Franz Haniel & Cie. GmbH
Germany, Investment Holdings

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 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 from the (partial) sale of stakes in shareholdings and other assets. The current portfolio comprises controlling stakes in CWS-boco, ELG, TAKKT, BekaertDeslee, ROVEMA, Optimar and minority positions in CECONOMY and METRO.

Key metrics

			Scope estimates	
Scope credit ratios	**2016**	**2017**	**2018F**	**2019F**
Total cost coverage (x)	1.1	1.5	1.3	1.2
LTV (Scope-adjusted debt/portfolio's market value)	15%	17%	<25%	<25%
Liquidity	>200%	>200%	110-200%	>200%

Monitoring note

On 27 June 2018 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 has resulted in increased portfolio diversification and more robust income streams without burdening the company's indebtedness.

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 2018 figures and the announcement of the envisaged disposal of Haniel's stake in German retailer METRO, Scope's rating case for its BBB-/Stable issuer rating on Haniel is fully intact.

We believe that the METRO disposal fully fits Haniel's investment strategy. While Scope recognises that the potential exit from METRO reduces overall portfolio liquidity/fungibility, the proceeds from the asset sale provide Haniel with further headroom to acquire controlling stakes in mature European SMEs. Scope estimates that the holding company's total cost cover will remain above 1.0x over the next years.

Furthermore, Haniel's H1 results provide further guidance on the company's LTV which has not suffered despite the adverse share price developments experienced by METRO, CECONOMY and TAKKT in 2018, primarily due to a reduction of net debt. The holding company's LTV including adjustments for pension obligations stood at a solid 15% at the end of June 2018.

Ratings & Outlook

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

Analysts

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

Related methodology

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

ROVEMA deal in line with Scope's rating case, Nov 2017

Monitoring Note on Franz Haniel, Jul 2017

Scope Ratings GmbH

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Tel. + 49 69 6677389 0

Headquarters

Lennéstraße 5
10785 Berlin

Tel. +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Financial overview

			Scope estimates	
Scope credit ratios	**2016**	**2017**	**2018E**	**2019E***
Total cost coverage (from recurring income)	1.1	1.5	1.3	1.2
Total cost coverage without dividend payments (recurring)	1.7	2.5	2.4	2.4
LTV (Scope-adjusted debt/portfolio's market value)	15%	17%	Depending on new investments and market developments (<25%)	
Liquidity	>200%	>200%	110-200%	>200%
Cash flows (EUR m)	**2016**	**2017**	**2018E**	**2019E**
Recurring cash inflows (dividends)	159	174	163	141
Non-discretionary cash outflows (incl. net interest payments)	142	119	129	118
Balance sheet/indebtedness (EUR m)	**2016**	**2017**	**2018E**	**2019E**
Scope-adjusted debt (incl. pension adjustments)	1,011	1,137	~1,000	~1,000
Net asset value	5,581	5,712	n/a	n/a

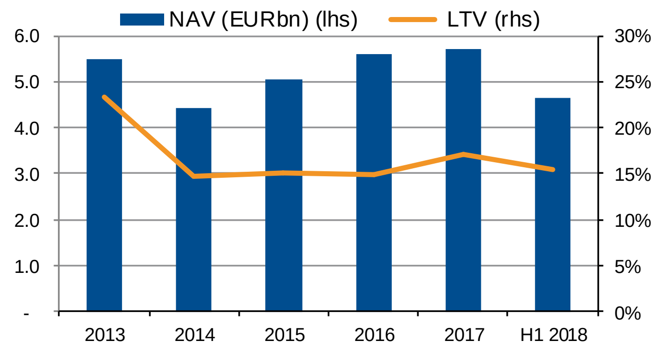
* including the disposal of 7.3% in METRO, which is highly likely, but excluding the disposal of another 15.2% in METRO which is linked to the call option

H1 2018 results

LTV remains low

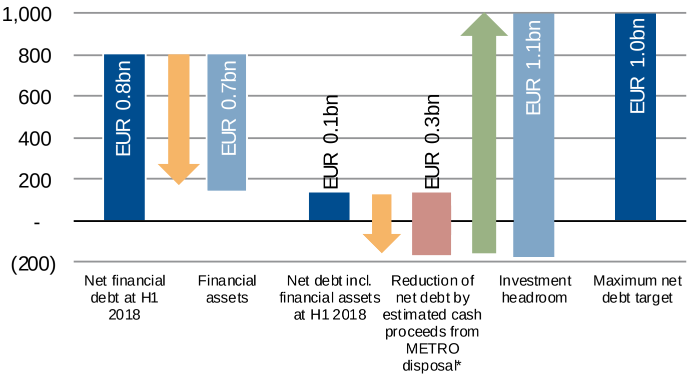
LTV at the end of H1 2018 stood at 15% (17% at YE 2017) despite the negative share price developments of major shareholdings in METRO, CECONOMY and TAKKT, primarily as a result of the scaling back of net financial debt supported by the repayment of Haniel's EUR 200m bond in February 2018 (see Figure 1).

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)



* Reflecting the disposal of 7.3% in Metro

Source: Haniel, Scope

Portfolio rotation in line with investment strategy and rating case

Exit from METRO in two steps

On 24 August 2018 Haniel announced the conclusion of an agreement with EP Global Commerce GmbH (EPGC) – a Czech-Slovakian acquisition entity which is backed by two high net worth individuals Patrik Tkáč and Daniel Křetínský – to dispose of 7.3% in METRO in the short term and to grant a call option to EPGC for the acquisition of the remaining 15.2%. Hence, Haniel could dispose of its full current share of 22.5% in METRO if the call option is exercised over the next few months. However, Scope believes that the execution of the call option will also depend on EPGC's progress in acquiring further shares in METRO, i.e. from CECONOMY (rated BBB-/Stable by Scope) – a possibility which was announced by CECONOMY on 27 August 2018.

Reduction of METRO exposure already part of Haniel's strategy

The general strategy of an exit from METRO after holding shares in the company for more than 50 years does not come a surprise. Haniel has envisaged a reduction of its stakes in the two successor companies of the old METRO on many occasions:

- Firstly, the issuance of the EUR 500m exchangeable bond in Q2 2015 – two years ahead of the Metro demerger – initially served as a means to reduce METRO and CECONOMY exposure in the long run.
- Secondly, the 22.5% ownership in METRO does not fully match the holding company's 'Mittelstandsinitiative' investment strategy and portfolio focus which targets asset-light and mature SMEs operating in megatrend industries. Moreover, Haniel's declared strategy is to take over controlling stakes in portfolio companies which not only allows it to provide management and financing support but also affords full control over dividend distributions or profit transfer agreements.

Total cost coverage to remain above 1.0x

Assuming stable dividends at METRO for BY 2017/18 (EUR 0.7 dividends per share), Haniel will forgo cash inflows from dividends of about EUR 18m for the disposed 7.3% in METRO and potentially another EUR 38m for the remaining 15.2%. Scope estimates that the holding company's total cost cover will remain above 1.0x over the next years, even when factoring in the reduced cash inflows from dividend payments from METRO in 2019E (2019E total cost coverage slightly lower at 1.2x reflecting a sale of 7.3% of METRO shares, or 1.0x reflecting a full sale).

Swapping investment headroom for dividends

Scope assumes that Haniel has agreed a sale price for the 7.3% in METRO without a discount to the closing price of EUR 11.80 per share which would result in disposal proceeds of around EUR 310m. While it remains to be seen how quickly Haniel can reinvest the proceeds in assets which fit its investment philosophy given the current challenging market environment, the holding company has substantially increased its headroom for further portfolio additions.

Investment headroom increased to above EUR 1.1bn

With respect to Haniel’s communicated maximum net debt target of EUR 1bn, the disposal of METRO shares will enlarge its headroom for further portfolio additions. Considering Haniel’s economic net debt which also includes financial assets, primarily intercompany loans to its subsidiaries, Haniel retained headroom of more than EUR 850m at the end of June 2018 before reaching the maximum debt target. The proceeds from the sale of 7.3% of METRO shares is likely to lift this investment headroom beyond EUR 1.1bn (see Figure 2).

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Paris

33 rue La Fayette
F-75009 Paris

Phone +33 1 82885557

London

Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 203-457 0 4444

Madrid

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

Phone +34 914 186 973

Milan

Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com
www.scoperatings.com

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