Franz Haniel & Cie. GmbH
Germany, Investment Holdings

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 investment holding 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 comprises controlling stakes in CWS, ELG, TAKKT, BekaertDeslee, ROVEMA, Optimar and minority positions in CECONOMY and METRO. The remaining stake in METRO is set to be sold through a call option held by investment group EP Global Commerce GmbH (EPGC).

Key metrics

			Scope estimates		
Scope credit ratios	2017	2018	2019F	2020F	2021F
Total cost coverage (x)	1.5	1.8	1.5	1.1	1.2
Loan-to-value (Scope-adjusted debt/portfolio's market value)	17%	14%	Depending on new investments and market developments (<20%)		
Liquidity	>200%	>200%	>200%	>200%	>200%

Monitoring note

On 30 April 2019, Scope affirmed its BBB- issuer rating for Franz Haniel & Cie. GmbH and its financing subsidiary Haniel Finance Deutschland GmbH, with a Stable Outlook. The rating primarily reflects Scope's continued view on Haniel's consistent execution of its investment strategy, which is focused on mature SMEs and robust income streams that ensure a sustainable total cost coverage above 1.0x.

This publication does not constitute a credit rating action. For the official credit rating action release **click here**.

Following the release of Haniel's H1 2019 figures and the awaited execution of EPGC's call option for Haniel's remaining 15.2% shares in METRO, the rating case for the BBB-/Stable issuer rating on Haniel remains intact.

Our rating case reflects the expectation that Haniel's total cost coverage will revert to the corridor of between 1.0-1.3x over the next few years following the potential full or partial disposal of its remaining share in METRO. This is grounded on the assumption that the historical level of dividends received from METRO will not be substituted in full by income from other shareholdings or financial assets in the short term. We expect full cost coverage to be sustainable, even in light of potential reductions in dividends or income from Haniel's more cyclical shareholdings.

Ratings & Outlook

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

Analysts

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Related methodology

Scope affirms BBB-/Stable/S-2 issuer rating of Haniel, Apr 2019

Monitoring Note on Franz Haniel & Cie. GmbH, Aug 2018

Scope Ratings affirms its issuer rating of BBB-/Stable on Germany-based Franz Haniel & Cie. GmbH, Jun 2018

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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 • Ongoing rebalancing of investment portfolio in line with investment strategy, bolstered by current liquidity, good access to unused, committed credit lines and further debt 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 • Commitment to keeping net debt up to EUR 1bn over the medium to long term, even after new investments • Total cost coverage of sustainably within a corridor of 1.0-1.3x over the next few years • Strong liquidity and limited short-term refinancing needs, allowing for substantial acquisitions and/or further debt reduction	• Number of shareholdings remains limited (currently eight excluding financial assets; potentially reduced to seven if remaining METRO shares are sold), resulting in high concentration risks within shareholdings in terms of dividends and net asset value • 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 • Increased focus on SMEs resulting in stronger earnings volatility, partly offset by improved diversification • Volatile leverage (loan-to-value) stemming from market volatility • Uncertainties around future dividend payments at CECONOMY

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Expected total cost coverage to remain 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		
Scope credit ratios	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Total cost coverage (from recurring income)	1.5	1.8	1.5	1.1	1.2
Total cost coverage without dividend payments (recurring)	2.5	3.6	3.0	2.4	2.6
LTV (Scope-adjusted debt/portfolio market value)	17%	14%	Depending on new investments and market developments (<20%)		
Liquidity	>200%	>200%	>200%	>200%	>200%
Cash flows (EUR m)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Recurring cash inflows (dividends and profit transfers)	174	218	178	144	159
Non-discretionary cash outflows (incl. net interest payments)	119	122	118	130	132
Balance sheet/indebtedness (EUR bn)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Scope-adjusted debt (incl. pension adjustments)	1.1	0.6	<1.0	<1.0	<1.0
Net asset value	5.7	4.0	n/a	n/a	n/a

METRO disposal: positives and negatives

Potential cash inflow of up to EUR 794m from METRO option

Haniel's sale of its remaining 15.2% METRO share is pending after it sold its 7.3% METRO holding to EPGC – a Czech-Slovakian acquisition entity backed by two high-net-worth individuals, Patrik Tkác and Daniel Kretínský. While Scope understands that the failure of EPGC's voluntary takeover offer for METRO (reaching a minimum acceptance threshold of 67.5% of METRO shares) affects the exercise price for Haniel's voting rights for METRO (EUR 14.5 per share instead of EUR 15.5 per share), the failed takeover offer does not affect EPGC's call option. If EPGC exercised its call option, Haniel would cash in up to EUR 794m. We trust that Haniel has included some mechanism for financial compensation in case EPGC does not exercise its call.

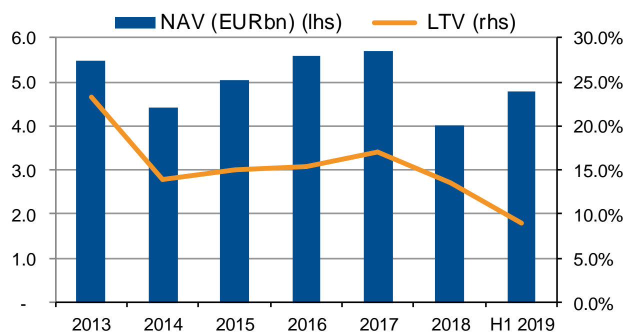
Loan-to-value remains very low

The loan-to-value at the end of H1 2019 stood at 9%, down from 14% at YE 2018. This was backed by a further reduction of net financial debt (e.g. a further repurchase of the exchangeable bond) and rising values among Haniel's investments. (see Figure 1). Scope-adjusted debt, including adjustments for pensions, amounted to EUR 460m at the end of June. Potential cash proceeds from the full or partial sale of METRO is likely to result in a net cash position by the end of the year if not fully reinvested.

Investment headroom increased to above EUR 1.3bn with further headroom after METRO disposal

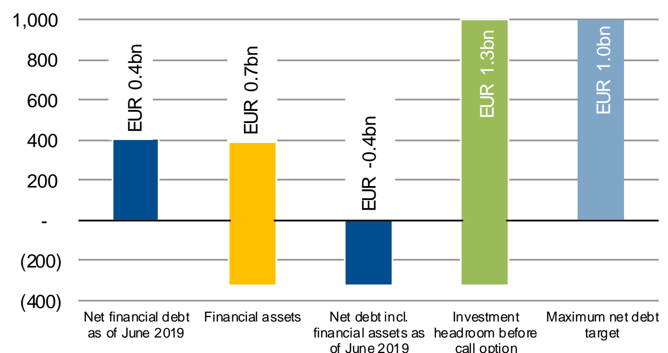
Haniel's disposal of the remaining METRO shares would enlarge its already substantial investment headroom of more than EUR 1.3bn as at the end of June 2019 before reaching the company's maximum net debt target of EUR 1bn (see Figure 2). The calculation of headroom contains Haniel's economic net debt, which also includes financial assets, primarily consisting of loans to subsidiaries. Disposal proceeds from the remaining METRO shares would lift investment headroom to about EUR 2bn.

Figure 1: Development of net asset value and LTV



Source: Haniel, Scope

Figure 2: Potential for additional debt before reaching the maximum net debt target (in EUR m)



Source: Haniel, Scope

Investment headroom and alignment to investment strategy improves further

Although an exit from METRO would reduce portfolio liquidity and fungibility, the sale proceeds would provide further headroom for acquiring controlling stakes in mature European SMEs, in line with Haniel's investment approach. Full proceeds would be enough to acquire 2-3 new ventures which meet the investment criteria, and this is on top of the existing considerable investment headroom as at the end of June 2019. However, building such a portfolio requires time, as demonstrated by the scarcity of suitable investments over the last year.

Full takeover of CWS

In addition, Haniel uses its financial headroom to improve its position in its controlling stakes within the current investment portfolio, as evidenced by the recent acquisition of all minority interests in CWS (17.8%) held by Rentokil Initial in July 2019. While Scope acknowledges that such transaction further increases NAV and income concentration geared towards CWS, it also provides more flexibility to Haniel to shape CWS's profile

within the two business units CWS Hygiene and CWS Workwear towards more robust and diversified income streams in the future.

Lack of dividends from METRO would strongly impact cash flow diversity

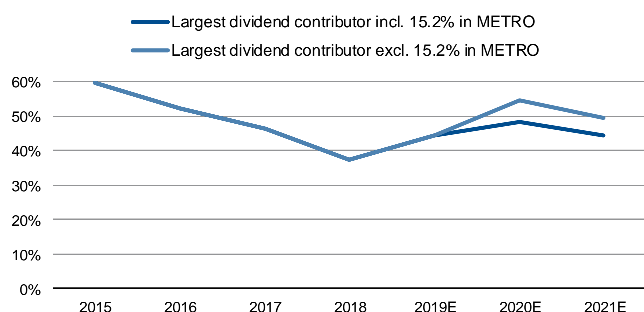
While the expected cash inflow is seen as credit-supportive with regards to the holding's indebtedness and its potential to further invest in mature European SMEs, the partial or full disposal of remaining METRO shares will temper cash flow diversity. METRO used to be one of the core dividend-paying shareholdings, making up 20-25% of total dividend income in 2018/19. As we believe the current market for appropriate M&A targets is not overly attractive for buyers, Haniel is unlikely to a find dividend-paying substitutes from newly acquired ventures which match Haniel's investment approach and valuation requirements.

Increased concentration risks and return to 1.0-1.3x total cost coverage

We understand that Haniel will use its investment headroom to generate returns from income-yielding financial assets. However, the expected return on such investments are likely to be significantly lower than the dividends expected from METRO. Hence, portfolio reshuffling from the potential METRO disposal would have two effects:

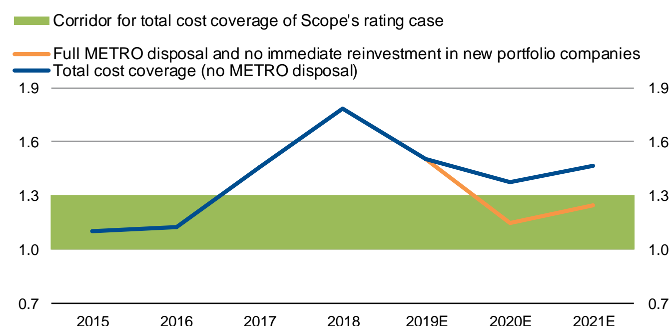
- An amplification of concentration risks related to Haniel's investment income streams, with major income contributor CWS to exceed the 50% threshold, up from 37%-44% in 2018 and 2019E (see figure 3).
- The strongly improved cost coverage with an outbreak to 1.5-1.8x between 2017 and 2019E cannot be regarded as being sustainable. Scope calculates that Haniel's total cost coverage can be expected to return to 1.0-1.3x, which forms the basis for our rating case (see figure 4). We remain confident that the important threshold of 1.0x is sustainable, even in light of a potential economic cool-down and its likely effects on cyclical portfolio companies such as ELG or TAKKT.

Figure 3: Increased dividend concentration risks from potential METRO disposal without immediate reinvestment in new portfolio companies



Source: Haniel, Scope estimates

Figure 4: Total cost cover with and without dividend contribution from METRO going forward



Source: Haniel, Scope estimates

Robust liquidity

Following the redemption of the EUR 200m corporate bond in February 2019, Haniel's debt comprises the remaining portion of the EUR 500m exchangeable bond and shareholder loans. In total, around EUR 600m of gross debt is to be repaid during H2 2019-21 (2019E: EUR 0.05bn; 2020E: EUR 0.45bn; 2021E: EUR 0.05bn). We expect the remaining loan value of the exchangeable bond (EUR 0.4bn as of June 2019) to be covered fully by the cash cushion (EUR 266m as of June 2019), potential cash proceeds from the METRO disposal, and unused credit facilities (around EUR 700m as of June 2019). Haniel would therefore not have to use its EUR 500m commercial paper programme or issue a new or exchangeable bond.

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