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Research Update:

Wendel Downgraded To 'BB' From 'BB+' On Continued High Leverage; Off Credit Watch Negative; Outlook Negative

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Rationale

On Feb. 12, 2008, Standard & Poor's Ratings Services lowered its long-term ratings on French investment holding company Wendel to 'BB' from 'BB+'. The ratings were removed from CreditWatch, where they were placed on Oct. 9, 2008 with negative implication. The outlook is negative.

At the same time, the 'B' short-term ratings on the company were affirmed. A recovery rating of '3' was assigned to the company's senior unsecured bond issues and a €1.2 billion revolving credit facility due in 2013.

The downgrade reflects Wendel's lack of significant progress in reducing net debt and subsequently its loan-to-value (LTV) ratio to within our rating requirements. Continued depressed equity valuations have reduced the fair market value of Wendel's investment portfolio, while the company's debt levels remain high following an aggressively structured investment (including financing with margin calls) in shares in France-based Compagnie de Saint-Gobain (BBB+/Negative/A-2) in 2007. Positively, Wendel's liquidity position remains strong and a key strength underpinning the ratings due to long average debt maturities and significant cash balances on hand.

The ratings on Wendel are constrained by the company's high financial gearing, a somewhat concentrated investment portfolio, and continued unpredictable equity market conditions. These weaknesses are offset by the company's portfolio of listed and unlisted corporate investments, which provide financial flexibility and annual dividend inflows. In addition, the three largest investments have solid credit quality.

The company's financial gearing (as measured by its LTV ratio based on spot values) remains high (estimated at about 55%-60%), and has not been reduced to within the 40% threshold deemed appropriate for the previous ratings. For the 'BB' ratings, we expect Wendel to reduce gearing so that its LTV ratio improves to below 50% in 2009, and that further progress is made at the beginning of 2010 so it improves to below 45% on a permanent basis. Asset rotation through the investment cycle remains a core strategy for Wendel, and asset disposals could strengthen its financial profile in the intermediate term.

We expect Wendel to maintain its more cautious investment strategy to keep the company's financial flexibility and liquidity adequate. Wendel's investment portfolio has an adjusted value of €6.5 billion based on our estimates, with the bulk (77%) invested in three listed assets: Saint-Gobain (31%), Bureau Veritas (not rated; 28%), and Legrand S.A. (BBB/Stable/A-2; 18%). The three have solid business profiles and are liquid assets--factors that support Wendel's portfolio and credit quality. However, Wendel's

ownership of significant controlling or majority stake in these entities could reduce the company's willingness to sell its shares because it could, in some cases, result in a loss of control or significant influence. As a majority or controlling shareholder, however, Wendel has a strong influence over dividend flows from its core holdings.

Liquidity

The short-term rating is 'B'. Wendel's liquidity remains adequate, underpinned by the long-term nature of the company's debt and current ample cash balances. Wendel had an estimated €1.4 billion of available cash as of Sept. 30, 2008. This, however, is thought to have declined slightly since then, as Wendel typically has net cash outflows in the fourth quarter related to interest payments. The company's only near-term debt maturity is in mid-2009 (€279 million) and the next bond maturity (€600 million) is in 2011. Wendel has an undrawn €1.2 billion committed bank facility maturing in 2013 (with an option to extend for a further year). This is intended for use as bridge financing of any new investments in the medium term. Utilization under this facility is restricted by covenants related to the market value gearing of Wendel's portfolio, and covenant headroom could become very tight in the second half of 2009. However, any action by Wendel to restore its balance sheet is likely to improve the company's covenant headroom.

We expect Wendel to maintain adequate liquidity to cover any additional margin calls linked to the Saint-Gobain investment (the maximum exposure towards margin calls in the Saint Gobain special purpose vehicles was estimated by the company at €0.5 billion as at Dec. 9, 2008). Bonds outstanding are free of covenants, cross defaults, and ratings triggers. They do not benefit from any negative pledges.

Recovery analysis

Standard & Poor's Ratings Services has assigned recovery ratings of '3' to Wendel's existing rated €2.5 billion bonds and €1.2 billion revolving credit facility. The issue ratings on the bonds and bank loan are 'BB', the same level as the corporate credit rating. The recovery rating indicates our expectation of meaningful (50%-70%) recovery in the event of payment default.

Recovery expectations are underpinned by a stressed valuation of the company's investments, allowing for a further 30% decline in the portfolio value and an increase in the level of margin calls on the Saint-Gobain financing. Our hypothetical path to default envisages deterioration in the group's financial position leading to difficulty refinancing debt maturing in 2011, both at the Wendel level and at the level of the holding companies that have issued the Saint-Gobain acquisition facilities.

The recovery rating is based on the existing portfolio and does not take account of possible asset rotations that may occur in the future due to the material uncertainties involved. Further, we have not assumed any drawings on the revolving credit facility on the basis that covenants will limit access to the facility as the portfolio value declines.

As part of our recovery analysis we review the documentation for the company's main debt facilities. However, in this case we have not reviewed the

documentation relating to the Saint-Gobain acquisition financing, which comprises a highly material element in the group's financing structure.

For our full recovery analysis, see "Recovery Report: Wendel's Recovery Rating Profile" to be published shortly on Ratings Direct.

Outlook

The negative outlook reflects Wendel's excessive market value gearing for the current ratings. We expect the company to focus on restoring its LTV ratio so that it falls within our 50% rating threshold in 2009, which is appropriate given the company's strong liquidity situation. Equity market conditions and the share price development of Wendel's three large listed investments in particular will be important considerations for the company's credit profile in the near-term.

Failure to restore the LTV ratio in the near-term or further significant falls in equity valuations could put further pressure on the ratings. The outlook could be revised to stable if the company either successfully reduces or appears very likely to reduce its gearing to within both our near- and long-term rating requirements. However, the revised LTV ratio thresholds are linked to Wendel's current portfolio characteristics at the current rating level, and could be revised if the portfolio risk were unexpectedly to increase. However, we expect the company to maintain an adequately diverse portfolio of mainly listed and creditworthy investments over the near term.

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Wendel		
Corporate Credit Rating	BB/Negative/B	BB+/Watch Neg/B
Senior Unsecured	BB	BB+/Watch Neg
Senior Unsecured		
EUR600 mil 5% bnds due 02/16/2011	BB	BB+/Watch Neg
Recovery Rating	3	
EUR400 mil 4.875% bnds due 11/04/2014	BB	BB+/Watch Neg
Recovery Rating	3	
EUR700 mil 4.375% bnds due 08/09/2017	BB	BB+/Watch Neg
Recovery Rating	3	
EUR1.25 bil multi-curr revolving credit fac due 2013	BB	BB+/Watch Neg
Recovery Rating	3	
EUR400 mil 4.875% bnds due 05/26/2016	BB	BB+/Watch Neg
Recovery Rating	3	
EUR400 mil 4.875% nts due 09/21/2015	BB	BB+/Watch Neg

Recovery Rating

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