

**Rating Action: Moody's affirms Veolia Environnement's Baa1 issuer rating; stable outlook**

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Paris, July 09, 2021 -- Moody's Investors Service ("Moody's") has today affirmed the Baa1 long-term issuer and senior unsecured ratings of Veolia Environnement S.A. (Veolia). Concurrently, it has also affirmed the (P)Baa1 senior unsecured Euro MTN program and senior unsecured shelf ratings, the Baa3 perpetual junior subordinate debt ratings as well as Veolia's Prime-2 short-term Commercial Paper ratings. The outlook is stable.

**RATINGS RATIONALE**

**RATIONALE FOR AFFIRMATION OF RATINGS**

On 30 August 2020, Veolia announced its intention to buy 100% of SUEZ, with the acquisition of a first block representing 29.9% of SUEZ capital held by Engie SA (Baa1 stable) for €18/share, completed on 6 October 2020. Following months of discussions, Veolia and SUEZ's board of directors concluded an in-principle agreement on 11 April, framing the merger between the two groups, including an increased offer price at €20.50/share (coupon attached) and the concomitant disposal of SUEZ's French assets, complemented with SUEZ's non-regulated municipal water positions in some countries outside France as well as global digital and environmental activities, generating c. €7billion revenue attributable to a new entity, New SUEZ. On 29 June 2021, SUEZ's board recommended acceptance of Veolia's offer. The transactions are expected to close in December 2021.

The affirmation of Veolia's Baa1 ratings takes into account Veolia management's stated commitment to maintaining credit quality. Moody's expects that Veolia will act accordingly to bolster credit quality, and that mitigating measures including capital increase and disposal to New SUEZ will be sufficient to cushion the strain on financial metrics from the acquisition of SUEZ's capital. Moody's therefore anticipates that Veolia will restore financial flexibility commensurate with guidance for a Baa1 rating, which includes funds from operations (FFO)/net debt in the high teens in percentage terms, retained cash flow (RCF)/net debt comfortably in the low teens in percentage terms and FFO interest cover above 4x.

The affirmation of Veolia's Baa1 ratings also reflects that the group will benefit from a markedly increased scale and geographical diversification following the acquisition of SUEZ. With the somewhat complementary geographies of the two groups, the acquisition will enlarge Veolia's international presence, in particular in the context of rising competition in a highly fragmented market, and leverage the ongoing shift towards offering more sophisticated environmental solutions (focus on hazardous waste) and efforts to increase barriers to entry for potential newcomers. There will be an unchanged focus on water, waste and energy services businesses. The combination will create the leading group in waste and water activities worldwide, with revenue over EUR37 billion (after proposed disposals of New SUEZ and those to address competition issues in Europe, the UK and Australia) and EBITDA close to EUR6 billion. Over 80% of revenue will be derived outside France. In 2020, Veolia reported EUR26 billion revenue and EUR3.6 billion EBITDA.

Veolia's Baa1 ratings continue to be underpinned by (1) the group's scale and position as one of the largest groups in global environmental services, a sector supported by 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 would account for c. 45% of EBITDA upon SUEZ acquisition.

These positives are balanced by (1) Veolia's exposure to the macroeconomic cycle through its waste business, which would account for 37% upon SUEZ acquisition; and (2) the increasing proportion of short-term contracts with industrial clients in its revenue mix.

**RATIONALE FOR THE STABLE OUTLOOK**

The stable outlook reflects Moody's expectation that Veolia's management will take appropriate measures to restore financial flexibility at the current rating level upon SUEZ acquisition. It also factors in Moody's 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 OR DOWNGRADE OF THE RATINGS

A rating upgrade is unlikely in the next two years given the adverse impact on credit metrics of the SUEZ acquisition. In the longer term, upward pressure on the ratings could develop if Veolia were to achieve RCF/net debt approaching high teens in percentage terms on a sustained basis.

Veolia's ratings could be downgraded if credit metrics appear likely to remain on a sustained basis below Moody's guidance for the Baa1 rating, which includes FFO/net debt in the high teens in percentage terms, RCF/net debt comfortably in the low teens in percentage terms and FFO interest cover above 4x, because of weaker-than-expected operating performance, issues in integrating SUEZ's teams, or increased investments.

The principal methodology used in these ratings was Environmental Services and Waste Management Companies published in April 2018 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1113573](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1113573). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

Headquartered in Aubervilliers, France, Veolia is one of the world's largest providers of environmental services. It provides drinking water to 98 million people, wastewater treatment services to 67 million people and waste management services to 42 million people. Veolia is listed on the Paris Stock Exchange, with a market capitalisation of around EUR15.2 billion as of 7 July 2020.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Celine Cherubin  
Vice President - Senior Analyst  
Infrastructure Finance Group  
Moody's France SAS  
96 Boulevard Haussmann  
Paris 75008  
France  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Neil Griffiths-Lambeth  
Associate Managing Director  
Infrastructure Finance Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's France SAS  
96 Boulevard Haussmann  
Paris 75008  
France  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

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