MOODY'S
INVESTORS SERVICE

CREDIT OPINION

1 November 2018

Update

Rate this Research

RATINGS

Veolia Environnement S.A.

Domicile	Paris, France
Long Term Rating	Baa1
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Veolia Environnement S.A.

Update to credit analysis following rating affirmation

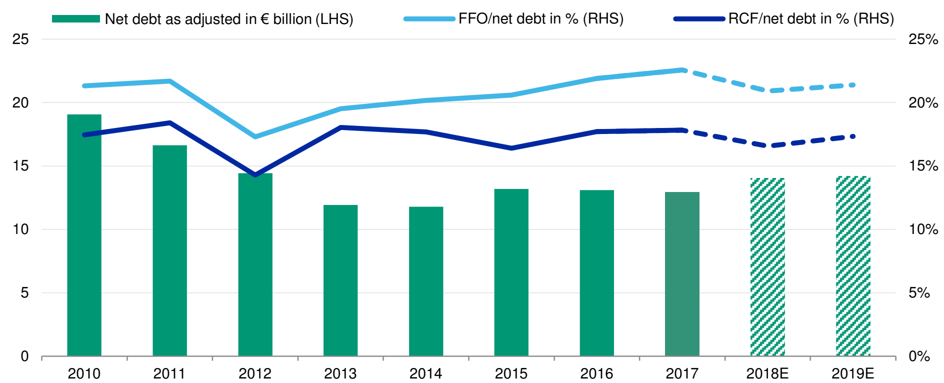
Summary

Veolia Environnement S.A.'s (Veolia) credit quality is underpinned by (1) its size and position as one of the two largest active groups in global environmental services, which benefit from positive structural dynamics; (2) the diversification of its revenue base by business, contract type and geography; and (3) the relatively low risk profile of its water business, which, in the first half of 2018, accounted for 41% of revenue and is characterised by low volume volatility. These factors are balanced by (1) Veolia's exposure to the macroeconomic cycle through its waste business, which accounted for 37% of revenue in the same period; and (2) the increasing proportion of short-term contracts, with industrial clients in its revenue mix.

From financial risk perspective, we expect the group to continue to demonstrate funds from operations (FFO)/net debt around 20% and retained cash flow (RCF)/net debt in the mid-teens in percentage terms. This is mostly predicated on the continued successful execution of the group's cost-saving programme, which should more than offset the pressure stemming from weak price indexation in the European water business (as Exhibit 1 shows).

Exhibit 1

Financial profile expected to remain resilient



The 2018 and 2019 estimates represent Moody's forward view, and not the view of the issuer.
Sources: Veolia, Moody's Investors Service

Credit strengths

» Scale and diversification, which support cash flow stability

» Supportive long-term industry dynamics

» Low-risk water activities, although affected in Europe (and notably in France) by weak indexation stemming from a low-inflation environment

» Improving financial profile, primarily driven by its cost-saving programme

Credit challenges

» Exposure of the waste business to the cyclical macroeconomic environment in Europe

» Increasing share of the industrial sector in the company's client mix

» Growing presence outside Western Europe, although mitigated by a balanced approach to capital deployment

Rating outlook

The stable outlook reflects our expectation that Veolia's financial profile will remain aligned with our guidance for the Baa1 rating, which includes FFO/net debt around 20%, RCF/net debt at least in the mid-teens in percentage terms and FFO interest cover above 4x. It also factors in our assumption that any potential deterioration in the company's business risk profile because of increased exposure to industrial clients could be offset by a further improvement in its credit metrics.

Factors that could lead to an upgrade

Upward pressure on the ratings could develop over the medium term if Veolia were to achieve RCF/net debt approaching 20% on a sustainable basis. In this scenario, we would take into account management's future financial policy and use of the financial flexibility that it could develop in the medium term.

Factors that could lead to a downgrade

Negative pressure on the ratings could arise if the company's metrics were to fall short of our guidance because of weaker-than-expected operating performance or increased investments.

Key indicators

Exhibit 2

Veolia Environnement S.A.

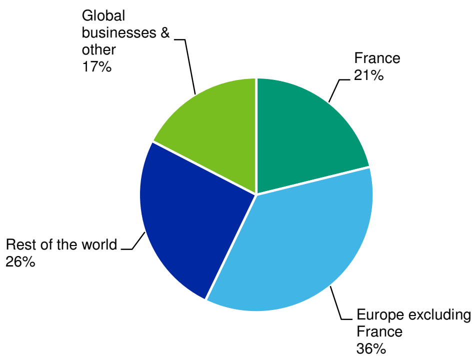
	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	2018-proj
(FFO + Interest Expense) / Interest Expense	4.2x	4.6x	5.5x	6.0x	6.1x	6.3x
FFO / Net Debt	19.5%	20.2%	20.6%	21.9%	22.6%	20.9%
RCF / Net Debt	18.0%	17.7%	16.4%	17.7%	17.8%	16.6%
FCF / Net Debt	-2.1%	-1.3%	0.3%	0.7%	-1.2%	-2.1%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. The 2015, 2016 and 2017 key indicators are adjusted for IFRIC 12. For definitions of Moody's most common ratio terms, please see the accompanying User's Guide.
Source: Moody's Investors Service

Profile

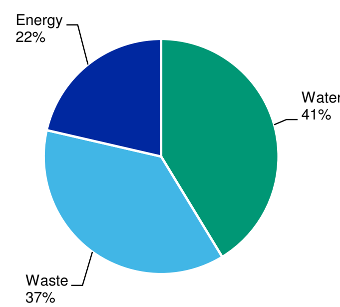
Headquartered in Aubervilliers, France, Veolia is one of the world's largest providers of environmental services, with revenue of €25.1 billion in 2017. It provides drinking water to 96 million people, wastewater treatment to 62 million people and waste management services to 40 million people. Veolia is listed on the Paris stock exchange, with a market capitalisation of around €9.1 billion.

Exhibit 3
Breakdown of H1 2018 revenue by geography



Source: Company reports

Exhibit 4
Breakdown of H1 2018 revenue by activity



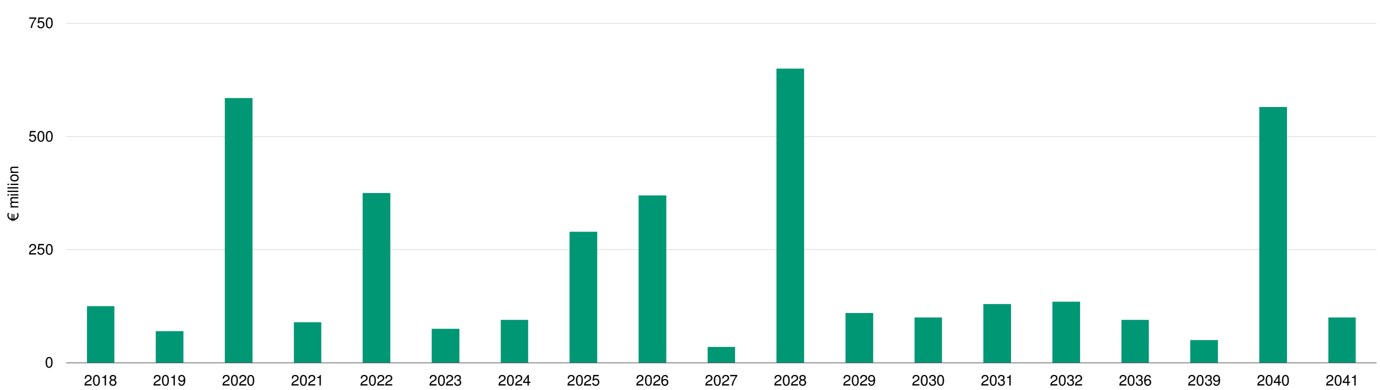
Source: Company reports

Detailed credit considerations

Scale and diversification support cash flow stability

Veolia's credit quality is underpinned by its scale and diversification, which have contributed to leading market positions in many different geographies across its three businesses of water, environmental and energy services. The diversification of the company's revenue base by business, contract type and geography (as Exhibits 3 and 4 show) helps mitigate the negative effect on earnings from deterioration in any one activity or region and supports the relative stability of its cash flow. In addition, the granularity of its portfolio of contracts means that Veolia has limited exposure to the risk of nonrenewal of any single contract.

Exhibit 5
Veolia's portfolio of contracts displays limited concentration
Contract expirations of over €50 million in annual revenue



Sources: Company reports, Moody's Investors Service

Increasing share of industrial clients in revenue mix

Veolia's revenue is derived from a portfolio of thousands of multiyear contracts, which range from long-term concessions with low-risk counterparties in the public sector to shorter-term contracts with industrial and commercial (I&C) customers. Contracts vary by market and can either be capital intensive, requiring the group to invest in infrastructure in exchange for the right to provide services on a long-term basis, or be structured as operating and maintenance or management contracts, requiring little investment.

Public authorities account for 54% of Veolia's turnover and I&C customers account for the remaining 46%, a proportion we expect to continue to grow as the group's commercial pipeline includes a greater share of projects in the I&C sector. Veolia has identified six growth areas of increasing demand from its industrial clients to meet growing efficiency, environmental or regulatory requirements. This shift in client mix may, over time, increase Veolia's business risk profile as it entails greater reliance on shorter-term, asset-light contracts.

Supportive long-term industry dynamics, but only in an increasingly competitive environment

Veolia operates in sectors that benefit from positive long-term underlying dynamics globally, although the sectors are not immune to short-term economic pressure. These positive factors include population growth, the trend towards urbanisation and industrialisation, and an expectation of rising standards of living in emerging economies.

Together with public concern over the impact of climate change on scarce resources and increasingly stricter environmental regulation, these positive underlying factors are leading to increased demand for (1) existing technologies for the provision of water, wastewater and waste management services; and (2) new services and technologies that, for example, facilitate water preservation, or the ongoing shift towards waste recovery.

Against this backdrop, competition is intense, especially in the lower part of the value chain. Veolia's closest competitor is SUEZ (A3 negative), while other competitors include new Chinese companies and both global and local specialists (for example, energy companies, equipment manufacturers, companies specialised in energy efficiency or facility management). Veolia's main competitive advantages are its scale and ability to provide a wide range of services and technologies across business lines and geographies.

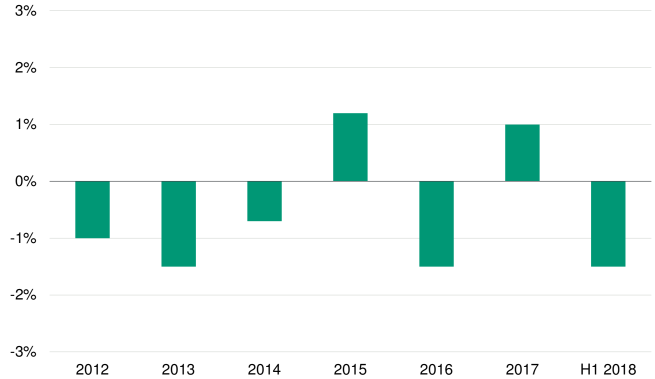
Low-risk water activities, but exposure of the waste business to cyclical macroeconomic conditions

Veolia benefits from the low risk profile of its water business, which provides essential water and wastewater management services to individuals and businesses, often on behalf of local municipalities, under long-term concession agreements. Although demand for water continues to experience a slow structural decline in advanced economies, especially in Europe, because of a more resource-aware population, variations in water consumption are mainly driven by weather (as Exhibit 6 shows). Typical renewal rates of around 90% in the municipal sector provide revenue visibility and stability.

Exhibit 6

Water volume in mature economies exhibit low volatility and growth...

(Annual % change in Veolia's water volume in France)

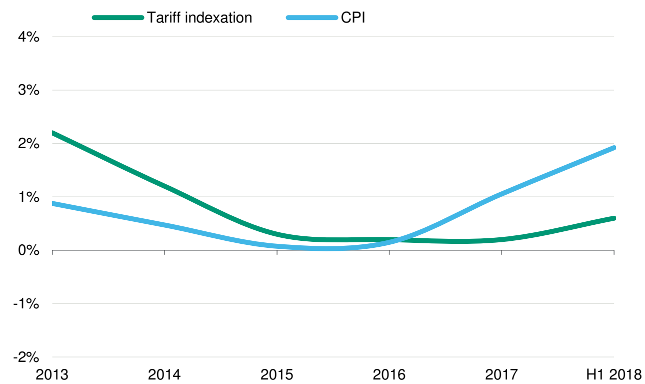


Source: Company reports

Exhibit 7

... while tariff indexation remains weak because of low inflation

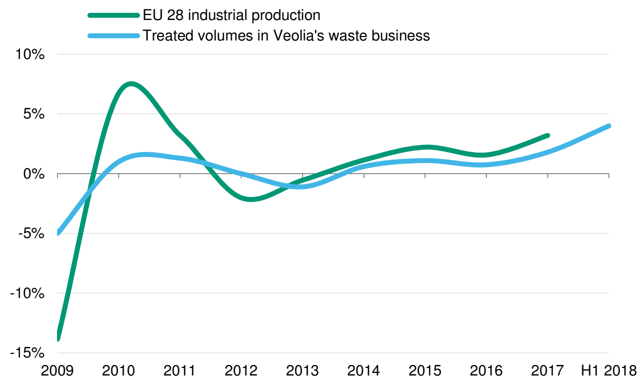
(Annual % change in Veolia's water tariffs in France vs. CPI)



Sources: Company reports, Moody's Investors Service, INSEE

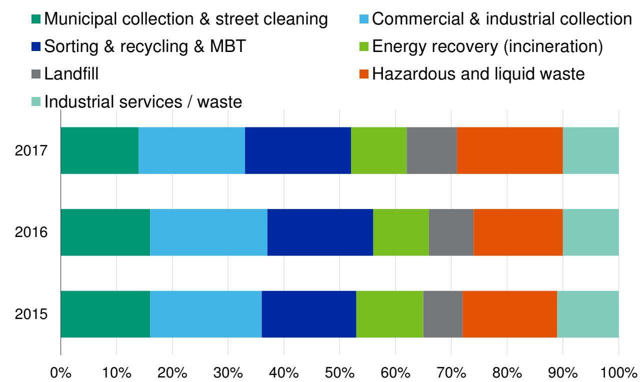
The waste management business is more exposed to cyclical macroeconomic conditions, reflecting (1) the higher proportion of I&C customers; (2) contract terms often linked to collected or processed volume, which are, in turn, linked to industrial production (as Exhibit 8 shows); and (3) the modest and residual exposure of the recycling business to paper and scrap metal prices (as Exhibit 9 shows). With low entry barriers in collection and elimination of nonhazardous waste, Veolia continues to invest in higher value-added activities, which can include sorting, processing hazardous materials and energy from waste, which will, in turn, increase the group's exposure to fluctuations in material and energy prices.

Exhibit 8
Veolia's waste business is exposed to the macroeconomic cycle
(Annual % change)



In 2010, waste volume is from industrial clients only.
Sources: Company reports, Moody's Investors Service

Exhibit 9
Shift from collection and landfill to recycling and hazardous materials continues
(Waste revenue breakdown by activity)



Sources: Company reports, Moody's Investors Service

In Veolia's energy business, around two-thirds of the revenue comes from the management of district heating and cooling networks, which is supported by long-term contracts. These contracts include indexation and pass-through clauses covering variations in energy prices, although these can be subject to some regulatory risk. These features ensure relatively predictable cash flow, although this activity remains exposed to weather conditions, which drive the seasonal demand for heating and cooling. In addition to networks, the group acts as a subcontractor for public and private customers to manage or maintain various energy installations, including decentralised electricity generation, such as biomass and, which in turn can expose it to fluctuations in energy prices.

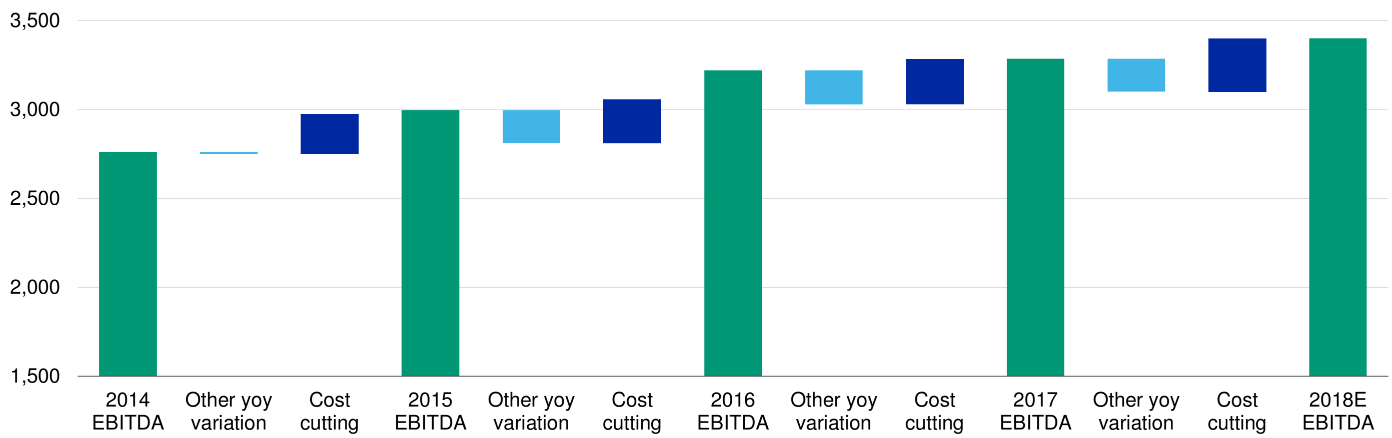
Growing presence outside Europe, mitigated by a balanced approach to capital deployment

Veolia's strategy to shift progressively from mature economies to growth markets outside Europe implies incremental risks. This was illustrated by the unilateral termination in February 2018 of Veolia's water and energy contract in Gabon, which generated €64 million of EBITDA in 2017. We therefore expect the group to remain cautious in its approach towards capital deployment so as to limit the scale of the investment it takes on in any individual country.

Cost-reduction programme supports operating profitability

Given our expectation of broadly stable net debt (following the call and repayment of the €1.5 billion hybrid in April) and neutral free cash flow for Veolia, the group's ability to maintain its leverage (FFO/net debt) largely unchanged comes from its operating cash flow evolution. The group's profitability is mostly predicated on the continued successful execution of its cost-saving programme, which has, in earlier years, more than offset the pressures stemming from weak price indexation and subdued industrial production in Europe (as Exhibit 10 shows). The execution of this programme was the main driver behind the 2.7% EBITDA growth (at constant foreign exchange) reported in 2017.

Exhibit 10
EBITDA growth continues to be driven by cost savings
(in € million)



EBITDA excluding IFRIC 12 impact.
Sources: Company reports, Moody's Investors Service

For 2018, Veolia targets another €300 million of cumulative gross cost savings compared with an aggregate of around €500 million in 2016 and 2017. This, combined with an expected acceleration in revenue growth in 2018 and 2019, driven by new contracts and a stronger outlook for industrial production, should in turn underpin the group's credit metrics in the medium term.

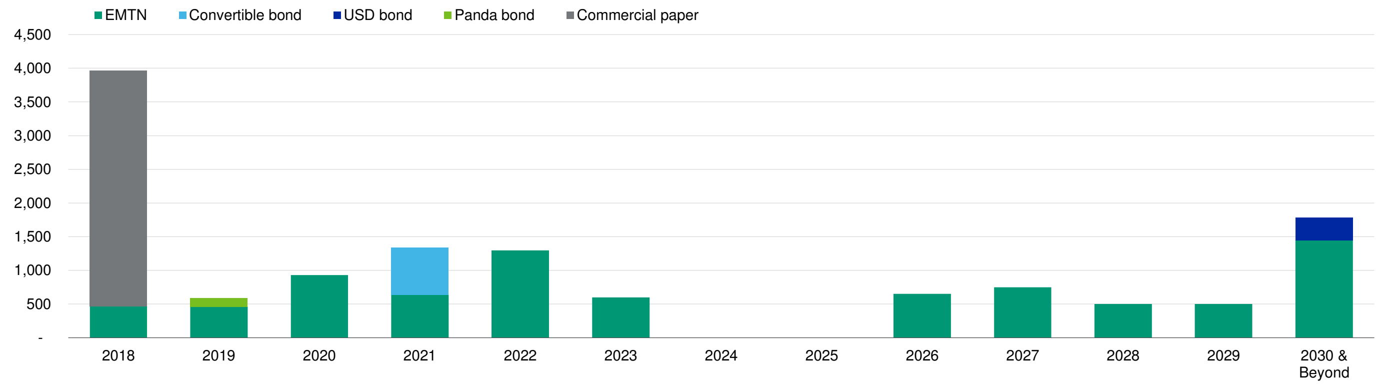
On April 16, 2018, Veolia redeemed its €1.5 billion deeply subordinated perpetual securities, which was reflected in the 14% rise in net debt to €14.8 billion as of 30 June 2018. H1 2018 results reported revenue of €12.6 billion (+6% at constant exchange rate) and EBITDA of €1,673 million (+5.8% at constant exchange rate). Veolia confirmed its guidance for 2018 of EBITDA growth greater than that in 2017 and cost reduction of €300 million.

Liquidity analysis

Veolia's liquidity is sound. We expect the group to be broadly free cash flow neutral after dividend payment over the next 12 months. The group's funding needs as of the end of June 2018 thus mostly comprised €4.15 billion of current liabilities and a €478 million bond. These funding needs are covered by (1) €2.6 billion of cash and cash equivalents (excluding restricted cash) on balance sheet, and (2) undrawn credit lines of €3.9 billion in aggregate as of the end of June 2018.

These credit lines mainly consist of (1) a syndicated facility of €3 billion maturing in 2022, and (2) undrawn bilateral facilities of €925 million maturing between 2019 and 2021. These facilities contain no triggers, covenants, material adverse changes or general restrictions. The average bond issue maturity was eight years as of 30 June 2018.

Exhibit 11
Veolia's debt maturity profile as of the end of April 2018
(in € million)



Pro forma for hybrids redeemed in April 2018.
Sources: Veolia, Moody's Investors Service

Rating methodology

The primary methodology used in rating Veolia was Environmental Services and Waste Management Companies, published in April 2018. The assigned Baa1 rating also reflects the very broad diversification of its revenue base by sector and geography and, in particular, the low risk profile of its concession-based water business, including its leading position in France, which accounted for 41% of revenues in H1 2018.

Ratings

Exhibit 12

Category	Moody's Rating
VEOLIA ENVIRONNEMENT S.A.	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2

Source: Moody's Investors Service

Appendix

Exhibit 13

Veolia's select historical Moody's-adjusted financial data

EUR Million	2011	2012	2013	2014	2015	2016	2017
Income Statement							
Revenue	29,018	23,420	23,022	24,011	25,138	24,388	25,284
EBITDA	4,747	3,330	3,136	3,749	3,572	3,590	3,595
EBIT	2,078	1,301	1,060	1,718	1,408	1,416	1,333
Interest Expense	1,124	847	733	662	609	577	575
Balance Sheet							
Cash & Cash Equivalents	5,724	4,998	4,125	2,963	3,922	5,314	6,146
Gross Debt	23,357	19,420	16,062	14,744	17,112	18,404	19,082
Total Liabilities	44,970	34,129	30,560	28,933	31,585	32,938	33,583
Cash Flow							
Funds From Operations	3,720	2,494	2,328	2,376	2,713	2,871	2,920
Dividends	-547	-434	-175	-294	-548	-556	-614
RCF	3,173	2,060	2,153	2,083	2,165	2,315	2,305
Cash Flow From Operations	3,551	2,293	2,201	2,412	2,828	2,919	2,899
Capital Expenditures	-3,529	-2,785	-2,273	-2,268	-2,236	-2,270	-2,436
FCF	-525	-927	-248	-150	45	93	-152
Profitability							
% Change In Sales (Yoy)	-0.6%	-19.3%	-1.7%	4.3%	4.7%	-3.0%	3.7%
EBITDA Margin %	16.4%	14.2%	13.6%	15.6%	14.2%	14.7%	14.2%
EBIT Margin %	7.2%	5.6%	4.6%	7.2%	5.6%	5.8%	5.3%
Interest Coverage							
EBITDA / Interest Expense	4.2x	3.9x	4.3x	5.7x	5.9x	6.2x	6.2x
(FFO + Interest) / Interest Expense	4.3x	3.9x	4.2x	4.6x	5.5x	6.0x	6.1x
Leverage and Cash Flow							
Debt / EBITDA	4.9x	5.8x	5.1x	3.9x	4.8x	5.1x	5.3x
Net Debt / EBITDA	3.7x	4.3x	3.8x	3.1x	3.7x	3.6x	3.6x
FFO / Net Debt	21.1%	17.3%	19.5%	20.2%	20.6%	21.9%	22.6%
RCF / Net Debt	18.0%	14.3%	18.0%	17.7%	16.4%	17.7%	17.8%
CFO / Net Debt	20.1%	15.9%	18.4%	20.5%	21.4%	22.3%	22.4%
FCF / Net Debt	-3.0%	-6.4%	-2.1%	-1.3%	0.3%	0.7%	-1.2%

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Investors Service

Exhibit 14
Peer comparison

	Veolia Environnement S.A. Baa1 Stable			SUEZ A3 Negative			Hera S.p.A. Baa2 Stable			ACEA S.p.A. Baa2 Stable		
(in US millions)	FYE Dec-17	FYE Dec-16	FYE Dec-17	FYE Dec-15	FYE Dec-17	FYE Dec-17	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-15	FYE Dec-16	LTM Jun-17
Revenue	$28,568	$26,985	$28,568	$16,804	$17,932	$17,932	$4,982	$5,678	$6,341	$3,109	$2,997	$2,927
EBITDA	$4,062	$3,972	$4,062	$3,050	$3,063	$3,063	$869	$901	$972	$706	$899	$848
Total Debt	$22,914	$19,411	$22,914	$13,829	$17,902	$17,902	$3,836	$3,407	$3,978	$3,583	$3,548	$4,039
Cash & Cash Equivalents	$7,380	$5,605	$7,380	$2,288	$3,717	$3,717	$595	$371	$541	$885	$702	$632
EBIT Margin %	5.3%	5.8%	5.3%	6.7%	5.7%	5.7%	9.7%	8.9%	8.6%	14.2%	19.8%	17.7%
EBIT / Int. Exp.	2.3x	2.5x	2.3x	2.2x	1.9x	1.9x	3.5x	4.1x	4.7x	3.8x	5.7x	5.3x
Debt / EBITDA	5.3x	5.1x	5.3x	4.6x	5.5x	5.5x	4.5x	4.0x	3.9x	5.2x	4.1x	4.6x
FFO / Net Debt	22.6%	21.9%	22.6%	21.4%	19.3%	19.3%	18.7%	20.5%	21.7%	19.8%	23.6%	21.3%
RCF / Net Debt	17.8%	17.7%	17.8%	16.2%	14.6%	14.6%	13.8%	15.4%	16.8%	15.7%	19.5%	16.8%

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Investors Service

Exhibit 15
Veolia's-adjusted debt breakdown

(in EUR Million)	FYE Dec-12	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17
As Reported Debt	**15,990.1**	**12,901.1**	**11,544.0**	**12,341.0**	**13,350.5**	**14,281.1**
Pensions	653.2	603.4	679.8	701.4	796.5	657.2
Operating Leases	2,298.9	1,445.1	1,435.8	1,338.6	1,471.8	1,465.3
Hybrid Securities	0.0	739.9	756.8	772.5	733.6	725.4
Securitizations	179.7	185.0	221.0	332.5	512.1	567.6
Non-Standard Adjustments	298.4	187.0	106.6	1,625.9	1,539.3	1,385.7
Moody's-Adjusted Debt	**19,420.3**	**16,061.5**	**14,744.0**	**17,111.9**	**18,403.8**	**19,082.3**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Investors Service

Exhibit 16
Veolia's-adjusted EBITDA breakdown

(in EUR Million)	FYE Dec-12	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17
As Reported EBITDA	**2,226.8**	**2,248.2**	**2,936.7**	**2,699.3**	**2,648.3**	**2,718.7**
Pensions	23.6	20.3	15.0	9.2	26.8	-15.6
Operating Leases	513.1	481.7	478.6	446.2	471.4	472.2
Interest Expense – Discounting	-50.3	-41.7	-45.3	-39.0	-41.7	-36.3
Securitizations	5.9	7.1	6.8	9.9	15.1	17.7
Non-Standard Adjustments	610.5	420.2	356.8	446.9	469.7	438.1
Moody's-Adjusted EBITDA	**3,329.6**	**3,135.8**	**3,748.6**	**3,572.5**	**3,589.6**	**3,594.8**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Investors Service

Moody's related research

Sector In-Depth:

» French non-financial corporates: Stable credit quality, solid markets point to clear skies for debt issuance, 19 October 2017

Rating Actions:

» Moody's assigns Baa1 rating to Veolia's convertible bonds, 10 March 2016

Issuer Comment:

» Veolia Announces Credit-Positive Sale of Transdev Stake, 4 August 2016

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