27 April 2023 | Corporates

Franz Haniel & Cie. GmbH
Germany, Investment holdings

BBB- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	2021	2022	2023E	2024E
Total cost coverage	1.5x	1.0x	1.6x	1.4x
Scope-adjusted loan/value ratio	10%	14%	Depending on new investments and market developments	
Liquidity	>200%	>200%	>200%	>200%

Rating rationale

The portfolio is still in development and counts seven core investments as of April 2023. It has taken a stable trend in 2022, compared to higher growth in the years before. While the portfolio is exposed to a number of diversified industries, which supports credit quality, net asset value (down 18% YoY as of end-2022) was not able to follow previous years' stronger growth. Growth was stifled by lower valuation multiples applied across the portfolio.

Outlook and rating-change drivers

We have maintained the Stable Outlook, reflecting the expectation that Haniel will keep sustained total cost coverage within a range of 1.0-1.3x. This implies that there is still significant leeway embedded in our base case assumptions, such that recurring cash inflows would need to drop by about 35% 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 total cost coverage were above 1.3x on a sustained basis and bolstered by a more granular recurring cash inflow from portfolio companies. This could be the result of more portfolio companies entering into dividend payment status or profit sharing (which is currently only the case for the three strongest ventures).

A negative rating action could result if the holding company exceeded its communicated net debt target without offsetting it through additional dividend streams from new investee companies, or if total cost coverage deteriorated to below 1.0x.

Rating history

Date	Rating action	Issuer rating & Outlook
17 Apr 2023	Affirmation	BBB-/Stable
25 Apr 2022	Affirmation	BBB-/Stable
26 Apr 2021	Affirmation	BBB-/Stable

Ratings & Outlook

Issuer	BBB-/Stable
Short-term debt	S-2
Senior unsecured debt	BBB-

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Related Methodology

General Corporate Rating Methodology; July 2022

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Buy-and-hold investment approach with primary focus on recurring dividend streams; controlling stakes in investment companies allowing for strategic influence on subsidiaries' operations and dividend policy • Ongoing rebalancing of investment portfolio and expected reduction of concentration risks in line with investment strategy, bolstered by its good liquidity, good access to unused, committed credit lines and debt headroom • Balanced industry allocation in the investment portfolio, which contains largely uncorrelated exposure to non-cyclical and cyclical industries • Portfolio companies that are largely market leaders in their respective industries and with well-established business models in mature markets. Sharpened investment focus on companies that follow global megatrends (healthcare and wellbeing, circular economy, climate change, robotics and automation), which is credit-positive from an ESG perspective • Strong geographical diversification across revenue streams in the investment portfolio • Expectation of a sustained total cost coverage above 1.0x, which was even achieved in 2022 – a year characterised by higher shareholder remuneration • Commitment to keeping net debt under EUR 1bn over the medium-to-long term which provides a significant debt headroom	• Only 7 core shareholdings, resulting in high concentration risks in terms of dividend and net asset value concentration • Weakened 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 • Naturally volatile leverage (loan-to-value) stemming from market volatility • No commitment to relative leverage threshold

Positive rating-change drivers	Negative rating-change drivers
• Sustained total cost coverage of 1.3x or above, which is based on a more balanced income contribution from different portfolio companies	• Total cost coverage sustained below 1.0x • Breach of the company's net debt target of EUR 1bn if not justified by equivalent dividend income

Corporate profile

Franz Haniel & Cie. GmbH is an investment holding founded in 1756. The holding is privately owned by about 720 members of the Haniel family and by Haniel itself. Haniel does not have any own operating activities. Its cash inflows entirely stem from dividend payments and profit-and-loss transfers from its shareholdings. While the company's focus is on the accrual of cash inflows from its portfolio companies, additional cash flows can be generated by the (partial) sale of stakes in the different shareholdings. The holding owns a controlling share in CWS, TAKKT, BekaertDeslee, ROVEMA, Emma, KMK Kinderzimmer and BauWatch as well as minority stakes in Ceconomy, Optimar and Metro, accounted for at equity.

Financial overview

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Total cost coverage (from recurring income)	1.5x	1.0x	1.6x	1.4x
Total cost coverage without dividend payments (recurring)	3.1x	1.9x	3.3x	3.0x
Scope-adjusted loan/value ratio	10%	14%	Depending on new investments and market developments	
Liquidity	>200%	>200%	>200%	>200%
Cash flows (EUR m)	**2021**	**2022**	**2023E**	**2024E**
Recurring cash inflows (dividends and profit transfers)	126	166	195	217
Non-discretionary cash outflows	111	164	120	152
Thereof				
- Dividend payments to shareholders	60	78	60	80
- Share buybacks	5	50	5	5
- Holding costs	43	40	40	40
- Net interest payments	(2)	(4)	15	27
Balance sheet/indebtedness (EUR m)	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted debt (including pension adjustments)	0.6	0.7	<1.0	<1.0
Net asset value	**5.5**	**4.3**	**N/A**	**N/A**

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Environmental, social and governance (ESG) profile[1]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	Grey leaf
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	Grey leaf
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Green leaf	Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	Grey leaf
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	Green leaf

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

Focus on ESG investments

Haniel has a detailed ESG strategy, focusing on the combination of economic sustainability over time and performance (*enkelfähig*). Management is investing in companies that follow global megatrends such as healthcare and wellbeing, the circular economy, climate change, and robotics and automation. This is credit-positive from an ESG perspective.

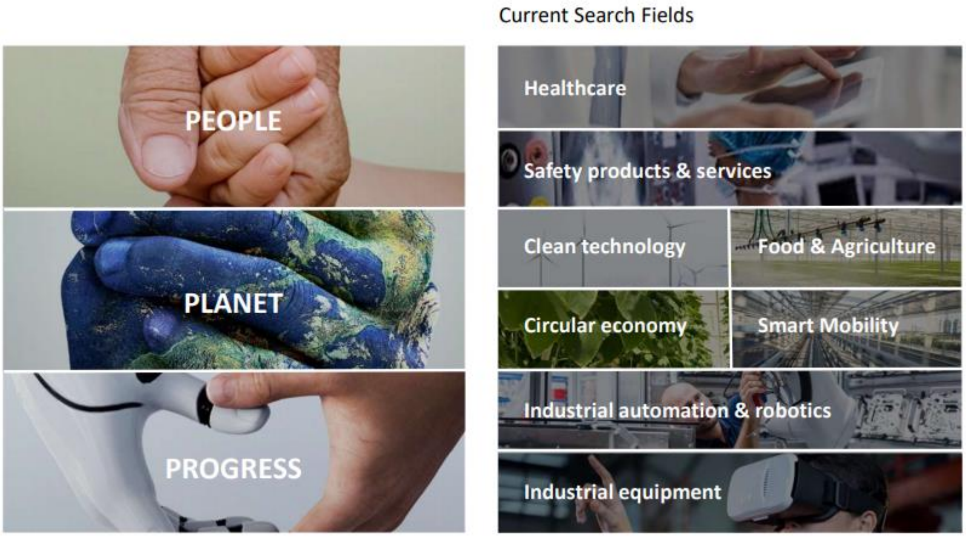
[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB

Focus on ESG-relevant investments

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

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



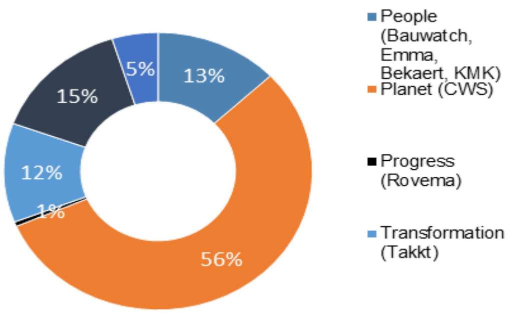
Source: Haniel

Concentrated income streams expected to persist mid term

The ongoing portfolio development with seven core investments as of April 2023 has taken a stable trend in 2022. While still providing exposure to several industries with only a limited correlation, net asset value (-18% at the end of 2022, year-on-year) was not able to follow previous years' growth trajectory. Reasons being a few participations (KMK Kinderzimmer, a provider of early childhood education and Optimar, automated fish handling systems) not performing well in 2022, due to both pandemic effects as well as the outbreak of the war in Ukraine, respectively. In addition, lower valuation multiples applied across the range of the portfolio. Optimar, which is now a management buyout, was moved from core investments to 'other investments' (together with Metro and Ceconomy stakes, as well as Haniel's mid-term financial assets, intercompany loans and its own shares). There was no improvement on diversification among dividend- and income-generating assets in 2022. The bulk of both value and income generation still rests with business services company CWS.

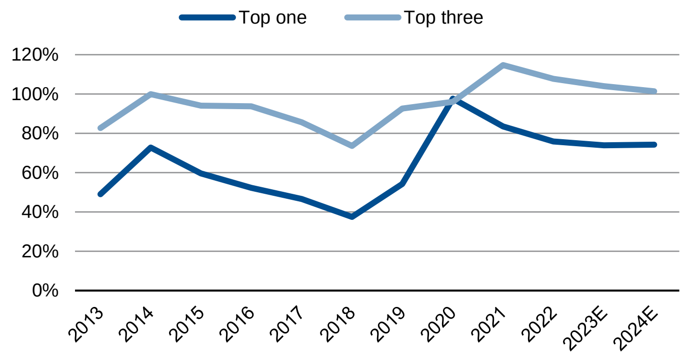
Dividend income grew by about 10% YoY in 2022 thanks to a one-off contribution from Ceconomy, the continuation of payments from BekaertDeslee as well as a strong contribution from Takkt following payment of a special dividend in 2022. None of the new investments from the last two years have yet contributed to the holding's income. Haniel portfolio's dependence on CWS' performance for the next few years is reinforced by the high likelihood that there will be no dividends from new investments in the short term. Over the longer term, however, we are confident that Haniel will gain dividend diversity thanks to its good investment headroom. Haniel's low exposure to liquid/listed portfolio companies does not affect the rating as long as Haniel does not need to sell assets and given a sufficient total cost coverage and adequate liquidity profile.

Figure 2: High asset concentration persisting in 2022



Source: Haniel, Scope

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



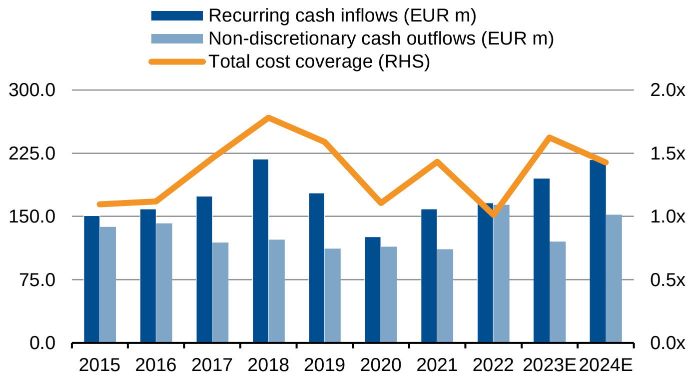
Source: Haniel, Scope

Financial risk profile: BBB-

Solid financial risk even under stressed conditions

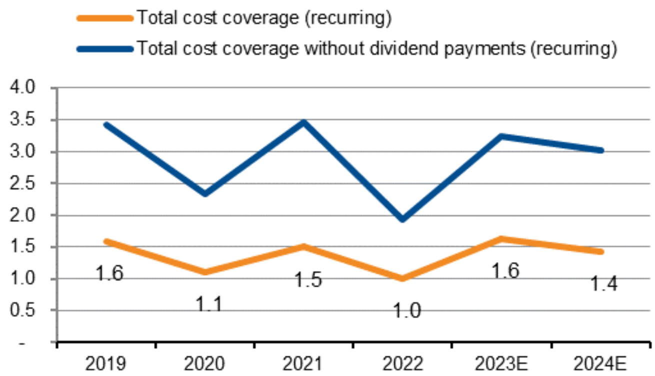
Haniel's credit strength is underpinned by its resilient recurring cost coverage of more than 1x. This ratio stood at 1.5x in 2021 – a year characterised by strong dividend income and strong investment activity – and decreased to 1.0x in 2022 due to high one-off costs (mainly for shareholder remuneration) and limited dividend growth. We forecast that Haniel will retain full cost coverage over the next three years, achieving a higher cost coverage again in 2023, thus supporting the credit rating. In 2022, dividend growth was restrained by lower contributions from Metro and a continued loss situation at Rovema. Haniel's two main sources of divided income (CWS and TAKKT) are resilient enough to generate at least stable dividend payouts.

Figure 4: Total cost coverage



Source: Haniel, Scope estimates

Figure 5: Total cost coverage (base case without any cuts on dividend payouts going forward)

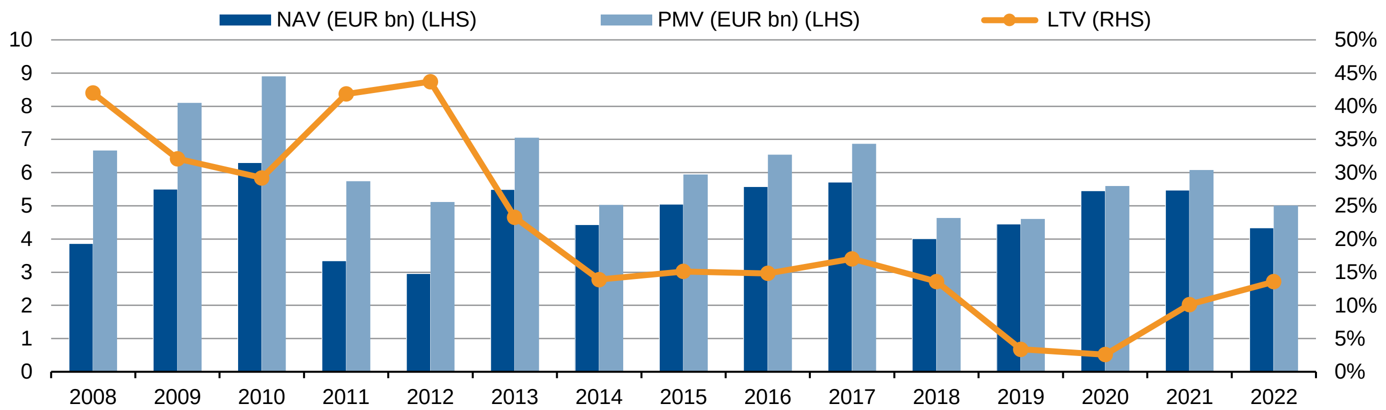


Source: Haniel, Scope estimates

Large debt headroom stemming from a relatively low market value gearing

Haniel's indebtedness is still at very comfortable levels, with a comparatively low Scope-adjusted loan/value ratio of about 14% as of year-end 2022. While the ratio has deteriorated since its low of 3% in 2020, due to Haniel's partly debt-funded investment activity in 2021 and the lower valuation as outlined above in 2022, it is still within the limits of an investment grade rating, despite the value deterioration of Haniel's portfolio to EUR 5bn (from EUR 6bn in 2021). This downside in value was caused by some companies' negative exposure to various crises (KMK suffered from the pandemic and Optimar from the Russia-Ukraine war) as well as by applying lower multiples in general, reflecting increased uncertainty in the market compared to 2021. The holding company's relatively low net debt exposure affords it headroom for additional debt (that we estimate at about EUR 0.8bn) that can be used for portfolio additions or to support portfolio companies through cash injections funded at the holding level, before reaching its net debt ceiling of EUR 1.0bn. In light of Haniel's slow portfolio ramp-up, we anticipate no major changes to portfolio market gearing. The holding company's relative indebtedness remains strongly exposed to market volatility via moving multiples used for valuing non-listed portfolio companies. Therefore, Haniel's portfolio market value would have to deteriorate by another 20% before reaching a Scope-adjusted loan/value ratio of 25%. As such, Haniel's financial position still remains comfortable in the context of its investment grade rating.

Figure 6: Market value gearing



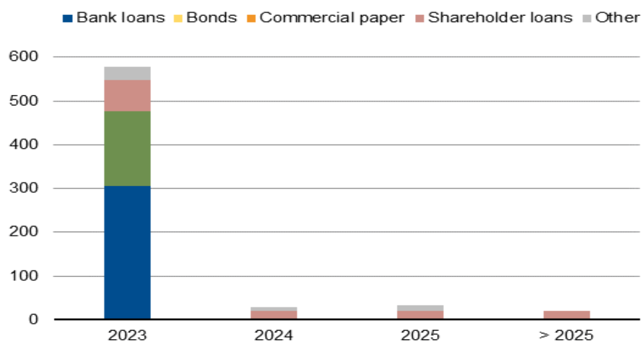
NAV: net asset value; PMV: portfolio market value; LTV: Scope-adjusted loan/value
Source: Haniel, Scope

Robust liquidity

Haniel's liquidity continues to be strong despite short-term debt having increased to EUR 578m in 2022 (up by EUR 114m at the end of 2021) which needs to be covered in 2023. Slightly more than half of this debt is related to short-term drawings under long-term facilities and the remainder to Commercial Paper drawings, while the (short-term) shareholder loan exposure from the Haniel family members shrank slightly year-over-year.

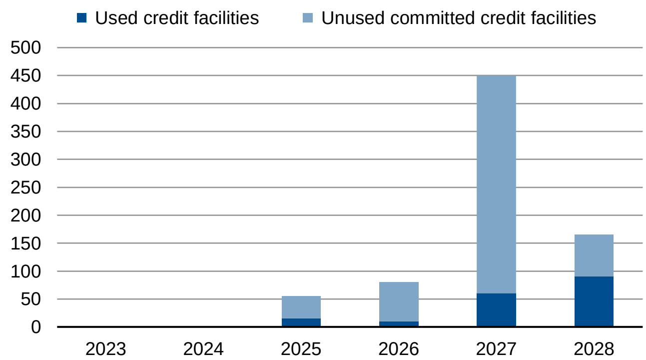
Incorporating an expected total coverage of above 1.0x over the medium term and an undrawn amount of EUR 735m from committed multi-year credit facilities, these maturities are comfortably covered with basically no refinancing risks that would necessitate the sale of shareholdings.

Figure 7: Expected maturity profile at YE 2022 (EUR m)



Source: Haniel, Scope

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



Source: Haniel, Scope

Balance in EUR m	2022	2023E	2024E
Unrestricted cash (t-1)	849	989	1,139
Open committed credit lines (t-1)	755	755	755
Free operating cash flow	2	75	65
Short-term debt (t-1)	464	578	532
Coverage	**346%**	**296%**	**350%**

Long-term and short-term debt ratings

Senior unsecured debt rating: BBB-

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

The rating for senior unsecured debt issued by either or Franz Haniel & Cie. GmbH or Haniel Finance Deutschland GmbH is affirmed at BBB-, the level of the issuer rating.

Short-term debt rating: S-2

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.

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