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## Research Update:

# French Investment Holding Wendel 'BBB-/A-3' Ratings Affirmed On Willingness To Support Loan To Value; Outlook Stable

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## Research Update:

# French Investment Holding Wendel 'BBB-/A-3' Ratings Affirmed On Willingness To Support Loan To Value; Outlook Stable

## Overview

- On Feb. 17, 2016, Wendel announced it's in exclusive negotiations with ALD Automotive for the disposal of its French car leasing business, Parcours, for an estimated €300 million.
- We view positively this portfolio development, given current turbulent equity market prices. Pro forma the transaction, we anticipate loan to value (LTV) to be just in line with our 35% threshold for the current ratings.
- We are therefore affirming our 'BBB-/A-3' ratings on Wendel.
- The stable outlook reflects our expectation that management will continue to be proactive in order to maintain the company's LTV ratio below 35% over the next 12 months.

## Rating Action

On Feb. 19, 2016, Standard & Poor's Ratings Services affirmed its 'BBB-' long-term and 'A-3' short-term corporate credit ratings on French investment holding company Wendel. The outlook is stable.

At the same time, we affirmed the issue ratings at 'BBB-'.

## Rationale

The affirmation follows Wendel's announcement that it will sell its controlling stake in the French business-to-business car leasing company, Parcours, to ALD Automotive, yielding net proceeds of about €250 million. Given the sustained portfolio activity over the past 12-18 months, we expect the funds raised to be earmarked to support the LTV ratio.

Since year-end 2015, the company's LTV has been rising toward 35%, impaired by the poor performance of the equity share price of its two key listed assets, the French building materials company Compagnie de Saint-Gobain (BBB/Stable/A-2) and the French professional services player Bureau Veritas (not rated). This downward trend in both stock prices was broadly in line with that of the CAC 40 French stock market index. The deterioration in LTV has gradually picked up since the beginning of the year as growing uncertainties over the Chinese market, paired with the sharp drop in oil prices, have taken their toll on global stock markets. Under these circumstances, as of Feb. 16,

2016, Saint-Gobain's share price had dropped by 13% since the beginning of the year, and Bureau Veritas' by 6%, leading to an LTV ratio just below 37%. We therefore view positively the contemplated disposal of Parcours as it underpins management's willingness to maintain the group's LTV in line with our guidance for the current ratings, despite a persistently gloomy equity market. Pro forma the Parcours transaction, LTV will fall to just below 35%.

We expect management to initiate further actions, if needed, to ensure an LTV ratio sustainably below 35% as equity markets might remain particularly volatile in the near term. While the room for maneuver might seem limited when comparing Wendel with other companies within the investment holding portfolio, we think that a number of levers can be activated. Management could draw on its remaining unlisted reserves through a complete disposal or a syndication of its existing ownership, as recently initiated on Constantia. The recent difficulties in refinancing Stahl and divesting this asset in unsupportive credit market conditions indicate that value extraction might take longer than anticipated, however. Nevertheless, the Parcours development reflects the number of available options in the unlisted arena--Parcours was not the most obvious candidate for asset rotation, as it was acquired less than five years ago.

Alternatively, Wendel retains some financial flexibility from its stakes in Saint-Gobain and Bureau Veritas. That said, we see this flexibility as somewhat limited, given the benefits derived from both assets in terms of portfolio quality.

In our view, Wendel's business risk profile remains supported by the listed nature and solid, investment-grade creditworthiness of its key listed assets, Saint-Gobain and Bureau Veritas. These companies have world-leading competitive positions and generate free operating cash flow over the economic cycle. Since Wendel's announcement of its €2 billion investment program for the period 2012-2017, portfolio activity has been particularly sustained, with profitable investments and acquisitions undertaken on a timely basis. For this reason, we assign the higher of the two possible anchors of 'bbb-' and 'bb+'. In early 2015, we viewed positively the accelerated bookbuild on Bureau Veritas, as it directed capital toward new lines within the portfolio, featuring moderate growth prospects, resilience to economic downturns, and satisfactory cash flow generation given the limited capital expenditures required. The purchases included a €640 million investment in Austria-based flexible packaging manufacturer, Constantia Flexibles (prior to the €100 million syndication with Maxburg Capital Partners and the ensuing €31 million equity injection), and more recently a \$687 million equity investment in the Security Solutions provider, Allied Barton.

## **Liquidity**

The short-term rating is 'A-3'. We assess Wendel's liquidity as strong as we project that sources of liquidity will likely comfortably exceed liquidity uses by 1.5x in the next 12 months, even in the event of an unforeseen decline in dividends from portfolio companies.

We calculate the following liquidity sources for the next 12 months :

- Net cash and cash equivalents of €1.5 billion (including €334 million of financial investments) as of Nov. 18, 2015;
- Dividends from portfolio companies of about €170 million, which is well below Wendel's average of €200 million, given its reduced share in Bureau Veritas after the accelerated bookbuild in 2015;
- €850 million undrawn under debt with margin calls, of which €350 million is available until end-2019, while the remainder is available until March 2020; and
- €650 million undrawn on a syndicated revolving credit facility that matures in November 2019.

We calculate the following liquidity uses for the same period:

- Short-term maturities of €644 million (about €0.7 billion of debt matures in the subsequent 12 months);
- Operating expenses of approximately €56 million;
- Interest expenses of about €180 million-€190 million;
- Dividends of €2 per share, amounting to about €96 million, complemented by announced minor share repurchases;
- A €31 million contribution to Constantia Flexibles' capital increase for the funding of acquisitions and a €26 million investment in Sterigenics' debt; and
- \$687 million (€645 million) to acquire a 96% share in Allied Barton.

Pro forma the contemplated transaction, the group would gain some further €250 million of inflows, which we expect to be allocated to partial debt repayment.

## **Outlook**

The stable outlook reflects our expectation that management will continue to be proactive in order to maintain Wendel's LTV ratio below 35% over the next 12 months.

Should equity markets further deteriorate for a sustained period, we expect management's commitment will translate into appropriate actions. Furthermore, given the volatile conditions that might prevail in the near term, we will be closely monitoring the company's full-year results and net asset value communication in the coming months to reassess our view on the ratings.

Our stable outlook also factors in that the cash flow ratio is unlikely to deviate from its 0.8x-1.0x average over the next 12 months.

## **Downside scenario**

A negative rating action could occur if we observed a further drop in the share prices of Wendel's key listed investments or a more aggressive financial

policy than we currently expect, which could lead to a LTV ratio higher than 35%. Given currently volatile equity markets and the relatively limited headroom on our LTV expectation of 35%, we would take into account the magnitude and timeframe of a potential deviation, as well as management's actions (or lack of actions) to address the situation. Weakening liquidity or deterioration of portfolio credit quality that translated into a business risk profile closer to our fair category could also put the ratings under pressure.

### **Upside scenario**

We could consider a positive rating action, assuming broadly unchanged asset liquidity, quality, and diversity, if Wendel achieved and maintained an LTV ratio sustainably below 25%. In addition, this would likely require a stabilization of cash burn at the holding company level and a slowdown in current investment activity, unless any acquisitions were largely financed by disposals. But given currently dull and volatile equity markets, we view such a scenario as unlikely.

## **Ratings Score Snapshot**

Corporate Credit Rating: BBB-/Stable/A-3

Business risk: Satisfactory

- Country risk: Low
- Industry risk: Intermediate
- Investment position: Satisfactory

Financial risk: Significant

- Leverage/Cash flow: Significant
- Funding and capital structure: Neutral

Anchor: bbb-

Modifiers

- Liquidity: Strong (no impact)
- Management and governance: Strong (no impact)
- Comparable rating analysis: Neutral (no impact)

## **Related Criteria And Research**

### **Related Criteria**

- Methodology: Investment Holding Companies, Dec. 1, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- Ratings Above The Sovereign–Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

## **Ratings List**

Ratings Affirmed

Wendel

Corporate Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-

### **Additional Contact:**

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