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 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, ELG, TAKKT, BekaertDeslee, ROVEMA, Optimar, BauWatch 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 of their development, e.g. infarm, Sdui, wandelbots and Gilde Healthcare V growth capital fund.

Key metrics

			Scope estimates		
Scope credit ratios	2019	2020	2021E	2022E	2023E
Total cost coverage	1.6x	1.1x	1.3x	1.2x	1.2x
Loan-to-value (Scope-adjusted debt/portfolio's market value)	3%	3%	Depending on new investments and market developments (<20%)		
Liquidity	>200%	>200%	>200%	>200%	>200%

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 that opens 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 with good headroom to reaching the lower end of this range. This implies that cash contributions from portfolio companies would have to fall short Scope's forecasts by more than 10% before total cost coverage drops 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 the holding company 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 rating	S-2
Senior unsecured rating	BBB-

Analyst

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

Related Publications

Scope affirms BBB-/Stable/S-2 issuer rating of Haniel, Apr 2020

Monitoring Note on Franz Haniel & Cie. GmbH, Sep 2019

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

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

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

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

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 • Sharpened investment focus on companies which follow sustainable development goals and global megatrends (healthcare & wellbeing, the circular economy, climate change and robotics & automation); expected cash flow generation from such sustainable investments seen as 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 investment headroom of more than EUR 1.5bn at YE 2019 • 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, which has even been kept in 2020 – a year which was characterised by liquidity management on the part of portfolio companies and dividend cuts • Commitment to keeping net debt up to EUR 1bn over the medium-to-long term, even after new investments, which provides significant debt headroom after the recently closed acquisition of BauWatch • Strong liquidity and limited short-term refinancing needs, allowing for substantial acquisitions and/or further debt reduction	• 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 resulting 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	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Total cost coverage (from recurring income)	1.6x	1.1x	1.3x	1.2x	1.2x
Total cost coverage without dividend payments (recurring)	3.4x	2.3x	2.5x	2.5x	2.7x
Loan-to-value ratio (Scope-adjusted debt/portfolio market value)	3%	3%	Depending on new investments and market developments (<20%)		
Liquidity	>200%	>200%	>200%	>200%	>200%
Cash flows (EUR m)	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Recurring cash inflows (dividends and profit transfers)	178	126	160	152	162
Non-discretionary cash outflows (incl. net interest payments)	112	114	123	131	141
Balance sheet/indebtedness (EUR bn)	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Scope-adjusted debt (incl. pension adjustments)	0.1	0.1	<1.0	<1.0	<1.0
Net asset value	4.5	5.5	n/a	n/a	n/a

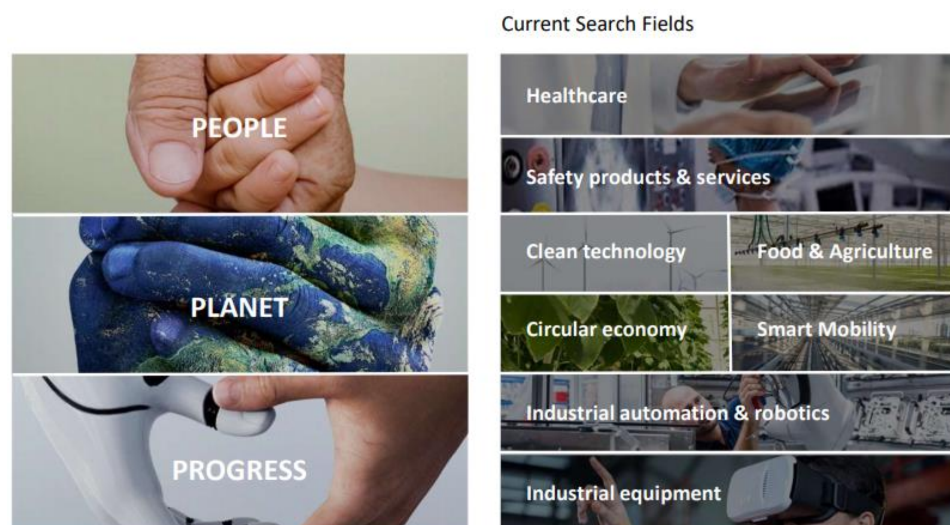
Source: Haniel, Scope

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

Focus on ES(G)-relevant investments

Haniel's rating reflects the continued execution of its finetuned investment strategy which focuses on investments in controlling stakes of mature SMEs. More specifically, such 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 (ESG factor: credit-positive factor that is likely to support a sustained business profile).

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



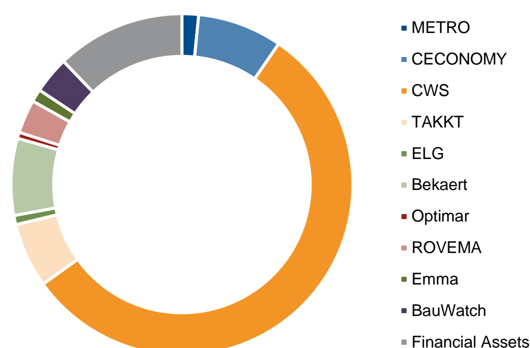
Source: Haniel

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

Concentration risks on income stream not expected to ease over the next few years

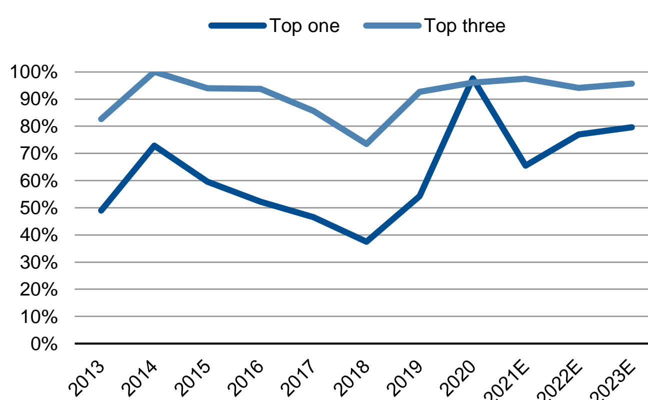
The ongoing portfolio reshuffle, with ten investments as of April 2021, has immediately improved net asset value (+23% at the end of 2020, year-on-year) and provided exposure to a higher number of industries with only a limited correlation. At the same time, the effect on diversification among dividend- and income-generating assets remains subdued. As expected, Covid-19 further limited Haniel's income diversity in 2020, as major dividend- and income-generating portfolio companies cut shareholder payouts in order to preserve cash. Over the longer term, however, we are confident that Haniel's dividend diversity will be gradually strengthened thanks to its large investment headroom. Nevertheless, income concentration is likely to be high in the medium term, as our conservative base case assumes no dividends from CECONOMY or the new investments in BauWatch and Emma until 2023. While this might be unrealistic given the abovementioned companies' high growth rates, it also highlights the Haniel portfolio's dependence on CWS performing well for the next few years, until greater income diversification can be achieved. Although the further sale of METRO has significantly reduced portfolio liquidity and fungibility, we note that sale proceeds have provided further headroom to acquire controlling stakes in mature European SMEs. We continue to attach less importance to Haniel's reduced exposure to liquid/listed portfolio companies as long as there is sufficient visibility that Haniel does not require asset sales given a sustained sufficient total cost coverage and adequate liquidity profile.

Figure 2: Persistently high asset concentration – Scope's estimate for Q2 2021



Source: Haniel, Scope

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



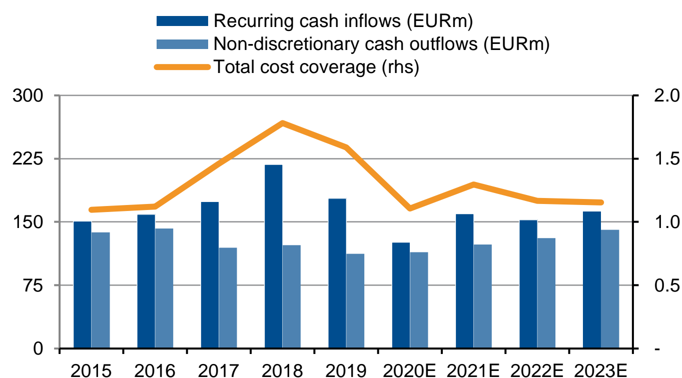
Source: Haniel, Scope

Solid financial risk profile even under distressed macroeconomic conditions

Sustained total cost coverage of above 1.0x

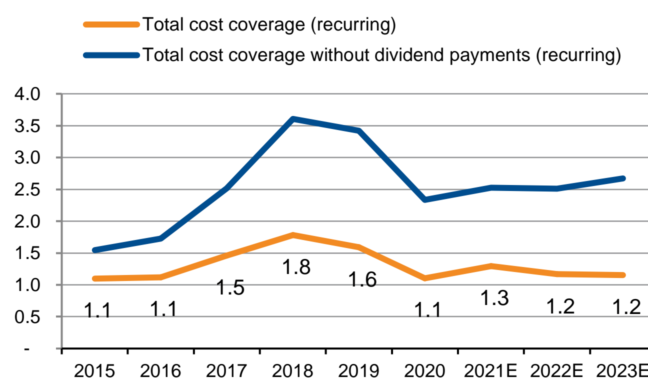
Haniel's credit strength is underpinned by a solid total cost coverage of 1.1x in 2020 – a year that was largely characterised by cash retention on the part of portfolio companies, given the uncertainties around the potential impact on business performance of Covid-19 related restrictions. We forecast that Haniel will retain full cost coverage over the next three years. The total cost coverage ratio should trend at the upper end of the 1.0x-1.3x range, which supports the credit rating. This is largely bolstered by our expectations of reduced holding company costs, following the concluded restructuring between 2019 and 2020 and higher expected income contributions (such as dividends and profit-sharing) from its major three portfolio companies, primarily CWS but also TAKKT (including a special dividend payout in 2021) and METRO. Resumed dividend payouts from CECONOMY and smaller portfolio ventures could provide some further upside. However, we also 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.

Figure 4: Total cost coverage



Source: Haniel, Scope estimates

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



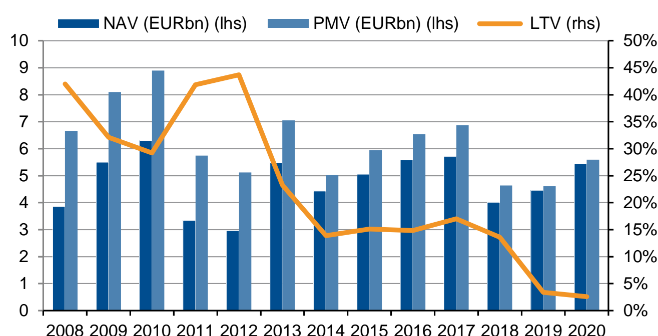
Source: Haniel, Scope estimates

Large debt headroom stemming from a very low market value gearing

Haniel's indebtedness is very comfortable, with a low Scope-adjusted loan-to-value ratio of about 3% at YE 2020. This is largely supported by the holding company's fairly low net financial debt exposure of about EUR 150m (Scope-adjusted debt) – mostly related to

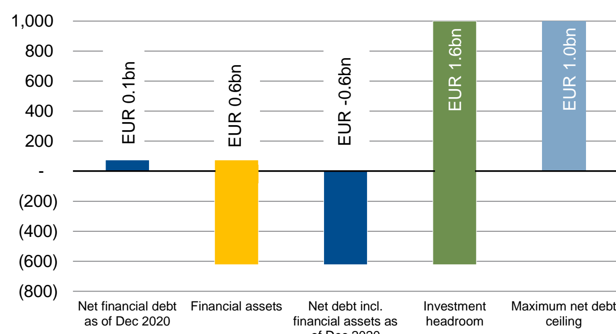
shareholder loans from Haniel family members – and the strong value appreciation of Haniel's portfolio market value to EUR 5.5bn (up from EUR 4.5bn at YE 2020). The holding company's low net debt exposure retains large headroom for additional debt that can be used for portfolio additions or to support portfolio companies through cash injections funded at the holding level. In light of Haniel's proven slow portfolio ramp-up, we anticipate no major changes to portfolio market gearing.

Figure 6: Market value gearing



Source: Haniel, Scope

Figure 7: Investment headroom before reaching the maximum net debt target at YE 2020 (before BauWatch acquisition)



Source: Haniel, Scope

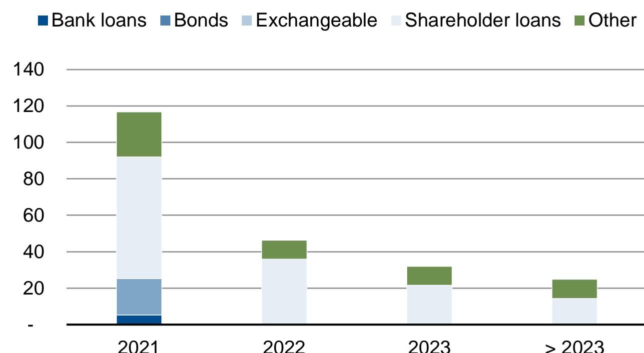
Retained investment headroom

We calculate that Haniel retained significant headroom of about EUR 1.6bn on new debt before the recent acquisition of BauWatch. This headroom 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 strongly exposed to market volatility via fluctuating share prices and moving multiples used for valuating non-listed portfolio companies. Therefore, Haniel's portfolio market value would have to deteriorate by 85% before reaching a loan-to-value ratio of 25%. As such, Haniel's financial position remains strong, as expected for its investment grade rating.

Robust liquidity

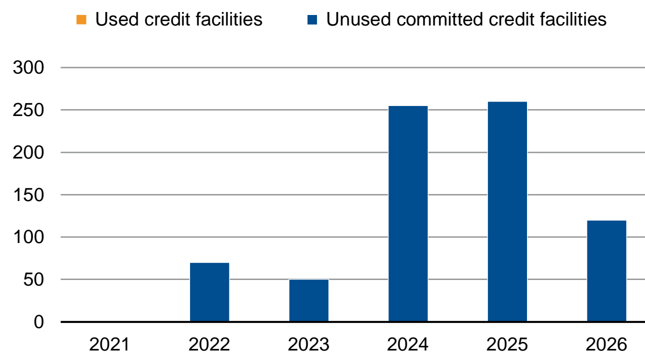
Haniel's liquidity continues to be strong. Following the full redemption of the EUR 500m exchangeable bond in 2020, the holding company faces debt repayments adding up to about EUR 200m over the next three years (EUR 117m in 2021, around EUR 50m in 2022, and around EUR 30m in 2023). Most of this is related to the shareholder loan from Haniel family members. Incorporating an expected total coverage of above 1.0x over the term, a cash cushion of EUR 156m at YE 2020 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 8: Expected maturity profile at YE 2020 (in EUR m)



Source: Haniel, Scope

Figure 9: 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 outstanding public debt.

BBB- for senior unsecured debt

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

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

23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid

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

Phone +34 914 186 973

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

111 Buckingham Palace Road
London SW1W 0SR

Phone +44 020 7340 6347

info@scoperatings.com
www.scoperatings.com

Disclaimer

© 2021 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Analysis GmbH, Scope Investor Services GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.