

Bulletin:

French Utility Veolia's €2.5 Billion Capital Increase For Suez Acquisition Reduces Execution Risk And Increases Headroom

September 21, 2021

PARIS (S&P Global Ratings) Sept. 21, 2021--S&P Global Ratings today said that the €2.5 billion capital increase announced by French utility Veolia Environnement S.A. (Veolia; BBB/Stable/A-2) for the full acquisition of Suez S.A. (Suez) removes significant execution risk for the transaction and increases credit metric headroom.

The capital increase, announced on Sept. 16, 2021, was one of the key remedy measures we expected Veolia to use to remediate its €24.8 billion bid for Suez (including €12.1 billion for Suez's reported net debt), together with the pre-agreed back-to-back disposal of Suez's French operations (see "French Utility Veolia Affirmed At 'BBB/A-2' On Agreed Merger With Suez; Outlook Stable," published April 16, 2021, on RatingsDirect). Another key element we will monitor is the refinancing of Suez's outstanding hybrids. We treat Suez's €1.6 billion of outstanding perpetual hybrids (at Dec. 31, 2020)--with first call dates seven years after issuance and further call dates every five years afterward--as 100% debt. This is because the step-up margin is a cumulative 100 basis points (bps) over 12 years compared with the 25 years stated in our criteria. In our base case, we assume Veolia will find a solution for this hybrid stock to receive intermediate equity content.

The capital increase is €500 million higher than we initially expected, with an about 100 bps positive impact on S&P Global Ratings-adjusted funds from operations (FFO) to debt over 2021-2023. Our updated base-case scenario reflects S&P Global Ratings-adjusted FFO to debt above the 20% threshold for the current rating over 2022-2023. We will update our base case and credit assessment for the future group once Veolia receives EU anti-trust approval, which it expects to file for in mid-October with final approval by year-end 2021, notably to reflect the stronger business risk after the merger with Suez.

Veolia Environnement S.A.--Key Metrics

(Bil. €)	2019a	2020a	2021e	2022e	2023e
EBITDA reported (after IFRIC 12)	3.4	2.9	3.5-3.7	6.0-6.3	6.2-6.5
EBITDA*	3.7	3.2	3.9-4.1	6.3-6.5	6.5-6.8
Debt*	13	16.2	15.0-16.0	22.0-25.0	22.0-25.0
Capital expenditure*	1.9	1.7	2.2-2.7	3.0-3.5	2.8-3.3

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Veolia Environnement S.A.--Key Metrics (cont.)

(Bil. €)	2019a	2020a	2021e	2022e	2023e
Dividends*	0.7	0.4-0.5	0.7-0.8	1.0-1.3	1.0-1.3
FFO to debt* (%)	22.6	14.9	20.0-22.0	19.5-21.5	20.0-22.0
Debt to EBITDA* (x)	3.5	5.2	3.5-4.0	3.5-4.0	3.5-4.0

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

We understand capital increase closing is expected by Oct. 8, 2021, and that there is no claw back related to the potential failure of the anti-trust approvals for the deal.

Related Research

- Veolia Environnement S.A., July 19, 2021
- SUEZ Water Resources LLC Off CreditWatch, Outlook Is Negative, On Merger Agreement Of Parent With Veolia; April 16, 2021
- French Utility Veolia Affirmed At 'BBB/A-2' On Agreed Merger With Suez; Outlook Stable; April 16, 2021
- How Veolia's Bid For Suez May Transform Its Credit Profile, March 18, 2021
- Strong Expected Performance For Veolia In 2021 Should Offset Weaker 2020 Results, Feb. 25, 2021
- 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
- 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
- French Utility Veolia Environnement 'BBB' Rating Affirmed After €2.9 Billion Bid For 29.9% Stake In Suez; Otlk Stable, Sept. 1, 2020

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