

Rating Action: Moody's affirms Veolia Environnement's Baa1 ratings; stable outlook

09 Oct 2020

Paris, October 09, 2020 -- Moody's Investors Service (Moody's) has today affirmed the Baa1 long-term issuer and senior unsecured ratings of Veolia Environnement S.A. (Veolia). Moody's has also affirmed the (P)Baa1 senior unsecured Euro MTN program rating and Prime-2 short-term rating. The outlook is stable.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

RATIONALE FOR AFFIRMATION OF RATINGS

On 5 October 2020, ENGIE SA (A3, Negative) accepted Veolia's offer to purchase its 29.9% stake in SUEZ for a consideration of EUR18/share [1]. The transaction closed on 6 October 2020 when Veolia made a cash payment of EUR3.4bn in exchange for the shares [2]. Following completion of the purchase, Veolia reaffirmed its intention to launch a takeover offer for SUEZ's remaining capital at EUR18/share, subject to conditions including approval from (1) SUEZ's board of directors; and (2) the European Commission with regards to anti-trust concerns. Veolia expects negotiations with Brussels to last around 12 months.

The affirmation of Veolia's Baa1 ratings takes into account Veolia management's stated commitment to maintaining credit quality. Moody's expects that Veolia will act accordingly to bolster credit quality, and that mitigating measures including disposals will be sufficient to cushion the negative impact on financial metrics from the acquisition of SUEZ's 29.9% stake and the remaining share capital. Moody's therefore anticipates that, if Veolia is successful in acquiring SUEZ's remaining capital, the company will restore financial flexibility commensurate with guidance for a Baa1 rating, which includes funds from operations (FFO)/net debt of around 20%, retained cash flow (RCF)/net debt at least in the mid-teens in percentage terms and FFO interest cover above 4x.

The affirmation of Veolia's Baa1 ratings also reflects that the group will benefit from a markedly increased scale and geographical diversification following the acquisition of SUEZ. With the somewhat complementary geographies of the two groups, the acquisition will enlarge Veolia's international presence, in particular in a context of rising competition in a highly fragmented market, and leverage the ongoing shift towards offering more sophisticated environmental solutions (focus on hazardous waste) and efforts to elevate barriers to entry for potential newcomers. There will be an unchanged focus on water, waste and energy services businesses. The combination will create the leading group in waste and water activities worldwide, with revenue over EUR40 billion (after proposed disposals to address competition issues in France, representing c. EUR4 billion of revenue) and EBITDA close to EUR7 billion. Close to 80% of revenue will be derived outside France. In 2019, Veolia reported EUR27.2 billion revenue and EUR4.0 billion EBITDA.

Veolia's Baa1 ratings continue to be underpinned by (1) the group's size and position as one of the largest groups in global environmental services, a sector supported by positive structural dynamics; (2) the diversification of its revenue base by business, contract type and geography; and (3) the relatively low risk profile of its water business, which accounted for 41% of 2019 revenue.

These positives are balanced by (1) Veolia's exposure to the macroeconomic cycle through its waste business, which accounted for 37% of revenue during the same period; and (2) the increasing proportion of short-term contracts with industrial clients in its revenue mix.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Veolia's management will take appropriate measures to restore financial flexibility at the current rating level if the company is successful in acquiring the remaining share capital in SUEZ. It also factors in Moody's assumption that any potential deterioration in the company's business risk profile because of increased exposure to industrial clients could be offset by a further improvement in its credit metrics.

LIQUIDITY

Veolia's liquidity is sound, based on (1) EUR4.5 billion of cash and cash equivalents (excluding restricted cash and after the EUR3.4 billion payment to buy 29.9% of SUEZ capital) on its balance sheet and (2) undrawn credit lines of EUR4.2 billion in aggregate. These credit lines mainly consist of (1) a syndicated facility of EUR3 billion maturing in 2022, and (2) undrawn bilateral facilities of EUR1.1 billion maturing between 2021 and 2025. These facilities contain no triggers, covenants, material adverse changes or general restrictions. Liquidity has also been reinforced by bond issuances in April of EUR700 million and in June of EUR500 million. Debt maturities over the next 24 months includes EUR1.1 billion in Q4 2020 and EUR638 million in Q1 2021.

We expect the group to be broadly free cash flow neutral after dividend payments over the next 12 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A rating upgrade is unlikely in the next two years given the current weak operating environment and the adverse impact on credit metrics of the SUEZ acquisition. In the longer term, upward pressure on the ratings could develop if Veolia were to achieve RCF/net debt approaching 20% on a sustained basis.

Veolia's ratings could be downgraded if credit metrics appear likely to remain on a sustained basis below Moody's guidance for the Baa1 rating, which includes FFO/net debt of around 20%, RCF/net debt at least in the mid-teens in percentage terms and FFO interest cover above 4x, because of weaker-than-expected operating performance or increased investments.

The principal methodology used in these ratings was Environmental Services and Waste Management Companies published in April 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1113573 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in Aubervilliers, France, Veolia is one of the world's largest providers of environmental services. It provides drinking water to 98 million people, wastewater treatment services to 67 million people and waste management services to 42 million people. Veolia is listed on the Paris Stock Exchange, with a market capitalisation of around EUR10.8 billion as of 7 October 2020.

LIST OF AFFECTED RATINGS

..Issuer: Veolia Environnement S.A.

Affirmations:

....LT Issuer Rating, Affirmed Baa1

....Commercial Paper, Affirmed P-2

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa1

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

....Senior Unsecured Shelf, Affirmed (P)Baa1

Outlook Actions:

..Issuer: Veolia Environnement S.A.

....Outlook, Remains Stable

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

REFERENCES/CITATIONS

[1] Engie PR "The Board of Directors accepts VEOLIA's offer to purchase its stake in SUEZ" 05-Oct-2020

[2] Engie PR "Transaction completion" 06-Oct-2020

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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