



RATING ACTION COMMENTARY

Fitch Affirms Veolia at 'BBB', Outlook Stable Ahead of Suez Takeover

Fri 30 Apr, 2021 - 1:27 PM ET

Fitch Ratings - Frankfurt am Main - 30 Apr 2021: Fitch Ratings has affirmed the Long-Term Issuer Default Rating (IDR) and senior unsecured rating of Veolia Environnement S.A. at 'BBB'. The Outlook on the IDR is Stable.

The affirmation reflects Fitch's expectation that the company has sufficient financial flexibility to deleverage once the expected takeover of Suez SA closes, as well as Veolia's improved scale, diversification and market position post-transaction.

The Stable Outlook reflects our expectation that Veolia will carry out sufficient remedial actions to improve credit metrics to a level commensurate with a 'BBB' rating by the end of the rating horizon. Fitch assumes a pro-forma full-year impact of the Suez takeover, net of the divestment of the so-called New Suez, by 2022.

We estimate funds from operations (FFO) net leverage to average 5.2x over 2021-2023. We have revised Veolia's negative leverage sensitivity up to 5.0x from 4.7x to account for Veolia's stronger business profile post-transaction.

KEY RATING DRIVERS

Agreement Brings Clarity: The in-principle agreement reached by Veolia and Suez has brought some clarity on the transaction, with an agreed price per share of EUR20.5 for the 70.1% of Suez capital not owned by Veolia and a clear scope of the assets to be stripped out

FitchRatings

Veolia's ability and commitment to restore its balance sheet and credit metrics to a level commensurate with 'BBB' after the transaction closes.

Stronger Market Position: Veolia will strengthen its position as the world leader in the highly fragmented environmental services sector with widely diversified operations both across businesses and globally, especially as New Suez will mainly focus on France. Fitch believes the combined group with revenue of about EUR37 billion and (Fitch-defined) EBITDA of about EUR4.7 billion will benefit from key competitive advantages and superior size to capitalise on the expected growth of the industry.

Revenue Diversification Improves: Veolia will reduce its concentration on the French market as a result of the Suez takeover and simultaneous disposal of New Suez, reinforcing its presence in Europe (especially Spain and the UK), North America, Australia and Latin America (especially Chile). Suez's assets identified as strategic by Veolia represent a balanced business mix that will increase the exposure to low-risk water activities to about 45% of total revenue, according to our estimations. We forecast Waste and Energy Services to represent about 40% and 15% post-transaction, respectively.

High Leverage Post-transaction: Veolia's FFO net leverage peaked at 6.7x in 2020 (2019: 4.2x), due to the lack of sufficient remedial actions to offset the acquisitions of the 29.9% stake in Suez, and the assets in central Europe. We expect the company to reduce leverage to about 5.0x by end-2021. However, the acquisition of Suez (which we assume at 100%) net of the disposal of the New Suez, would bring leverage to 5.5x-6.0x in 2022. We assume this will fall towards 5.0x in 2023 due to remedial actions and, to a lesser extent, organic growth and synergies.

Veolia has committed to take any necessary actions to restore its financial structure towards a reported net debt/EBITDA below 3x (excluding hybrid debt), which is commensurate with our revised guideline of FFO net leverage of 5.0x.

Transaction Risks and Remedial Actions: In our view, the most critical transaction risks arise from the sale of New Suez. A lower-than-expected valuation of New Suez or a delay in its full divestment would be credit negative for Veolia if this is not offset with stronger remedial actions. Such risks could be exacerbated by the conditions that buyers of the New Suez will need to respect, i.e. the social commitments in France and the required long-term

FitchRatings

Revised Sensitivity: We have revised Veolia's FFO net leverage negative sensitivity to reflect our view on an improved business risk profile post-transaction, with a stronger market position, higher scale and increased diversification. We expect the full integration of the two leaders in environmental services, with complementary geographical reach and businesses, to create opportunities for synergies and competitive advantage in costs, technologies and services.

EBITDA Target at Pre-Covid-19 Levels: The pandemic had a significant impact on Veolia's operations in 1H20, while the company's performance recovered by end-20. Revenue in 2020 was down 2.9% at constant foreign exchange rates, and reported EBITDA fell by 8% yoy. The impact was more prevalent among industrial clients and construction activities, but municipal activities were more resilient. Veolia expects a rebound to pre-pandemic levels in 2021, with a 10% increase in reported EBITDA.

DERIVATION SUMMARY

The 'BBB' rating mainly reflects Veolia's scale and diversification both by business (mostly contracted and quasi-regulated water, and higher-risk waste management) and geographically. Fitch sees higher debt capacity for Veolia at the same rating than US peers Waste Management, Inc. (BBB+/Stable) and Republic Services, Inc. (BBB/Stable), which are solely present in the US waste industry and therefore lack Veolia's geographic diversification.

Veolia's FFO net leverage is comparable with those of Italian multi-utilities Acea SpA (BBB+/Stable) and Iren S.p.A. (BBB/Stable). Acea has the strongest business profile with earnings dominated by regulated network business, leading to a one-notch-higher rating at the same leverage level. Veolia is significantly larger than Spain's FCC Servicios Medio Ambiente Holding, S.A.U. (FCC MA; BBB-/Stable), and benefits from diversification into energy and lower-risk water activities. However, Veolia is more exposed to commercial and industrial customers in its waste operations and has weaker credit metrics. Veolia's overall stronger business profile underpins the one-notch rating differential with FCC MA.

KEY ASSUMPTIONS



Proceeds from the 100% divestment of New Suez (including its equity stakes) of EUR9.6 billion in 2022.

Further disposals of EUR2.9 billion in 2021-2023, of which EUR1.9 billion relates to Veolia's strategic plan, with the rest deriving from the Suez acquisition.

Funding choices with equity components targeting a post-transaction net debt/EBITDA below 3.0x in 2023.

Fitch-defined EBITDA (net of leases, restructuring charges, renewal expenses, principal payments on operating financial assets and provisions) at about EUR4.7 billion by 2023, including net contribution from Suez's acquisition of EUR1.5 billion.

Fitch-defined Capex of about EUR1.8 billion in 2021, and about EUR3 billion in 2022 and 2023 after the consolidation of Suez.

Average dividends of EUR540 million a year for 2021-2023.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

We see limited rating upside due to the contemplated transaction, unless the business profile strengthens markedly through strategic repositioning and financial results outperform expectations with sustainable positive free cash flow and FFO net leverage below 4.3x.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

FFO net leverage persistently above 5.0x, for example, due to insufficient or significantly delayed remedial actions to mitigate the financial impact of the acquisition or the materialisation of any transaction risk (i.e. lower proceeds from the disposal of New Suez).



BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: At end-December 2020, Veolia had total liquidity of EUR10.2 billion, mainly comprising EUR5 billion of centralised cash, EUR1.1 billion of cash held by subsidiaries and EUR4 billion of undrawn credit lines. This compares with short-term maturities of EUR7.2 billion (excluding lease debt and factoring), which include EUR0.6 billion of bonds and EUR5.9 billion of commercial paper, which we expect to be rolled over.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.



ENTITY/DEBT	RATING			PRIOR
Veolia Environnement S.A.	LT	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
● senior unsecured	LT	BBB	Affirmed	BBB
● subordinated	LT	BB+	Affirmed	BB+

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Jaime Sierra

Analyst

Primary Rating Analyst

+49 69 768076 275

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Maria Linares

Associate Director

Secondary Rating Analyst

+34 93 492 9512

Antonio Totaro

Senior Director

Committee Chairperson

+39 02 879087 297

MEDIA CONTACTS

Adrian Simpson

London



Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Corporate Hybrids Treatment and Notching Criteria \(pub. 12 Nov 2020\)](#)

[Corporate Rating Criteria \(pub. 21 Dec 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[Corporate Monitoring & Forecasting Model \(COMFORT Model\), v7.9.0 \(1\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Veolia Environnement S.A.

EU Issued, UK Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT



ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not

FitchRatings

meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are

FitchRatings

subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

UNSOLICITED ISSUERS

ENTITY/SECURITY	ISIN/CUSIP	RATING TYPE	SOLICITATION STATUS
Veolia Environnement S.A. GBP 650 mln 6.125% Notes 29 Oct 2037	FR0010535567	Long Term Rating	Unsolicited
Veolia Environnement S.A. EUR 1.15 bln Variable hybrid capital instruments	FR00140007L3	Long Term Rating	Unsolicited
Veolia Environnement S.A. EUR 500 mln 0.927% bond/note 01/15/2022	FR0013210416	Long Term Rating	Unsolicited

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#)



daily basis.

Corporate Finance Utilities and Power Europe France

ga('set', '732-ckh-767', 'USER_ID');