Corporate Rating
Franz Haniel & Cie. GmbH ('Haniel')
Germany, Investment Holdings

BBB-[STABLE]
Corporate Rating

Corporate Profile

Franz Haniel & Cie. GmbH (Haniel) is an investment holding company whose foundation dates back to 1756. The holding is a privately owned company owned by about 650 members of the Haniel family with the strict separation of ownership and management. Haniel manages its diversified portfolio and pursues a long-term investment strategy as a value developer with no own operating activities. The 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 CWS-boco, ELG, TAKKT, Bekaert (in which Haniel holds a controlling stake) and METRO GROUP (in which Haniel holds a substantial minority position).

Ratings		Analysts	
Corporate Rating:	BBB-	Sebastian Zank, CFA E-Mail	(Lead Analyst) s.zank@scoperatings.com
Outlook:	Stable		
Sector:	Investment Holdings	Werner Stäblein E-Mail	(Backup Analyst) w.staeblein@scoperatings.com
Monitoring:	yes		

Rating Rationale

Scope Ratings assigns a BBB- to Germany-based Franz Haniel & Cie. GmbH ('Haniel'). The rating Outlook is Stable.

The Corporate Issuer Credit Rating of BBB- reflects Haniel's conservative investment strategy with a buy-and-hold/buy-and-build approach that is geared towards the generation of recurring dividends from its long-term shareholdings. The rating is supported by the holding's diversified exposure to non-correlated industries of its subsidiaries' activities and the strong product and geographical diversification of investee companies.

The holding's dividend concentration from its major dividend payers constrains the rating. This is partly offset by Scope's expectations about a reduction of concentration risks from the execution of the long-term investment strategy which focuses on mature European SMEs (so-called 'Mittelstandsinitiative'). Substantial cash balances and undrawn, committed credit lines support our view of a strong liquidity position. Haniel has headroom of about EUR 1.2bn to complete acquisitions before reaching the net debt target of "up to EUR 1bn" communicated by the company. The recent portfolio rebalancing with the sale of Celesio, divestiture of a 5% stake in METRO and acquisition of Bekaert are reflective of Haniel's strategy. Scope views the lack of asset liquidity that results from unlisted assets only as a minor negative rating driver. This is because Scope believes Haniel should be able to cover its non-discretionary cash expenses, notably cash interest expenses, with dividends received from its investee companies, resulting in a fixed-charge coverage of above 1.0x over the forecast horizon. Strong liquidity is fully sufficient to cover short-term debt maturities over at least the next two years (the rating horizon), and could support the fixed-charge cover if needed unexpectedly. Scope does not foresee material refinancing needs before February 2018 which could be easily covered by committed undrawn credit lines. The corporate bond, which matures in February 2017, is to be repaid from the company's existing cash balances.

Scope expects Haniel's fixed-charge coverage to return to 1.0x-1.2x between 2015 and 2017, thereby indicating that there is no need to tap the company's liquidity or to force asset sales. Nevertheless, this fixed-charge coverage is viewed as low for an investment-grade rated investment holding. Although Haniel has demonstrated strong improvements on its LTV over the last few years, primarily driven by the strong debt reduction, thanks to the proceeds from Celesio and METRO, Scope does not overemphasise the current net market gearing (15% in June 2015), given the potentially high volatility of an investment holding's portfolio's market value (PMV) and net asset value (NAV) respectively. Scope sees the net debt target communicated by Haniel as a strong and credible signal that Haniel can be expected to keep its market-value gearing at a comparably low level (<30%).

Outlook

The Outlook is Stable and reflects Scope's expectations of an improving fixed-charge coverage. A higher rating could result if the holding's fixed-charge coverage were to exceed 1.3x on a sustainable basis, and if concentration risks in the portfolio were to be reduced. A lower rating could result if the holding were to exceed its communicated net debt target, without off-setting this through additional dividend streams from new investee companies.

Rating Drivers

Positive	Negative
Buy-and-hold investment approach which primarily focuses on recurring dividend streams. Controlling stakes in investment companies allows for a strong influence on subsidiaries' strategy, operations and dividend policy	Small number (five) of shareholdings which results in high concentration risks within its shareholdings in terms of dividend and NAV concentration
Balanced industry allocation in the investment portfolio, which contains uncorrelated exposure to non-cyclical and cyclical industries	Limited asset liquidity due to a large share of unlisted subsidiaries, which may not be sold immediately if liquidity is urgently needed. However, this is partly offset by the buy-and-hold investment approach and Haniel's comfortable liquidity position
Portfolio companies with well established business models in mature markets, which are largely market leaders in their respective industry	Increased focus on SMEs to bring in stronger earnings volatility, which is partly offset by a better diversification
Intention to rebalance the investment portfolio, along with the investment strategy, which is bolstered by the current liquidity and strong access to unused, committed credit lines	
Strong geographical diversification across revenue streams in the investment portfolio, which is expected to improve further through the acquisition of Bekaert Textiles and the envisaged acquisition of DesleeClama	
Strong liquidity and no short-term refinancing needs, which allows for substantial acquisition	Currently moderate fixed-charge coverage at the holding level (total cost coverage 2015E from recurring business: 1.0x)
Commitment to keep net debt up to EUR 1bn over the medium-to-long term, even after new investments	Volatile leverage (LTV) stemming from market volatility
Fixed-charge coverage expected to improve to ≥1.2x by 2017	
Balanced refinancing profile with no refinancing needs by February 2018	

Rating Change Drivers

Positive	Negative
Significantly widened portfolio diversification	Fixed-charge coverage to drop below 1.0x on a sustained basis
Expected fixed-charge coverage to increase above 1.3x 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		
	2013	2014	2015E	2016E	2017E
Cash Flows (EURm)					
Recurring cash inflows	202	56	156	159	169
Non-discretionary cash outflows	228	263	151	162	142
Non-recurring net cash flows from asset disposals[1]	627	1.208	-	-	-
Balance sheet (EURm)					
Adjusted financial debt	1,640	795	1,219	1,219	950
Cash & cash equivalents	5	97	317	400	400
Adjusted net financial debt	1,635	698	902	819	550
Net asset value	5,492	4,431	n/a	n/a	n/a
Key financial ratios					
Fixed-charge coverage (from recurring income)	0.9	0.2	1.0	1.0	1.2
Fixed-charge coverage without dividend payments (recurring)	0.9	0.2	1.4	1.4	1.8
Fixed-charge coverage (incl. non-recurring income)	3.6	4.8	-	-	-
LTV (net debt/portfolio's market value)	23%	14%	<20%	depending on new investments and market developments (<30%)	
Liquidity			>200%	>200%	>200%

Source: Haniel, Scope estimates

All ratios are based on adjusted financial data.

[1] Includes proceeds from the investments and disposals of property, plant and equipment, intangible assets, affiliated companies and other assets.

Business Risk Profile

Buy-and-hold investment approach

Scope's rating positively reflects Haniel's investment approach with a buy-and-hold/buy-and-build investment strategy, which focuses on recurring dividend streams. This reduces the dependence on market conditions. The holding's track record of rebalancing its investment portfolio underpins this conservative investment strategy.

Influence on subsidiaries' strategy and dividend policy

Haniel's investment focus which aims at holding majority stakes in its subsidiaries allows for a strong influence on strategy, operations and dividend policy. Scope regards the provision of management support and shareholder loans to newly acquired subsidiaries as additional indications for the high importance of a robustness of dividend streams.

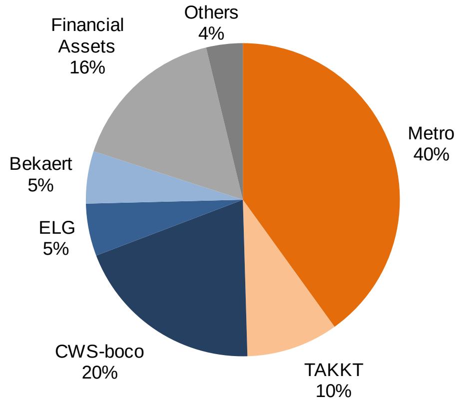
Balanced mixture of cyclical and non-cyclical sectors.

While Haniel's exposure to a large number of dividend-paying subsidiaries is currently small with only five investments, Scope believes that such concentration risks are partly offset by the well-balanced diversification to largely uncorrelated industries. Haniel's diversification ranges from subsidiaries in low-risk industries, such as CWS-boco, Bekaert and METRO, which Scope expects to be core dividend payers, to companies in higher risk industries, such as TAKKT and ELG, which can provide additional dividend flows.

Currently high concentration risks in portfolio and dividends.

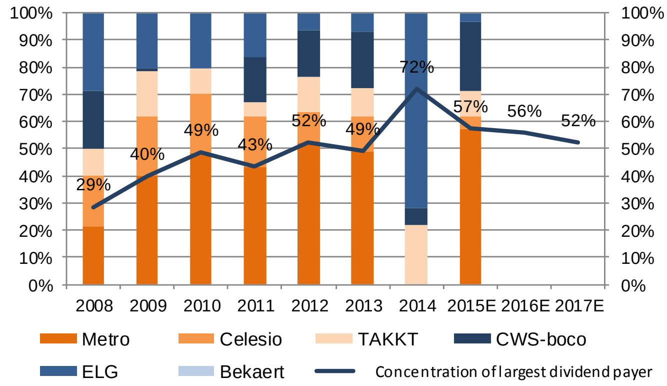
Owing to the small number of currently five shareholdings, Haniel has high concentration risks in its NAV (largest exposure, 40% in 2015) and core dividend payers (72% in 2014). Regarding dividend concentration, this has been due to the dividend cut of METRO. With the normalisation of the dividend streams from METRO and potential dividend income from new SME shareholdings, Scope expects dividend concentration to be reduced to around 50% by 2017. With the newly issued EUR 500m exchangeable bond, which carries the option to be converted into METRO shares, the high dependence on METRO can be reduced further if the convertible is eventually exercisable.

Figure 1 – Asset concentration per 30 June 2015



Source: Haniel, Scope Ratings

Figure 2 – Dividend concentration



Source: Haniel, Scope Ratings

Portfolio rebalancing with the so-called 'Mittelstandsinitiative' expected to provide greater dividend stability

Haniel's future investment focus on controlling stakes in established European SMEs is fully supported by the holding's current cash position, together with undrawn and committed credit lines. While an increased exposure to unlisted SMEs generally bears higher risks, Scope believes that these risks can be mitigated with a higher number of investments and through diversification into uncorrelated industries. Furthermore, Haniel has strict criteria for new investments in SMEs. Potential acquisition targets should be among the market leaders in their industry, able to pay out dividends in the first year after acquisition. Scope believes that the holding's dividend streams can be broadened once the investment strategy is implemented. The recent acquisition of Bekaert Textiles as well as the envisaged acquisition of DesleeClama strongly fit into this strategy; however, Haniel needs to provide more traction for a sustainable portfolio rebalancing over the next few years.

Strong geographical diversification to improve further with the recent acquisition of Bekaert Textiles

Scope regards Haniel's geographical diversification within its current shareholdings to be strong. Particularly, Haniel's core dividend payers METRO, CWS-boco and TAKKT act on a global scale, thereby reducing the risks of dividend volatility. Haniel's geographical reach is expected to improve further through the acquisition of Bekaert Textiles, which reports a high share of revenues outside Europe (65% of 2014 revenues – 35% Americas, 16% South America, 15% Asia).

Liquidity of shareholdings not overly important

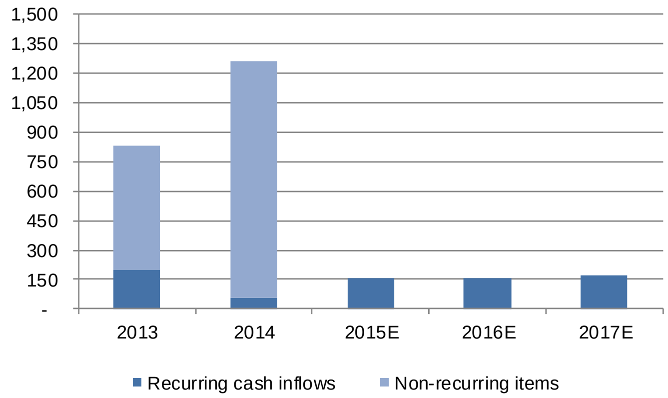
While the liquidity of assets is a core rating driver for investment holdings with a buy-and-sell approach, Scope does not overemphasise the comparatively lower asset liquidity for investment holdings such as Haniel. 50% of Haniel's current investment portfolio is liquid in terms of stockmarket listings. With Haniel's 'Mittelstandsinitiative', which focuses on non-listed European SMEs, the holding's asset liquidity is expected to be reduced. Nonetheless, Scope does not see the gradual lowering of asset liquidity of Haniel's investment portfolio to necessarily result in a deterioration of its credit quality.

Financial Risk Profile

Fixed-charge coverage as most important

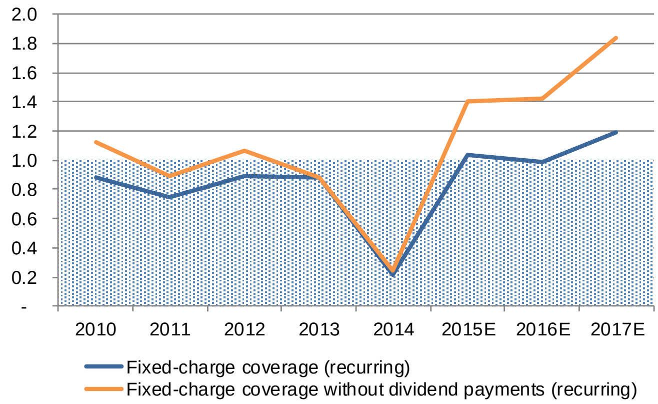
With the exception of 2014, Haniel's fixed-charge coverage has been comfortably around 1.0x. Going forward, Scope believes Haniel should be able to cover its non-discretionary cash payments at the holding level and to achieve full coverage over the next two years, with a slight improvement to 1.2x by 2017. This reflects METRO's adjusted dividend policy and the overall positive market environment for Haniel's major dividend payers. While a higher fixed-charge coverage would be expected by Scope for a more solid investment grade rating, Scope points to the company's strong liquidity, which does not require the company to force any asset disposals to accommodate debt maturities.

Figure 3 – Dividends stream plus non-recurring net cash flows from asset disposals



Source: Haniel, Scope Ratings

Figure 4 – Fixed-charge coverage at the holding level



Source: Haniel, Scope Ratings

Financial flexibility driven by improved net adjusted market-value leverage

Scope highlights Haniel's continuous deleveraging – as measured by net adjusted market value leverage (loan-to-value) – over the last few years (particularly from the sale of Celesio and the reduction of METRO shares in 2015) from over 40% in 2012 to below 20% in 2015. This provides Haniel with high financial flexibility to execute its portfolio rebalancing strategy.

While Haniel does not commit itself to relative leverage targets, Scope views positively the holding's commitment to a net debt position of up to EUR 1bn – even after planned acquisitions of European SMEs. Scope believes the holding's leverage is solid, particularly viewed in conjunction with the current debt maturity profile, which does not require significant refinancing before February 2018. While the EUR 269m corporate bond which expires in February 2017 can comfortably be covered by cash and cash equivalents, the next maturing EUR 202m bond which matures in February 2018 can also be covered by liquidity from committed, undrawn credit lines.

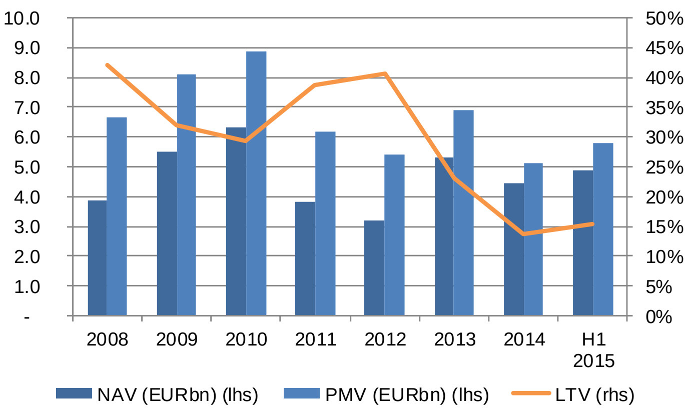
Sustainably strong liquidity

Scope regards Haniel's liquidity measures to be very strong, which is backed by: no significant refinancing needs before August 2018; the current cash position; the company's access to different undrawn, committed medium-term credit lines with a volume of more than EUR 700m; and the expected fixed-charge coverage of 1.0x or greater, i.e. an expected surplus of dividends received over non-discretionary cash payments at the holding level.

Expectations about improving cost coverage and leverage in line with rating

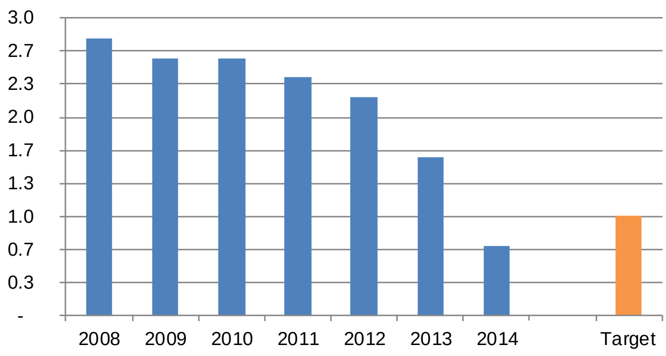
While the fixed-charge coverage has reduced significantly in 2014 (coverage of 0.2x) resulting from the dividend cut of METRO, Scope expects Haniel's total fixed-charge coverage to return to 1.0x in 2015. Backed by the recent announcement from METRO about a dividend increase in 2016, and the favourable industry developments of Haniel's core dividend payers (except for ELG), Scope expects the fixed-charge coverage to improve to 1.2x in 2017.

Figure 5 – Market value gearing (LTV)



Source: Haniel, Scope

Figure 6 - Net financial debt (EURbn)



Source: Haniel, Scope

Outlook

Outlook: Stable

The Outlook is Stable and reflects Scope's expectation that the fixed-charge coverage will improve. A higher rating could result if the holding's fixed-charge coverage were to exceed 1.3x on a sustainable basis and the holding significantly reduced existing concentration risks. A lower rating could result if the holding were to exceed its communicated net debt target, without off-setting this through additional dividend streams from new investee companies.

APPENDIX I: Scope's general view on a holding company's fixed-charge coverage, leverage and liquidity

Investment holdings finance their investments in portfolio companies partly with debt. Consequently, the degree of debt funding at an investment holding is the key consideration for Scope when assessing the financial risk profile. Scope uses financial data provided in the stand-alone (holding) accounts of an investment holding as the source for calculating key financial credit metrics. Financial data from consolidated financials do not feed into Scope's calculations of key credit ratios for the following reasons: i) cash flows or liquidity of portfolio companies as shown in consolidated accounts may not be accessible at the holding level and ii) an investment holding may not have any influence over a portfolio company's dividend policy.

Scope uses the following key credit metrics to gauge the financial risk profile of an investment holding:

- Fixed-charge coverage;
- Leverage (loan-to-value, 'LTV');
- Liquidity.

Scope uses fixed-charge coverage as the main indicator when assessing an investment holding's financial risk profile. Scope defines the fixed-charge coverage ratio as cash inflows versus non-discretionary cash outflows at the holding level. Historical or 'normalised' financial data is not used in this calculation; rather, the assessment is forward-looking and incorporates projected cash inflows relative to expected non-discretionary cash outflows.

Cash inflows included in our calculation are:

- Projected dividend inflows from portfolio companies, reflecting Scope's assessment of the sustainability of dividends;
- Projected cash-interest inflows from treasury activities such as investment in debt securities;
- Projected distributions from other investments such as investment funds or money market funds;
- Any other recurring cash-effective payments received from portfolio companies such as management fees.

Cash proceeds from divestments in portfolio companies are only included as a cash inflow if Scope expects these to recur annually. Likewise, available and undrawn committed lines are not added to projected cash inflows. Potential sources of cash, such as potential inflows from credit lines, are reflected in the liquidity assessment.

Non-discretionary cash outflows included in our calculation are:

- Projected cash outflows from debt servicing (cash interest and debt amortisation). If an investment holding had issued a zero-coupon debt instrument, Scope would likewise add the non-cash interest accruing on this instrument to measure the investment holding's ability to cover contractual, non-discretionary obligations with cash inflows.
- Projected dividend payments by the investment holding to its shareholders. Scope is cognizant that the nature of dividend payments is more akin to a discretionary cash outflow. For the purpose of the fixed-charge coverage calculation, we treat dividend payments as non-discretionary in our projections until the investment holding publicly declares significant changes to its dividend payments.
- General holding costs such as administrative expenses and staff costs.

Scope calculates an investment holding's leverage by taking into account the portfolio's market value relative to the adjusted debt position at the holding level. The debt position not only includes short-term and long-term financial debt, but also adjustments for pension provisions, operating leases and other off-balance sheet items such as guarantees.

The portfolio's market value is determined as follows:

- For publicly listed assets, we use stock price quotes as of the measurement day (spot prices);
- For non-listed assets we use valuation multiples (transaction multiples or trading multiples);
- Book value of unrestricted cash at hand.

Scope uses LTV as a supplementary ratio within the financial risk assessment. This is to avoid market prices of listed assets mechanically changing financial ratios, including the financial risk profile. Scope believes that changes in market prices of listed assets are only important if an investment holding faces debt maturities over the course of the next 12-24 months. A pure focus on LTV can be misleading given that this ratio does not capture the dimension of an investment holding's debt maturity profile. If an investment holding can cover its non-discretionary cash outflows, as defined above, there is no need for additional funding. Therefore, the dependence and relevance of price changes on listed assets can only be judged with regards to debt maturities over the course of the next one to two years. The combination of LTV with the time dimension (maturity profile of debt) is governed by our liquidity assessment.

IHC's invest in various asset types, including listed and unlisted assets. Our liquidity assessment supplements our ratio analysis to assess debt protection measures. Our main analytical focus on fixed-charge coverage is always viewed in conjunction with an investment holding's liquidity position.

In assessing an investment holding's liquidity, Scope compares potential sources of liquidity to potential liquidity needs.

Potential sources of liquidity are:

- Unrestricted cash balances and projected dividend inflows;
- Available committed credit lines which must be free of financial maintenance covenants, rating triggers or other provisions that could limit this availability.
- Portfolio's market value, including analytical haircuts to reflect the ability of an investment holding to convert investments into cash on short notice. Potential proceeds from asset sales are assessed in conjunction with an investment holding's willingness to sell certain assets.

Potential liquidity needs are defined as:

- Short-term financial debt, including the current portion of long-term debt.

APPENDIX II: Definition of key financial metrics

Adjusted debt	
Debt measure	The measure uses an adjusted debt equivalent and deducts equity credit resulting from hybrid debt securities that are qualified to display equity-like features. Scope adjusts the debt position for off-balance sheet debt like long-term operating lease charges, which are capitalised with an appropriate multiple of the rents or with the net present value of future lease payments. Furthermore Scope adjusts debt for pension provisions as per its Corporate Rating Methodology.
Interest-bearing financial debt - Hybrid debt securities + Off-balance sheet debt (i.e. guarantees, operating leases) + Adjusted pension provisions = Adjusted gross financial debt - Cash and cash equivalents = Adjusted net financial debt	

LTV (%)	
Debt measure	This ratio measures the market-based leverage of an investment holding and indicates how much headroom the company has to use external financing.
$\frac{\text{Net debt at the holding level}}{\text{Portfolio's market value (PMV)}}$	

Fixed-charge cover (x)	
Debt protection measure	This ratio reflects an issuer's ability to service its non-discretionary expenses. The ratio compares ordinary, unleveraged, untaxed cash flow generation with a holding company's costs such as interest, dividends to shareholders and general holding costs.
$\frac{\text{Recurring cash inflows}}{\text{Non-discretionary cash outflows}}$	

Fixed-charge cover (x) without dividend payments (recurring)	
Debt protection measure	This ratio reflects an issuer's ability to service its non-discretionary expenses excluding dividend payments to its shareholders as such dividend outflows can be amended if required.
$\frac{\text{Recurring cash inflows}}{\text{Non-discretionary cash outflows excluding dividend payments to shareholders}}$	

Fixed-charge cover (x) (incl. non-recurring income)	
Debt protection measure	This ratio reflects an issuer's ability to service its non-discretionary expenses from recurring and recurring cash inflows. The ratio compares ordinary, unleveraged, untaxed cash flow generation plus net proceeds from asset disposals with a holding company's costs such as interest, dividends to shareholders and general holding costs.
$\frac{\text{Recurring cash inflows + non-recurring net proceeds from asset disposals}}{\text{Non-discretionary cash outflows}}$	

Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

The rating analysis has been prepared by Sebastian Zank, Lead Analyst
Responsible for approving the rating: Olaf Tölke, Committee Chair

Rating history

Date	Rating action	Rating
23 February 2016	Initial	BBB- Outlook Stable

The rating concerns an issuer, which was evaluated for the first time by Scope Ratings AG.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but for a fee based on a mandate of the rated entity.

As at the time of the analysis, neither Scope Ratings AG nor companies affiliated with it hold any interests in the rated entity or in companies directly or indirectly affiliated to it. Likewise, neither the rated entity nor companies directly or indirectly affiliated with it hold any interests in Scope Ratings AG or any companies affiliated to it. Neither the rating agency, the rating analysts who participated in this rating, nor any other persons who participated in the provision of the rating and/or its approval hold, either directly or indirectly, any shares in the rated entity or in third parties affiliated to it. Notwithstanding this, it is permitted for the above-mentioned persons to hold interests through shares in diversified undertakings for collective investment, including managed funds such as pension funds or life insurance companies, pursuant to EU Rating Regulation (EC) No 1060/2009. Neither Scope Ratings nor companies affiliated with it are involved in the brokering or distribution of capital investment products. In principle, there is a possibility that family relationships may exist between the personnel of Scope Ratings and that of the rated entity. However, no persons for whom a conflict of interests could exist due to family relationships or other close relationships will participate in the preparation or approval of a rating.

Key sources of Information for the rating

- ☒ Annual reports/semi-annual reports of the rated entity
- ☒ Website of the rated entity
- ☒ Detailed information provided on request
- ☒ Data provided by external data providers
- ☒ Interview with the rated entity
- ☒ External market reports
- ☒ Press reports/other public information

Scope Ratings considers the quality of the available information on the evaluated company to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodology applicable for this rating (Corporate Rating Methodology) is available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

Rating issued by

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