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Research Update:

French Holding Company Wendel Ratings Raised To 'BBB-/A-3' On Further Net Debt Reduction; Outlook Stable

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Overview

- Following the divestment of a 4.3% stake in manufacturer and distributor of construction materials Compagnie de Saint-Gobain in May 2014, the loan-to-value ratio of France-based holding company Wendel markedly reduced to approximately 25%.
- We now see Wendel's financial risk profile as "intermediate," versus our previous "significant" assessment, given the sound financial flexibility acquired thanks to the divestment.
- We are raising our corporate credit ratings on Wendel to 'BBB-/A-3' from 'BB+/B'.
- The stable outlook reflects our expectation that Wendel's loan-to-value ratio will remain below 35% over our forecast horizon for the next 12 to 18 months, despite new investment activity likely to be sustained over our forecast horizon.

Rating Action

On July 7, 2014, Standard & Poor's Ratings Services raised its long- and short-term corporate credit ratings on France-based operating holding company Wendel to 'BBB-/A-3' from 'BB+/B'. The outlook is stable.

At the same time, we raised our issue ratings on Wendel's unsecured bonds to 'BBB-' from 'BB+', and withdrew our '3' recovery rating on these instruments.

Rationale

The upgrade primarily reflects our view of Wendel's improved financial flexibility following the partial disposal of the company's stake in France-based manufacturer and distributor of construction materials Compagnie de Saint-Gobain (BBB/Stable/A-2).

On May 7, 2014, Wendel successfully divested a 4.3% stake in Compagnie de Saint-Gobain, yielding €1 billion of net proceeds. On the strength of a €1.5 billion cash pile, net debt further reduced to approximately €2.4 billion, leading to a loan-to-value (LTV) ratio of approximately 25% on May 23, 2014, versus 32% on March 17, 2014.

We have therefore reassessed Wendel's financial risk profile as "intermediate"

versus "significant," as we consider that management's risk tolerance is now somewhat lower than previously assessed. We expect Wendel will maintain an LTV ratio sustainably below 35%.

Wendel's management has a stated investment strategy to deploy up to €2 billion in new investments by 2017. We believe that Wendel has earmarked the bulk of the proceeds for investments in predominantly unlisted assets over the next 12 to 18 months. Under this scenario, and assuming broadly stable share prices of listed assets, we project that Wendel's LTV will likely converge at about 30%, a level we still deem in line with an "intermediate" financial risk profile, and with an investment grade issuer rating, given the company's current business risk profile.

We continue to assess Wendel's business risk profile as "satisfactory." Given the group's plans to further penetrate the European and North American private equity arena, we think the portfolio breakdown of listed versus unlisted assets will progressively evolve from its current level of about 80%:20% to approximately 75%:25% respectively over the near term. We note that Wendel's two largest assets still comprise 80% of total portfolio value. We therefore regard the company's high asset concentration risk as the key weakness in its business risk profile.

Under our base case, we assume:

- Wendel's active monitoring of the LTV to secure adequate flexibility sustainably below our 35% threshold;
- The allocation of two-thirds of the sizable cash pile to new investments, while the remaining portion will focus on existing portfolio entities;
- Continuous increase in dividend inflows from operating subsidiaries; and
- Ongoing, although somewhat stabilizing, cash burn at the holding level, given our anticipation of higher corporate costs with the recent opening of new offices in New York and Singapore, and prudently increasing returns to shareholders.

Based on these assumptions, we arrive at the following credit measures:

- Total coverage ratio below 1x, mitigated by ample liquidity; and
- LTV ratio consistently below our 35% threshold, based on current asset values.

Liquidity

The short-term rating is 'A-3.' We assess Wendel's liquidity as "adequate" under our criteria, with sources of liquidity to cover liquidity needs by well over 1.2x in the next 12 months, even in the event of an unforeseen decline in dividends from portfolio companies.

Pro forma the disposal of Compagnie de Saint-Gobain shares, we calculate that Wendel's liquidity sources as of March 17, 2014, will include:

- Net cash and cash equivalents of €1,547 million;
- Estimated dividends from portfolio companies of close to €220 million to be received in 2014;
- €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; and

- €600 million undrawn on a syndicated revolving credit facility (RCF) that matures in 2018.

According to our estimates at the same date, this compares 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 about €60 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 pending acquisitions. The conditions and timing of these transactions have yet to be determined, but we consider €300 million to be a likely minimal investment envelop; and
- Close to €700 million allocated to investment in new areas.

We expect Wendel to have adequate headroom, meaning at least 15% according to our rating approach, under its covenants.

Outlook

The stable outlook reflects our expectation that Wendel's LTV ratio will remain below 35% over our forecast horizon for the next 12-18 months, despite reinvestment activity in the near term.

Upside scenario

We would consider a positive rating action if Wendel's portfolio characteristics were to improve, with special emphasis on asset diversification. As we think that portfolio evolution is usually a medium- to long-term prospect, we see the potential for a positive rating action as limited during our forecast horizon.

An additional improvement in Wendel's financial risk profile could also bolster credit quality, but we do not expect it in the near term, given its investment plans.

Downside scenario

We could take a negative rating action if Wendel failed to manage the LTV ratio within our expectations for the current rating. Any deterioration of the portfolio liquidity and quality--for instance, stemming from a negative migration to riskier or unlisted assets--could also prompt us to take a negative rating action.

Related CriteriaAnd Research

- Corporate 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
- Rating Methodology For European Investment Holding And Operating Holding Companies, May 28, 2004

Ratings List

Upgraded

	To	From
Wendel Corporate Credit Rating	BBB-/Stable/A-3	BB+/Stable/B

Wendel

Senior Unsecured	BBB-	BB+
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Recovery Ratings Withdrawn

	To	From
Wendel Senior Unsecured		
EUR400 mil 4.875% nts due 09/21/2015	BBB-	BB+
Recovery Rating	NR	3
EUR600 mil 5.875% bnds due 09/17/2019	BBB-	BB+
Recovery Rating	NR	3
EUR400 mil 3.75% nts due 01/21/2021	BBB-	BB+
Recovery Rating	NR	3
EUR500 mil 6.75% nts due 04/20/2018	BBB-	BB+
Recovery Rating	NR	3
EUR700 mil 4.875% bnds due 05/26/2016	BBB-	BB+
Recovery Rating	NR	3
EUR700 mil 4.375% bnds due 08/09/2017	BBB-	BB+
Recovery Rating	NR	3
EUR700 mil 4.875% bnds due 11/04/2014	BBB-	BB+
Recovery Rating	NR	3

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