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**Research Update:**

# Wendel 'BBB/A-2' Ratings On Watch Negative On Weakening Credit Metrics And Equity Markets

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## Rationale

On Jan. 21, 2008, Standard & Poor's Rating Services placed its 'BBB/A-2' long- and short-term corporate credit ratings on French investment holding company Wendel on CreditWatch with negative implications, as the group's credit metrics have substantially suffered from the sharp deterioration of the financial markets over the past few weeks.

The share price of most of Wendel's assets has significantly fallen, including its stakes in vehicles owning a 17.9% share in Compagnie de Saint-Gobain (SG; BBB+/Stable/A-2). SG's share price is now down 30% on the average purchase price announced by Wendel in November 2007. Leverage and asset coverage, as measured by the loan-to-value (LTV) ratio, are now well above the 25% ceiling for a 'BBB' rating.

In resolving the CreditWatch we could lower the ratings, potentially by more than one notch. We will consider in particular market conditions in the coming weeks; the evolution of Wendel's and/or the vehicles' liquidity and capital structures; the quality and frequency of Wendel's disclosures; and changes to the LTV ratio, specifically whether it returns to below the 25% commensurate with a 'BBB' rating. We will discuss with Wendel's management the steps they will take to restore this ratio. If the LTV ratio falls back below 25%, we could affirm the ratings at 'BBB'.

The ratings on Wendel continue to reflect the good quality of its investment portfolio; its selective strategy of focusing on assets with solid business risk profiles, albeit sometimes with highly leveraged capital structures; and the group's financial flexibility. These strengths are offset by the company's increasingly aggressive financial profile and moderate portfolio diversification.

## Liquidity

Wendel's liquidity has weakened but remains adequate. The long-term nature of Wendel's debt and current ample cash balances mitigate the reduction of leeway on financial covenants--which only apply to an undrawn bank line--and the depressed financial environment, which may constrain assets sales.

We understand that Wendel now has about €1.4 billion in cash and an available undrawn committed bank facility of €1.25 billion maturing in 2012, with two options to extend by one year each. We expect the Dec. 31, 2007 financial covenants in the syndicated facility to have been met and they are tested only semi-annually; in the past three months, headroom has likely reduced significantly, reflecting the sharp erosion of the group's LTV ratio. Bonds outstanding are free of any covenants, cross defaults, or ratings

triggers. The earliest debt maturity falls in 2009.

## Ratings List

	To	From
Corporate credit rating	BBB/Watch Neg/A-2	BBB/Stable/A-2
Senior unsecured bank loan	BBB/Watch Neg	BBB
Senior unsecured debt	BBB/Watch Neg	BBB

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