on these instruments indicate our expectation of meaningful (50%-70%) recovery in the event of a payment default.
- The recovery ratings on Wendel's debt are primarily underpinned by its portfolio of listed equity stakes. However, they are constrained at '3' by the unsecured nature of the debt rated, and our opinion that France's jurisdiction is less friendly to creditors than other countries' in the event of insolvency. Recovery prospects are supported by our assumption that Wendel would be liquidated if it defaulted, given the good liquidity of its portfolio, of which close to 85% is composed of actively traded stakes.
- In order to determine recoveries, we simulate a default scenario, under which Wendel would hypothetically default in the first half of 2018, owing to its inability to refinance a €500 million bond maturing in April. Among other things, we assume that the portfolio would lose about 50% of its value compared to that on March 17, 2014 (€10.4 billion), combined with a pronounced decrease in dividend inflows. The company, on the path to default, would use up its existing cash balances, draw under its unsecured RCF and the Saint-Gobain credit lines maturing in 2020 to meet cash flow shortfalls, and face additional equity investment requirements in existing portfolio companies and bond debt maturities (€461 million in 2014, €357 million in 2015, €650 million in 2016, and €692 million in 2017).
- On this basis, we estimate a stressed portfolio value at the point of default of about €5 billion, including close to no residual cash, and net of the puts on Saint-Gobain shares, assumed all are outstanding and consequently fully repaid at that time for about €0.3 billion. After deducting priority liabilities of about €1.0 billion, mainly enforcement costs and debt related to the acquisition of Saint-Gobain shares outstanding at that time (we assume the €800 million are

fully drawn), we arrive at a net stressed value of €4.0 billion.

- At default, we assume about €2.2 billion of unsecured debt outstanding, including the unsecured notes, the RCF outstanding, and six months of prepetition interest. On this basis, the recovery expectations for this debt are numerically above 100%. However, we cap the recovery rating on this debt at '3'. Under our criteria, the recovery ratings on unsecured debt issued by corporate entities with corporate credit ratings of 'BB-' or higher are capped at '3' to factor in our view that their recovery prospects are at greater risk of being impaired by the issuance of additional priority or pari passu debt prior to default.

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Jan. 2, 2014
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009
- Debt Recovery For Creditors And The Law Of Insolvency In France, March 22, 2007
- Rating Methodology For European Investment Holding And Operating Holding Companies, May 28, 2004

Ratings Detail (As Of April 25, 2014)

Wendel

Corporate Credit Rating	BB+/Stable/B
Senior Unsecured	BB+

Corporate Credit Ratings History

24-Apr-2013	BB+/Stable/B
11-Apr-2012	BB/Stable/B
10-Oct-2011	BB-/Negative/B
29-Jul-2011	BB-/Positive/B
19-Jul-2010	BB-/Stable/B

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:

Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, 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 Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P 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 (negligent or otherwise), 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 or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. 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 does not act as a fiduciary or an investment advisor except where registered as such. 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.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

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 nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain 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 www.spcapitaliq.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.