Franz Haniel & Cie. GmbH
Germany, Investment Holding Companies

SCOPE BBB- STABLE

Corporate profile

Franz Haniel & Cie. GmbH (Haniel) is an investment holding company. Haniel manages a diversified portfolio and pursues a long-term investment strategy as a value developer with no operating activities of its own. The company focuses on the receipt of recurring dividend payments from its different shareholdings in addition to value creation. Additional cash flows can be generated from the full or partial sale of shareholdings and other assets. The current portfolio primarily comprises controlling stakes in CWS, TAKKT, BekaertDeslee, emma, ROVEMA, Optimar, BauWatch, KMK Kinderzimmer and minority positions in CECONOMY and METRO. In addition, Haniel dedicates a small portion of its portfolio to direct and indirect (via private equity funds) investment in companies which are at an early stage in their development, e.g. infarm, Sdui, wandelbots and Gilde Healthcare V growth capital fund.

Key metrics

			Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Total cost coverage	1.1	1.5	1.1	1.2	1.1
Loan-to-value (Scope-adjusted debt/portfolio market value)	3%	10%	Depending on new investments and market developments		
Liquidity	>200%	>200%	>200%	>200%	>200%

Rating rationale

Scope Ratings GmbH (Scope) has affirmed its issuer ratings of BBB-/Stable on Germany-based Franz Haniel & Cie. GmbH. Senior unsecured debt has been affirmed at BBB-, short-term debt has been affirmed at S-2. The issuer rating and debt category ratings of Haniel's financing subsidiary Haniel Finance GmbH have been likewise affirmed, although no long-term debt is currently outstanding.

The affirmation reflects Haniel's sustained financials with a solid total cost cover of more than 1.0x, even in distressed years such as 2020, and continuously low portfolio market gearing, which provides good headroom for further portfolio development.

We maintain the Stable rating Outlook, reflecting our expectation that Haniel will keep sustained total cost coverage within a range of 1.0-1.3x. This implies that cash contributions from portfolio companies would have to fall short of our forecasts by 13%-23% for recurring cash inflow to be unable to fully cover recurring holding company costs, including expected shareholder remuneration (i.e. before total cost coverage drops to below 1.0x).

A positive rating action could be warranted if we expect total cost coverage of above 1.3x on a sustained basis, also bolstered by a more granular recurring cash inflow from portfolio companies. This could be the result of a more granular investment portfolio with dividend payments or profit sharing from more than the strongest three ventures at present.

A negative rating action could result if Haniel exceeds its communicated net debt target, without offsetting this through additional dividend streams from new investee companies, or if we expect total cost coverage to deteriorate to a level below 1.0x.

Ratings & Outlook

Corporate ratings	BBB-/Stable
Short-term debt rating	S-2
Senior unsecured debt rating	BBB-

Analyst

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Related Methodology

Corporate Rating Methodology, July 2021

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Rating drivers

Positive rating drivers	Negative rating drivers
• Buy-and-hold investment approach with primary focus on recurring income streams, e.g. dividends and other income from portfolio companies and financial assets • Portfolio companies which are largely market leaders in their respective industries and with well-established business models in mature markets • Sharper investment focus on companies which follow sustainable development goals and global megatrends (healthcare and wellbeing, the circular economy, climate change, and robotics and automation); expected cash flow generation from such sustainable investments is credit-positive from an ES(G) perspective • Ongoing rebalancing of investment portfolio in line with investment strategy, bolstered by current liquidity, good access to unused, committed credit lines and further sizeable investment headroom • Balanced industry allocation in the investment portfolio, which contains uncorrelated exposures to non-cyclical and cyclical industries • Strong geographical diversification across revenue streams in the investment portfolio • Expectation of a sustained total cost coverage above 1.0x • Commitment to keeping net debt below EUR 1bn over the medium-to-long term, even after new investments, which provides significant debt headroom after the recent acquisitions	• Number of shareholdings and thus portfolio diversification remains limited (currently eight excluding financial assets), resulting in high concentration risks in terms of income sources and net asset value • Limited asset liquidity due to large share of unlisted subsidiaries which cannot be sold immediately if liquidity is urgently needed, partly offset by Haniel's buy-and-hold investment approach and comfortable liquidity • Increased focus on SMEs results in stronger earnings volatility, partly offset by improved diversification • Volatile leverage (loan-to-value) stemming from market volatility

Rating change drivers

Positive rating-change drivers	Negative rating-change drivers
• Remote possibility in the short term given the limited visibility on a potential significant improvement in total cost coverage to a sustained level of 1.3x or above	• Total cost coverage of below 1.0x on a sustained basis • Breach of the company's net debt target of EUR 1bn if not justified by equivalent dividend income

Financial overview

			Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Total cost coverage (from recurring income)	1.1x	1.5x	1.1x	1.2x	1.1x
Total cost coverage without dividend payments (recurring)	2.3x	3.5x	1.9x	3.7x	3.4x
Loan-to-value ratio (Scope-adjusted debt/portfolio market value)	3%	10%	Depending on new investments and market developments (<20%)		
Liquidity	>200%	>200%	>200%	>200%	>200%
Cash flows (EUR m)	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Recurring cash inflows (dividends and profit transfers)	126	159	167	168	171
Non-discretionary cash outflows (incl. net interest payments)	114	106	167	136	150
Balance sheet/indebtedness (EUR bn)	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Scope-adjusted debt (incl. pension adjustments)	0.1	0.6	<1.0	<1.0	<1.0
Net asset value	5.5	5.5	n/a	n/a	n/a

Source: Haniel, Scope

ESG profile

Environment	Social	Governance
Resource management (e.g. reduced consumption of water, energy and raw materials, cut in emissions, fuel efficiencies)	Labour management	Company control (supervisory boards, key person risk)
Efficiencies (e.g. in production process)	Safety	Clarity/transparency (financial disclosures, transparent communication/ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditors)

Haniel has a detailed and thorough ESG strategy, focusing on the combination of sustainability (for the next generation – 'enkelfähig') and performance. The holding's investment and portfolio strategy focuses on invest criteria (performance indicators, strategic fit, value creation potential) and the company's 'Future Worth Living' rating. This is credit-positive from an ESG perspective.

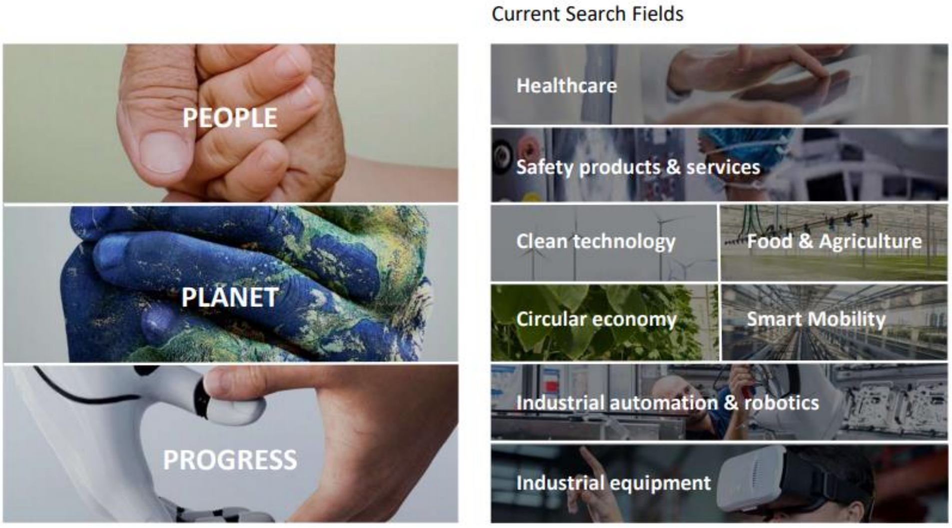
Business risk profile

Sharpened investment focus should lead to more stable income in the medium term

Focus on ES(G)-relevant investments

Haniel's rating continues to reflect the continued execution of its finely tuned investment strategy, which focuses on investments in controlling stakes of mature SMEs. More specifically, the investments need to match a business purpose that is in line with Haniel's 'People, Planet, Progress' strategy. This strategy focuses on companies/investments that serve global and sustainable megatrends as displayed in Figure 1 (credit-positive ESG factor, which is likely to support a sustained business profile).

Figure 1: Focus areas under Haniel's 'People, Planet, Progress' investment strategy



Source: Haniel

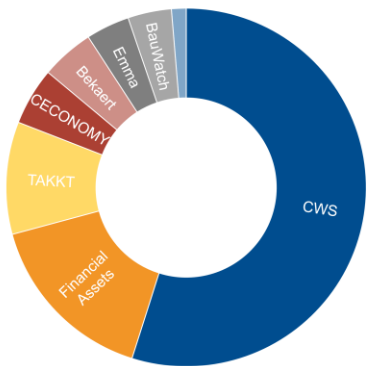
High dependence on few income-contributing portfolio ventures will continue over the next few years

Concentrated income stream expected to persist in medium term

The ongoing portfolio reshuffle, with twelve investments as of April 2022, has continued to improve gross asset value (+10% at the end of 2021, year-on-year) and provided exposure to a higher number of industries with only a limited correlation. At the same time, the effect on diversification among dividend- and income-generating assets remains subdued. While the Covid pandemic further limited Haniel's income diversity in 2020 (as major dividend- and income-generating portfolio companies cut shareholder payouts in order to preserve cash), 2021 saw a strong rebound in income generation for the holding company. This was, however, limited to the 'mature' portfolio companies; relatively new portfolio additions (Emma, BauWatch and KMK) did not contribute.

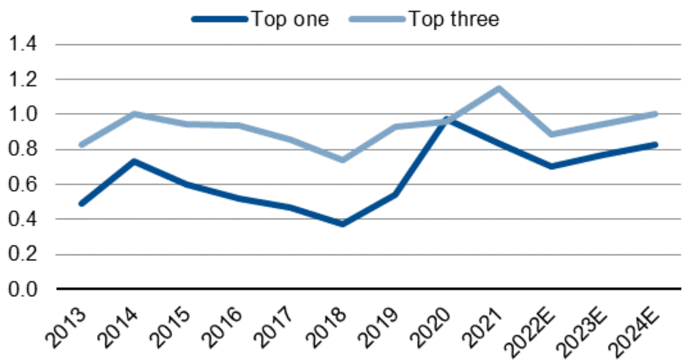
Over the longer term, we continue to expect that Haniel's dividend diversity will be gradually strengthened by portfolio expansion. Nevertheless, income concentration is likely to remain high in the medium term, as our conservative base case assumes no dividends from newly acquired investments until 2024. While this might seem unrealistic given the abovementioned companies' high growth rates, it incorporates the Haniel portfolio's dependence on CWS, as the main income generating asset, performing well for the next few years until greater income diversification can be achieved. Haniel will continue to significantly reduce its stakes in METRO and CECONOMY (reflecting negatively on portfolio liquidity and fungibility) and made heavy external and internal investments in 2021. Nevertheless, this has not had a negative effect on firepower to make additional investments. We continue to attach less importance to Haniel's reduced exposure to liquid/listed portfolio companies as long as there is sufficient visibility that the company will not require asset sales given sustained sufficient total cost coverage and adequate liquidity profile.

Figure 2: Persistently high asset concentration in 2021



Source: Haniel, Scope

Figure 3: Concentration risk as measured by income contributions from portfolio companies



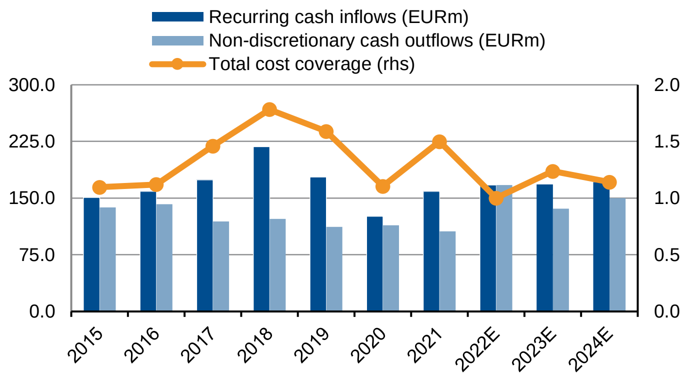
Source: Haniel, Scope

Solid financial risk profile even under distressed macroeconomic conditions

Sustained total cost coverage of above 1.0x

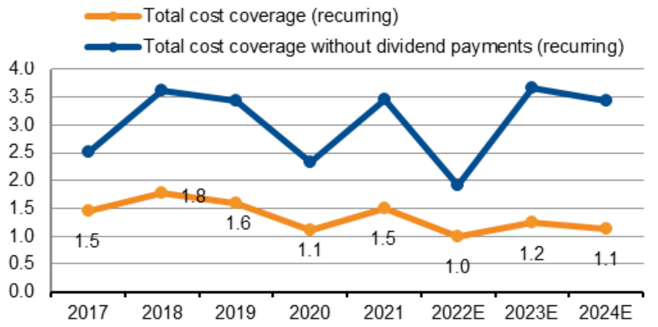
Haniel's credit strength is underpinned by a very good total cost coverage of 1.5x in 2021 – a year that was characterised by a strong earnings recovery after the pandemic-related uncertainties the year before. We forecast that Haniel will retain full cost coverage over the next three years, albeit at lower levels than in 2021. The holding company's total cost coverage ratio should still be in the 1.0x-1.3x range, which is sufficient for the credit rating. This is largely the consequence of our expectations of higher holding company costs with regard to shareholder remuneration as well as higher income contributions (such as dividends and profit-sharing) from its major income generating portfolio companies (primarily CWS but also TAKKT and Bekaert). Resumed dividend payouts from CECONOMY and smaller portfolio ventures could provide some further upside. We believe that Haniel is likely to balance higher income from portfolio companies with shareholder remuneration such as dividend payouts to its own shareholders and share buybacks that are in line with growing portfolio income. This is likely to be partly mitigated by reduced operating holding costs (salaries and overheads), which peaked in 2020 and are now – following restructuring – expected to fall.

Figure 4: Total cost coverage



Source: Haniel, Scope estimates

Figure 5: Total cost coverage (base case without any cuts to dividend pay-outs going forward)

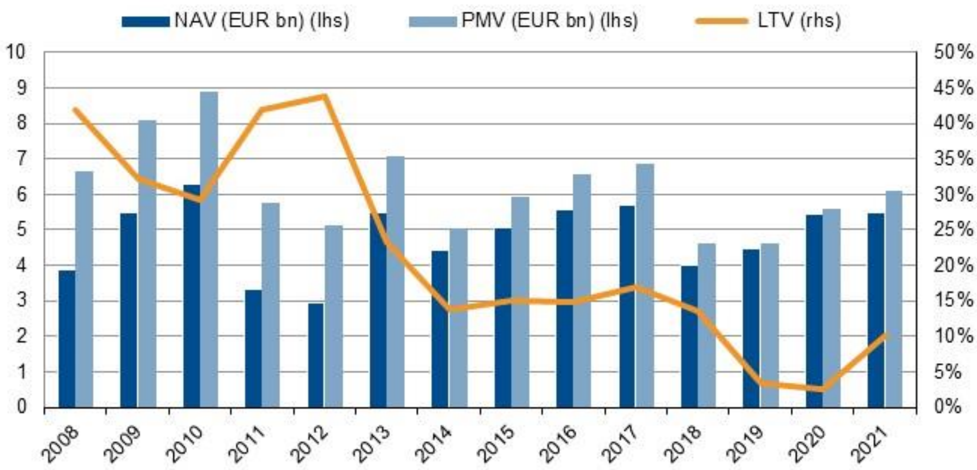


Source: Haniel, Scope estimates

Large debt headroom stemming from very low market value gearing

Haniel's indebtedness is very comfortable, with a low Scope-adjusted loan-to-value ratio (LTV) of about 10% at year-end 2021. This is largely supported by the holding company's still fairly low net financial debt exposure of about EUR 600m (Scope-adjusted debt), despite a notable increase year-over-year. This was caused by Haniel's strong investment activity in 2021, both externally (new acquisition of a 60% stake in KMK Kinderzimmer, increase in its TAKKT stake) and internally to fund existing participations. The heavy investment level could not be compensated for by the strong value appreciation of Haniel's portfolio market value to EUR 6.0bn (up from EUR 5.5bn at year-end 2021) to keep the LTV ratio from rising. The holding company's low net debt exposure affords large headroom for additional debt, which can be used for portfolio additions or to support portfolio companies through cash injections funded at the holding company level. In light of Haniel's slow portfolio ramp-up, we anticipate no major changes to portfolio market gearing.

Figure 6: Market value gearing



Source: Haniel, Scope

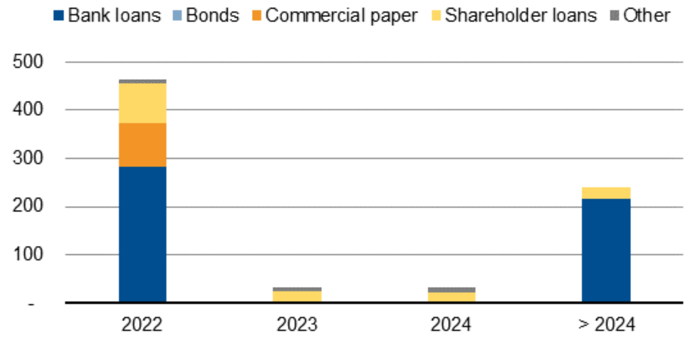
Retained investment headroom

We calculate that Haniel has retained significant headroom of about EUR 1.4bn on new debt after its recent acquisitions and investments. This firepower could be used for further portfolio developments before reaching the publicly communicated net debt ceiling of EUR 1bn. The holding company's relative indebtedness remains exposed to market volatility – but to a lesser extent than before – via fluctuating share prices and moving multiples used for valuating non-listed portfolio companies. Haniel's portfolio market value would have to deteriorate by 35% before reaching an LTV ratio of 25%. As such, the company's financial position remains strong, as expected for its investment grade rating.

Robust liquidity

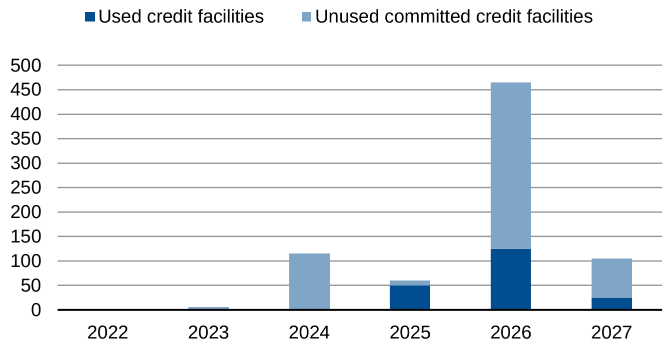
Haniel's liquidity continues to be strong. Following the full redemption of the EUR 500m exchangeable bond in 2020, the holding company faces debt repayments adding up to about EUR 520m over the next three years (EUR 464m in 2022, around EUR 30m in 2023 and about EUR 20m in 2024). Most of this is related to bank debt and commercial paper but also to the shareholder loan from Haniel family members. Incorporating an expected total coverage of above 1.0x over the term and an undrawn amount of EUR 755m from committed multi-year credit facilities, these maturities are comfortably covered with basically no refinancing risks that would necessitate the sale of any shareholdings.

Figure 7: Expected maturity profile at YE 2021 (in EUR m)



Source: Haniel, Scope

Figure 8: Committed undrawn revolving credit facilities (in EUR m)



Source: Haniel, Scope

Long-term and short-term debt ratings

Haniel's financing subsidiary Haniel Finance Deutschland GmbH currently does not have any outstanding public debt.

BBB- for senior unsecured debt

Long-term debt issued by either Franz Haniel & Cie. GmbH or Haniel Finance Deutschland GmbH is affirmed at BBB-, the same level as the issuer rating.

S-2 short-term rating

Haniel's short-term rating is affirmed at S-2. This reflects our view on the company's robust liquidity profile, incorporating internal and external liquidity sources. It also reflects Haniel's good standing in public and private debt markets and well-established banking relationships, partly evidenced by the broad mix of committed long-term credit lines from different banks.

Appendix

In order to assess an investment holding company's financial strength, we use financial data provided in the stand-alone (holding company) accounts to calculate key financial credit metrics. We do not include financial data from consolidated financials in our calculations of key credit ratios for the following reasons: i) cash flows or liquidity of portfolio companies as shown in consolidated accounts may not be accessible at the holding company level; and ii) an investment holding company may not have any influence over a portfolio company's dividend policy. We use the following key credit metrics to gauge the financial risk profile of an investment holding company:

- Total cost coverage;
- Leverage (LTV);
- Liquidity.

We use total cost coverage as the key indicator. We define the total cost coverage ratio as cash inflows versus non-discretionary cash outflows at the holding company level.

Cash inflows at holding company level included in our calculation are:

- Cash inflows from portfolio companies such as dividends or cash payments triggered by profit-sharing agreements;
- Cash-interest inflows from treasury activities such as investments in debt securities;
- Distributions from other investments such as investment funds or money market funds;
- Any other recurring cash-effective payments received from portfolio companies such as management fees.

Cash proceeds from divestments of portfolio companies are only included as a cash inflow if we expect these to recur annually.

Non-discretionary cash outflows included in our calculation are:

- Cash outflows from debt servicing (cash interest) and, if applicable, non-cash interest accruing on debt instruments;
- Dividend payments made by the investment holding company to its shareholders. We are aware that the nature of dividend payments is more akin to a discretionary cash outflow. However, for the purpose of calculating total cost coverage, we treat dividend payments as non-discretionary until the investment holding company publicly declares significant changes to its dividend payments.
- General holding company costs such as administrative expenses, staff costs and taxes.

We calculate an investment holding company's leverage by taking into account the portfolio's market value relative to the adjusted debt position (Scope-adjusted debt) at holding company level. The debt position not only includes short-term and long-term financial debt but also adjustments for pension provisions, operating leases and other off-balance sheet items such as guarantees.

We use the LTV ratio as a supplementary ratio within our financial risk assessment. This is to avoid market prices of listed assets mechanically changing financial ratios, including the financial risk profile. We believe that changes in the market prices of listed assets are only important if an investment holding company faces debt maturities over the course of the next 12-24 months. Purely focussing on LTV can be misleading because this ratio does not capture the dimension of an investment holding company's debt maturity profile. If an investment holding company can cover its non-discretionary cash outflows, as mentioned above, there is no need for additional funding. Therefore, the dependence and relevance of price changes for listed assets can only be judged with regard to debt maturities over the course of the next one to two years.

We assess the liquidity of an investment holding company in the same way as for any other non-financial corporate, taking into account the holding company's ability to pay its short-term debt using free operating cash flow, unrestricted cash and marketable security positions, unused committed bank facilities and unused committed factoring lines.

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