Franz Haniel & Cie. GmbH
Monitoring Note

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 holding company focuses on the receipt of recurring dividend payments from its different shareholdings, in addition to value creation. Additional cash flows can be generated by the (partial) sale of stakes in shareholdings and other assets. The current portfolio comprises controlling stakes in CWS-boco, ELG, TAKKT, BekaertDeslee and a minority position in CECONOMY and METRO WHOLESALE & FOOD SPECIALIST.

Ratings

Corporate Rating	BBB-/Stable
Short-term Rating	S-2
Senior Unsecured Debt Rating	BBB-/Stable

Rating rationale

On 24 February 2017 Scope affirmed the BBB- issuer rating for Franz Haniel & Cie. GmbH with a Stable Outlook. The rating also applies to Haniel Finance Deutschland GmbH. The rating primarily reflects Scope's view on Haniel's consistent implementation of its investment strategy with new additions from DesleeClama and Rentokil as well as the Metro demerger, providing further stability for dividends from portfolio companies and the portfolio's net asset value. The holding company's total cost-coverage ratios of ≥1.0x are commensurate with the investment-grade rating.

Outlook

The Outlook reflects Scope's expectations of a total cost coverage of 1.0x. A higher rating could be warranted if Haniel's total cost coverage were to exceed 1.3x on a sustainable basis, and if concentration risks in the portfolio were to decrease. A lower rating could result if the holding company were to exceed its communicated net debt target without offsetting this through additional dividend streams from new investee companies or if total cost coverage was expected to fall below 1.0x on a sustainable basis.

Further visibility of portfolio developments

Scope regards asset concentration – one of Haniel's major credit weaknesses – to be reduced by: i) the development of the CWS-boco franchise with the integration of parts of Rentokil Initial; and ii) the demerger of Metro. Following both transactions, Haniel's exposure to its largest shareholding is likely to drop from almost 40% at YE 2016 (based on market portfolio values) to around 25%.

Firstly, Haniel formed a joint venture with Rentokil Initial on 30 June 2017, integrating the continental European business activities from Rentokil Initial in the areas of hygiene, workwear and cleanroom services into CWS-boco. In the course of this transaction, Haniel reduced its stake in CWS-boco from 100% to about 82%. The deal was mainly financed on the back of Haniel's cash cushion and financial assets. The integration of the Rentokil activities is likely to boost the portfolio company's revenues by about 40% to EUR 1.1bn with the contribution of dividends to the holding company from year one.

Analysts

Sebastian Zank, CFA
+49 30 27891 225
s.zank@scoperatings.com

Werner Stäblein
+49 69 97944751
w.staeblein@scoperatings.com

Press

Oliver Müller
+49 30 288744-225
oliver.Mueller@fticonsulting.com

Related Research

Scope affirms BBB- rating of Haniel with Stable Outlook and assigns S-2 short-term rating, Feb 2017

Scope assigns BBB- and S-2 issuer ratings to Metro AG (to be renamed CECONOMY AG), Outlook Stable, June 2017

Reduced asset and dividend concentration from METRO demerger, Sep 2016

Franz Haniel & Cie. GmbH – Rating Report February 2016

Scope Ratings AG

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100
Service +49 30 27891 300

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Secondly, the demerger of Metro AG on 12 July 2017 into the consumer electronics group CECONOMY AG (rated BBB- with a Stable Outlook at Scope – click here for the rating report) and METRO WHOLESALE & FOOD SPECIALIST AG, will achieve further diversification of dividends and portfolio market value (see also research note: Reduced asset and dividend concentration from METRO demerger).

Blended industry risks at BBB-

Blended industry risk as part of Haniel's business risk profile

Following the Metro demerger Haniel has six dividend-paying subsidiaries. This limited number is, however, set to improve and is not a major credit-negative from Scope's perspective. Scope deems the holding company's blended industry risk, considered as the sum of the industry risks of Haniel's current portfolio companies, at BBB-. Scope highlights that - according to Scope's Corporate Rating Methodology - such industry risk assessment is part of the assessment of the overall business risk profile. The full assessment of an investment holding's business risk profile also comprises Scope's view on the investment approach, the competitive positioning of portfolio companies, concentration risks/diversification within the investment portfolio and the liquidity of the investment portfolio.

As can be seen in Table 1, Haniel is indirectly exposed to different, not fully correlated industries, ranging from low-risk industries for core dividend payers such as CWS-boco including Rentokil and the two succeeding companies of Metro, to companies in higher risk industries, such as TAKKT and ELG, which supply additional dividend flows.

Table 1 – Blended industry risks according to Scope's industry risk matrix

	Industry	Scope's expected normalised split of Haniel's portfolio market value	Cyclicality	Entry barriers	Substitution risks	Industry risks
CWS-boco Rentokil	Non-cyclical business services	25%	Low	Medium	Medium	A-
TAKKT	Cyclical wholesale	10%	High	Medium	Medium	BB-
ELG	Commodity trading	5%	High	Low	Low	B
BekaertDeslee	Consumer Goods	5%	Low	Medium	Low	A-
CECONOMY	Retail	15%	Medium	Medium-high	Low	BBB-
METRO WHOLESALE & FOOD SPECIALIST	Retail	25%	Medium	Medium-high	Low	BBB-
Financial assets		15%	-	-	-	-
Blended industry risks of current investment portfolio						**BBB-**

Source: Scope

Total cost coverage to stabilise sustainably above 1.0x

Expectations on slight improvements of total cost coverage

Haniel's BBB- issuer rating reflects Scope's view on the full cost coverage at holding level, as measured by a total cost coverage of 1.0x or more (including dividends and share buybacks). Scope considers this level to be sustainable, further stabilised by:

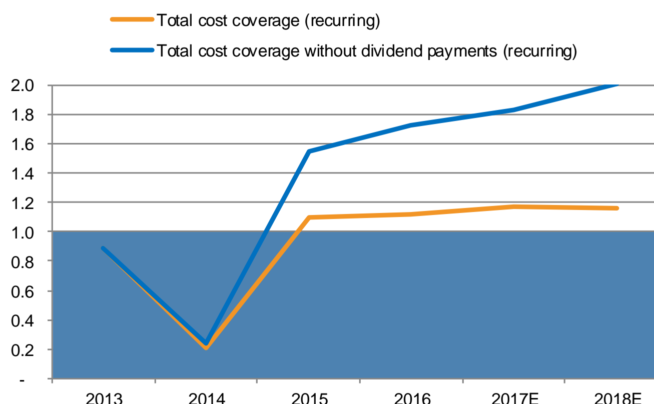
i) Generally favourable industry fundamentals for all shareholdings including ELG;

ii) The first dividend contributions from the newly integrated ventures such as BekaertDeslee and Rentokil activities;

iii) The reduced interest burden from the equity-financed repayment of the 5.875% corporate bond in February 2017,

iv) The diminishing cost burden from the so-called 'Kalksandstein' payments.

Figure 1 – Total cost coverage



Source: Scope

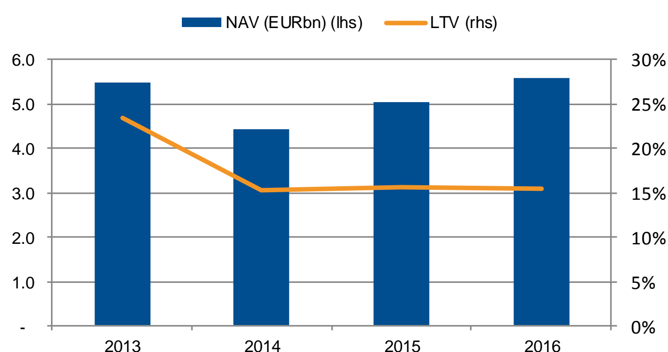
LTV sensitivity

Increased headroom to 20% LTV threshold

Despite the investments made in the new portfolio ventures, the holding company's leverage remains commensurate with the assigned investment-grade rating. On the one hand, Haniel has funded the DesleeClama acquisition and CWS-boco Rentokil deal without raising new debt. On the other hand, the redemption of the EUR 247m corporate bond in February 2017 was made from internal funds.

Haniel's LTV stood at around 15% at the end of 2016. Scope's sensitivity analysis shows that Haniel's portfolio market value would need to decrease by about 40% in order to surpass an LTV of 25%.

Figure 2 – Development of net asset value and LTV



Source: Haniel, Scope

Figure 3 – LTV sensitivity

Scope-adjusted debt (EURbn)	Portfolio market value (EURbn)	7.14	6.82	6.49	5.84	5.19	4.55	3.90	3.25
	change in %	*10%*	*5%*	***0%***	*-10%*	*-20%*	*-30%*	*-40%*	*-50%*
0.96	***0%***	**13%**	**14%**	**15%**	**16%**	**19%**	**21%**	**25%**	**30%**
1.01	*5%*	14%	15%	**16%**	17%	19%	22%	26%	31%
1.06	*10%*	15%	16%	**16%**	18%	20%	23%	27%	33%
1.11	*15%*	15%	16%	**17%**	19%	21%	24%	28%	34%
1.16	*20%*	16%	17%	**18%**	20%	22%	25%	30%	36%
1.20	*25%*	17%	18%	**19%**	21%	23%	26%	31%	37%
1.25	*30%*	18%	18%	**19%**	21%	24%	28%	32%	39%
1.30	*35%*	18%	19%	**20%**	22%	25%	29%	33%	40%

Source: Scope

Rating drivers

Positive	Negative
• Buy-and-hold investment approach with primary focus on recurring dividend streams	• Number of shareholdings remains limited (six) resulting in high concentration risks within shareholdings in terms of dividend and net asset value concentration
• Portfolio companies which are largely market leaders in their respective industries and with well-established business models in mature markets. Ongoing rebalancing of investment portfolio, along with the investment strategy, bolstered by current liquidity and strong access to unused, committed credit lines	• Limited asset liquidity due to large share of unlisted subsidiaries, which may not be sold immediately if liquidity is urgently needed. This is partly offset by the buy-and-hold investment approach and Haniel's comfortable liquidity position.
• Balanced industry allocation in the investment portfolio, which contains uncorrelated exposure to non-cyclical and cyclical industries	• Increased focus on SMEs resulting in stronger earnings volatility, partly offset by improved diversification
• Strong geographical diversification across revenue streams in the investment portfolio, which is expected to improve further due to new shareholdings	• Volatile leverage (LTV) stemming from market volatility
• Strong liquidity and no short-term refinancing needs, allowing for substantial acquisitions	
• Commitment to keep net debt up to EUR 1bn over the medium-to-long term, even after new investments	
• Total cost coverage sustainably above 1.0x by 2017	

Rating-change drivers

Positive	Negative
• Expected total cost coverage to increase above 1.3x on a sustained basis	• Total cost coverage to drop 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	
	2015	2016	2017E	2018E
Cash flows (EUR m)				
Recurring cash inflows (dividends)	151	159	165	165
Non-discretionary cash outflows (incl net interest payments)	138	142	140	142
Non-recurring net cash flows from asset disposals	742	96	-	-
Balance sheet/indebtedness (EUR m)				
Scope-adjusted net debt (incl. pension adjustments)	902	962	<1,000	<1,000
Net asset value	5,053	5,581	n/a	n/a
Key financial ratios				
Total cost coverage (from recurring income)	1.1	1.1	1.2	1.2
Total cost coverage without dividend payments (recurring)	1.5	1.7	1.8	2.0
LTV (net debt/portfolio's market value)	15%	15%	depending on new investments and market developments (<25%)	
Liquidity	>200%	>200%	>200%	>200%

All ratios are based on adjusted financial data

Source: Haniel, Scope estimates

Scope Ratings AG

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Rüsterstraße 1
D-60325 Frankfurt

Phone +49 69 97944 754

Paris

21 Boulevard Haussmann
F-75009 Paris

Phone +33 1 53 43 29 89

London

Suite 407
2 Angel Square
London EC1V 1NY

Phone +44 20 3457 0444

Madrid

Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

info@scoperatings.com
www.scoperatings.com

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