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**Research Update:**

# France-Based Investment Holding Company Wendel Upgraded To 'BBB/A-2'; Outlook Stable


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## Rating Action Overview

- French investment holding company Wendel's active portfolio management in the second half of 2018 resulted in an loan-to value (LTV) ratio below 10%, despite turbulent market conditions.
- In our view, Wendel's improved financial flexibility will allow the company to invest in new assets while maintaining an LTV ratio below 20%.
- We are therefore raising to 'BBB/A-2' from 'BBB-/A-3' our ratings on Wendel, and raising to 'BBB' from 'BBB-' and to 'BBBp' from 'BBB-p' our issue ratings on the company's senior unsecured debt.
- The stable outlook reflects our expectation that Wendel's LTV ratio will not exceed 20% over the next 12 months.

## Rating Action Rationale

The upgrade reflects our view of Wendel's active portfolio management in the second half of 2018, resulting in successful maintenance of a loan-to-value ratio below 10% despite difficult market conditions. Wendel sold unlisted assets for proceeds of about €600 million. At the same time, it reduced its stake in its largest asset Bureau Veritas (BV; unrated) by disposing 4.73% of capital. BV currently represents more than 40% of Wendel's portfolio, with the sale therefore partly addressing its asset base's relatively weak diversity. Total proceeds from all disposals amounted to a little less than €1 billion. Wendel does not publicly commit to maintaining a specific LTV ratio, but its prudent financial policy, which includes active portfolio management, resulted in an LTV ratio that we estimate at 6%-8% at year-end 2018, down from 11%-12% at year-end 2017 and well within our leverage tolerance for the rating (20%). Under our revised base case, Wendel has the capacity to reinvest approximately €1 billion without breaching a 20% LTV threshold. However, in the current market conditions, characterized by looming geopolitical risks, we believe capital redeployment could take longer than we initially expected. Accordingly, imminent capital redeployment is no longer part of our base case. Therefore, the lack of meaningful diversity in Wendel's portfolio will likely continue in the short-term, but this is partly mitigated by increased financial flexibility. Wendel's LTV ratio has remained below 20% for more than two years, indicating increased investment discipline and a more conservative leverage tolerance, in our view. During this time, Wendel's main investee companies, BV, IHS, Stahl, Constantia Flexible, and Allied Universal pursued independent growth both organically and through mergers and acquisitions.

We continue to believe that new investments would address the portfolio's lack of meaningful diversity, which we identify as its main weakness. We estimate that BV accounts for more than 40% Wendel's portfolio. Although we acknowledge BV's positive contribution to the portfolio's blended credit quality, we believe that the benefits from stronger asset diversity will outweigh potentially lower average asset quality. An improving performance at specialty chemical company Stahl, resulting from a strengthened product portfolio after it acquired BASF's leather chemical business in 2017, also support portfolio credit quality. Our base case integrates the acquisition of 4.8% of Stahl's capital from Clariant, announced in January 2019, for a cash out of €50 million, which compares favorably with the estimated market value of the company. We also acknowledge that the Nigeria Economic and Financial Crimes Commission removed restrictions on the deposits of Nigerian tower operator IHS, in which Wendel holds 21.3% of capital.

## Outlook

The stable outlook on Wendel reflects our expectation that the company's LTV ratio will remain below 20% over the next 12-24 months. This is because we anticipate that, in an environment characterized by mounting geopolitical risks, capital redeployment could take longer than expected.

### Upside scenario

We view an upgrade as remote over the next 12 months because we don't anticipate any substantial positive change in asset risk. We also understand that new investments would likely target unlisted assets, which would benefit the portfolio diversity but would not enhance our view of the portfolio's liquidity.

### Downside scenario

We could consider a negative rating action if the LTV ratio increases beyond 20% in the absence of an improvement in the assets' liquidity and diversity. This could happen if Wendel increased net debt to €2.5 billion, stretching its leverage tolerance to the limit allowed under the company's financial policy.

## Company Description

Wendel is a France-based, publicly listed investment holding company, tracing its history back to the eighteenth century steel industry. Wendel-Participations SE, a family vehicle representing the individual interests of more than 1,140 Wendel family members, holds the largest stake in the company (38% as of Dec. 31, 2017). Wendel's investment portfolio was worth approximately €7 billion at the end of 2018 (excluding cash and cash equivalents), with a 35.8% stake in testing, inspection, and certification business BV. Stahl, the market leader in process chemicals for leather products, and IHS, African provider of telecom tower infrastructure for mobile operators, are some of Wendel's other important investments. Together with BV, these represent less than 75% of the holding's portfolio.

## Our Base-Case Scenario

In our base case, we assume:

- No imminent new investments.
- We consider the €500 million exchangeable bonds in Compagnie St Gobain as a short-term debt maturity.
- We consider Stahl capable of distributing dividends and believe this could occur from 2019.
- Wendel's interest expenses declined in 2018 and we assume they will reduce further in 2019 owing to lower net debt than in 2017.

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

- Average cash flow ratios of about 0.9x.
- An LTV ratio well below 20%.

## Liquidity

Our short-term rating on Wendel is 'A-2'. We assess Wendel's liquidity as strong, reflecting our expectation that liquidity sources will likely comfortably exceed liquidity uses by 3.0x in 2019, and by above 1.0x in 2020, even in the event of an unforeseen decline in dividends from portfolio companies. Wendel's generally good access to the bond market, solid relations with banking counterparties, demonstrated by the recent extension of its undrawn revolving credit facility (RCF) to 2023, coupled with comfortable headroom under covenants, supports our assessment.

We include the following principal liquidity sources for the next 12 months from January 2019:

- Net cash and cash equivalents of €2 billion as of as Dec. 31, 2018,;
- Dividends from investee companies exceeding €100 million per year; and
- €750 million undrawn under the RCF, maturing in 2023.

Principal liquidity uses over the same period include:

- €700 million short term debt maturities, which include €500 million bonds exchangeable in shares of St. Gobain maturing in 2019;
- Operating expenses of approximately €70 million;
- Interest expenses of about €75 million-€90 million;
- Dividends likely to exceed €135 million.

## Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Business risk: Fair
- Country risk: Low
- Industry risk: Intermediate
- Investment position: Fair

Financial risk: Modest
- Cash flow/Leverage: Modest

Anchor: bbb-

Modifiers
- Liquidity: Strong (No impact)
- Management and governance: Satisfactory (No impact)
- Comparable rating analysis: Positive (+1 notch)

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Upgraded

| | To | From |
|---|---|---|
| Wendel | | |
| Issuer Credit Rating | BBB/Stable/A-2 | BBB-/Stable/A-3 |
| Senior Unsecured | BBB | BBB- |
| Senior Unsecured | BBBp | BBB-p* |

*The 'p' suffix indicates that the rating addresses the principal portion of the obligation only and that the interest is not rated.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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.