

Bulletin:

Strong Expected Performance For Veolia In 2021 Should Offset Weaker 2020 Results

February 25, 2021

PARIS (S&P Global Ratings) Feb.25, 2021--S&P Global Ratings said today that French utility Veolia Environnement S.A.'s expected strong performance in 2021 should offset the negative impact of the COVID-19 pandemic on 2020 results, which were in line with our expectations.

Veolia reported EBITDA of €3.6 billion, down from €4.0 billion in 2019. Despite this decline, we expect EBITDA will rebound in 2021 to above €4.0 billion (not including newly acquired 29.9% stake in Suez S.A., which will be accounted for as an equity affiliate). This, coupled with an expected reduction in net debt to below €12.0 billion should result in credit metrics consistent with the current rating, notably net debt to EBITDA of below 3x in 2021, which corresponds to adjusted funds from operations (FFO) to debt above 20%. A rebound in operating activity in 2021 will be instrumental in maintaining the stable outlook (for more information please refer to "French Utility Company Veolia Affirmed At 'BBB/A-2' On Proposed Takeover Of Suez" published on Feb. 22, 2021, on RatingsDirect).

The COVID-19 pandemic had a significant negative impact on Veolia's waste and energy operations in 2020, and also led to a total foreign exchange impact of €59 million on EBITDA. The performance of Veolia's water business was almost stable year on year, but was affected by less construction work as a result of the pandemic. For the waste and energy businesses, revenue decreased by 4.1% and 2.0% year on year, respectively, at constant scope. Despite the challenging operating conditions, Veolia continued to invest in 2020, with capital expenditure accelerating to a still high €2,151 million versus €2,201 million in 2019, in line with Veolia's 2019-2023 strategic plan. Veolia's fourth-quarter 2020 results were stronger than fourth-quarter 2019 results, with EBITDA increasing by 4.2%, affirming the positive trend shown in third-quarter 2020, which saw EBITDA growth of 1.7%.

Veolia invested €1,476 million in inorganic growth in 2020, with the purchase of district heating assets in Prague and Budapest from EP Infrastructure amounting to about €1.0 billion (please refer to "EP Infrastructure Could Gain Headroom In Its Credit Metrics After Divesting District Heating Assets" published on Sept. 7, 2020, on RatingsDirect), as well as the 29.9% stake acquisition in Suez for €3.4 billion. As a result, reported net debt increased to €13,217 million versus €10,680 million in 2019, with reported net debt to EBITDA increasing to 3.6x from 2.7x. Reported net debt was higher than we expected because Veolia delayed some remedy measures for the 2020 acquisitions until 2021, notably those related to the district heating assets in Prague.

We note that, on Feb. 8, 2021, Veolia submitted its offer for the 70.1% stake in Suez to the Autorité des Marchés Financiers, with an answer expected in a month or two. We do not expect the offer

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will become effective before the end of 2021, with payment expected in 2022, given the takeover is subject to European antitrust approval, which we understand could take nine-to-15 months.

Key metrics

Veolia Environnement S.A.--Key Metrics

(Bil. €)	2019a	2020e	2021e	2022e	2023e
EBITDA reported	4	3.5-3.7	3.9-4.1	6.2-6.7	6.5-7.0
EBITDA*	3.7	3.3-3.6	3.8-4.1	6.2-6.7	6.2-6.7
Debt*	13	15.0-16.0	15.0-16.0	25.0-30.2	20.0-30.0
Capex*	1.9	2.2-2.5	2.2-2.7	3.0-3.5	2.8-3.3
Dividends*	0.7	0.4-0.5	0.7-0.8	1.0-1.3	1.0-1.3
FFO/debt* (%)	22.6	16.0-19.0	20.0-21.0	18.0-20.0	20.0-22.0
Debt/EBITDA* (x)	3.5	4.4-4.9	3.5-4.0	3.7-4.2	3.5-4.0

Capex--Capital expenditure. FFO--Funds from operations a--Actual. e—Estimate. *S&P Global Ratings-adjusted figures.

Related Research

- French Utility Company Veolia Affirmed At 'BBB/A-2' On Proposed Takeover Of Suez; Outlook Stable, Feb. 22, 2021
- Ratings On Six European Integrated Utilities Affirmed Amid Accelerated Energy Transition; One Outlook Now Negative, Feb. 17, 2021
- The Energy Transition And The Diverging Credit Path For European Utilities, Feb. 16, 2021
- The Energy Transition And What It Means For European Power Prices And Producers: January 2021 Update, Jan. 27, 2021
- France-Based Utility Veolia Environnement's Proposed Junior Subordinated Hybrid Notes Rated 'BB+', Oct. 14, 2020
- French Utility Veolia To Offset €3.4 Billion Stake Purchase In Suez With Remedy Measures, Oct. 6, 2020
- EP Infrastructure Could Gain Headroom In Its Credit Metrics After Divesting District Heating Assets, Sept. 7, 2020
- French Utility Veolia Environnement 'BBB' Rating Affirmed After €2.9 Billion Bid For 29.9% Stake In Suez; Outlook Stable, Sept. 1, 2020
- Veolia Environnement S.A., June 10, 2020
- French Utility Veolia Environnement S.A. Affirmed At 'BBB' Despite COVID-19 Operating Uncertainty; Outlook Stable, March 27, 2020

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