

Bulletin:

Wendel Plans To Use Its Financial Flexibility With A €2 Billion Portfolio Expansion

March 24, 2023

PARIS (S&P Global Ratings) March 24, 2023--S&P Global Ratings today said that the plans of Wendel SE (BBB/Stable/A-2) to spend up to €2 billion on new portfolio companies in the next two years will likely increase its S&P Global Ratings-adjusted loan-to-value (LTV) ratio closer to 20%, from 8.4% at year-end 2022. While the current strong LTV level leaves headroom for new investments, we estimate that a €2 billion capital deployment without asset rotation could result in our pro-forma adjusted LTV increasing to more than 20%, which is the current ceiling for the rating. This would represent a significant change in Wendel's leverage compared with its track record of maintaining LTV below 10% over the past few years. However, based on the limited information available today, we believe that it is relatively difficult to clearly ascertain the final rating impact of the plan, if any, because Wendel's leverage and the holding's portfolio composition will largely be influenced by execution timing and the profile of the new assets.

We understand that the capital deployment is likely to be spread over two years and that the holding could also unlock value from its existing assets to mitigate the immediate impact on its debt leverage. The launch of a €750 million bond exchangeable into Bureau Veritas shares is an example of measures Wendel is taking in this direction. We also note that Wendel's new strategy includes maintaining an investment grade rating, which we believe should limit the extent of the LTV increase.

We also think that Wendel's growth ambitions could increase its portfolio diversity and further strengthen its successful asset rotation track record if newly acquired companies are partly funded by returns on the divestment of existing assets. We believe the future assets will primarily be unlisted, and that their creditworthiness will play a key role in our future assessment of Wendel's portfolio. Higher diversification, along with stronger cash income from Bureau Veritas' payout growth and management fees from Wendel's soon-to-be-launched third-party asset-manager arm would be positive for our assessment, all else being equal. As of Dec. 31, 2022, Wendel's reported net asset value per share decreased to €170.9 from €188.1 a year before, mainly caused by weaker valuations of its listed assets Bureau Veritas, IHS, and Tarkett. Wendel's unlisted assets were more resilient over 2022, with a positive contribution to the net asset value per share of €6.9.

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This report does not constitute a rating action.

