

# SUMMARY OF THE RATING REPORT

## **Helvetia Environnement Groupe SA**

16 October 2018



# Issuer Rating

Helvetia Environnement Groupe SA		16 October 2018		
		Issuer rating		<b>BB-</b>
		Outlook		<b>stable</b>
Sector	Waste collection and sorting and waste-to-materials & energy	2017 Revenue	CHF 111m	
		2017 Employees	500	



BUSINESS RISK	moderate
<ul style="list-style-type: none"> <li>Low cyclicality of the Swiss waste market</li> <li>Leading position in a regional market with continuous growth in the long-term supported by structural changes</li> <li>Diversified customer portfolio in terms of industry</li> <li>High barriers to entry due to regulation and required capital investment</li> <li>Highly fragmented market</li> </ul>	

OPERATIONAL RISKS	- 1
<ul style="list-style-type: none"> <li>Integration risks due to external growth</li> </ul>	

FINANCIAL RISK	slightly increased
<ul style="list-style-type: none"> <li>Growing external funds and increasing financing costs as a result of external growth</li> <li>Adequate capital structure despite goodwill adjustments</li> <li>Still adequate profitability and stable cash flows ensured by a wide client base and mid-term contracts</li> <li>Adequate financial flexibility</li> </ul>	

EXTERNAL FACTORS	± 0
<ul style="list-style-type: none"> <li>No relevant external factors</li> </ul>	

## Rating History

	07 June 2017	16 October 2018	
<b>Rating</b>	BB-	BB-	
<b>Outlook</b>	stable	stable	

# Rating Rationale

**Euler Hermes Rating confirms the BB- issuer rating for Helvetia Environnement Groupe SA (HEG). We expect the rating to remain stable over the next twelve months.**

***Moderate business risk due to an established market position and positive prospects in a competitive environment***

We assess HEG's **business risk profile** as **moderate**. HEG's business risk profile is underpinned by a leading market position within the highly fragmented and low cyclical Swiss waste management market along with good market prospects. HEG's business profile is supported by a diversified client base in terms of industry in Western Switzerland. In comparison with other European peers, HEG's geographic diversification remains weak. To further improve its market position and to take advantage of synergies, HEG pursues an external growth strategy by seizing consolidation opportunities within the Swiss waste management market. HEG's major acquisition of the peer competitor SRS in 2017 made HEG a leading group for waste management and environmental services in Switzerland. Considering this position and its extended client portfolio, geographic scope and infrastructure network we think that HEG is well prepared to benefit from market growth prospects. HEG's position is further strengthened by the high barriers to entry of the Swiss waste market due to significant capital and regulatory requirements. With view to the main segments of waste services for municipalities and private businesses, we see an overall moderate exposure to economic cycles and generally stable market conditions with growing waste volumes and a growing demand for recycling services and outsourcing of facility management. Structural growth drivers are the increasing environmental regulations and awareness, demographic change and improvement of social conditions. Nevertheless, we identified some remaining key risks with regard to the liberalised and highly competitive market, which typically results in moderate to high pricing pressure. Further risks could also arise from adverse amendments to the regulatory framework that would require high capital investments.

***Slightly increased financial risks due to only modest expectations regarding key credit ratios***

We assess HEG's **financial risk profile** as **slightly increased**. Unlike the group's internal projections, our expectations regarding the operating performance during HEG's current period of external growth remain rather cautious. We anticipate risks with respect to prevailing integration risks, increased external funding, growing financing costs and the significant proportion of acquired goodwill. Therefore we expect our adjusted key credit ratios such as net debt/EBITDA and interest coverage to remain at only moderate levels in the medium-term. Thanks to economies of scale from new investments or potential synergies from M&A activities, key credit ratios have the potential to improve slightly in our opinion should the pace of external growth slow down over the long-term. Despite goodwill adjustments we assess the current capital structure as adequate, benefitting from the substantial increase in share capital and shareholder loans as well as from the reorganisation of financial liabilities through the 2017 bond issuance. Generally we think, that the existing financial risks are partially mitigated by the high proportion of recurring revenues backed by mid-term contracts of five to seven years. This ensures a reasonable stability of the operating cash flows in our view. Nevertheless, internally generated funds are not expected to fully cover the projected growth expenditures until 2020. This situation will result in additional capital needs that will have to be met by higher external funding. With view to the 2018 liquidity position, repeated access to shareholder funds, a proposed no-dividend policy and access to unutilised funding facilities we assess HEG's overall financial flexibility as still adequate.

***Anchor Rating modified by -1 Notch***

Based on the available information, we downgrade the anchor rating by one notch due to adjustments for acquisitions and prevailing integration risks.

## Appendix 1: Execution

### Analysts

- Michel Graire, analyst and project manager
- Matthias Peetz, senior analyst

### Rating committee

- Holger Ludewig, director
- Jörg Walbaum, senior analyst

### Principal sources of information

- Financial statements for 2015, 2016, 2017
- Interim Reporting 1<sup>st</sup> half 2018 + Forecast 2018
- Business Plan 2018-2022
- Market analyses
- Investors' presentation
- Interviews with management
- Organisation legal structure
- Shareholder and loan agreements
- Due diligence documents
- Documents on business processes

### Rating methodology

- Issuer rating of Euler Hermes Rating GmbH of May 2016 (formally amended on 14 November 2017)
- ([www.ehrg.de/seiten/Methodology\\_Issuer%20Rating\\_20171114.pdf](http://www.ehrg.de/seiten/Methodology_Issuer%20Rating_20171114.pdf))

### Euler Hermes Rating GmbH

Friedensallee 254  
22763 Hamburg  
GERMANY  
Phone: +49 (0) 40/88 34-64 0  
Fax: +49 (0) 40/88 34-64 13

[info@eulerhermes-rating.com](mailto:info@eulerhermes-rating.com)  
[www.eulerhermes-rating.com](http://www.eulerhermes-rating.com)

## Appendix 2: Rating Categories

Category	Definition
<b>AAA</b>	In the opinion of the rating agency, AAA rated entities demonstrate excellent credit quality and the lowest default risk.
<b>AA</b>	In the opinion of the rating agency, AA rated entities demonstrate very high credit quality with a very low default risk.
<b>A</b>	In the opinion of the rating agency, A rated entities demonstrate high credit quality with a low default risk.
<b>BBB</b>	In the opinion of the rating agency, BBB rated entities demonstrate highly satisfactory credit quality with a moderate default risk.
<b>BB</b>	In the opinion of the rating agency, BB rated entities demonstrate slightly satisfactory credit quality with a slightly increased default risk.
<b>B</b>	In the opinion of the rating agency, B rated entities demonstrate low credit quality with an increased default risk.
<b>CCC</b>	In the opinion of the rating agency, CCC rated entities demonstrate very low credit quality with a very high default risk.
<b>CC</b>	In the opinion of the rating agency, CC rated entities demonstrate very low credit quality, an event of default is very likely.
<b>C</b>	In the opinion of the rating agency, C rated entities demonstrate very low credit quality, an event of default is imminent.
<b>D / SD</b>	D rated entities have defaulted, as defined by the credit rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
<b>PLUS (+)</b> <b>MINUS (-)</b>	Rating notations from AA to CCC are modified by a PLUS (+) or MINUS (-) where required in order to show their relative position within the rating category.

## Disclaimer

Helvetia Environnement Groupe SA (client and rated entity) engaged Euler Hermes Rating GmbH to conduct a rating on 12 April 2017. The company was visited on 27 September 2018.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 16 October 2018. This rating report was given to the client on 18 October 2018, thereby concluding the rating process.

The rating is Euler Hermes Rating GmbH's opinion of the creditworthiness of a rating subject. It is not a statement of fact. Euler Hermes Rating GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

The rated entity is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The rated entity has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the rated entity cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

The rating is published on Euler Hermes Rating GmbH's website ([www.eulerhermes-rating.com](http://www.eulerhermes-rating.com)) or published for subscribers (e.g. on a portal) and will be followed by a subsequent one-year monitoring process. During this period, the rated entity and the sector and business environment in which it operates will remain under observation. The representatives of the rated entity remain subject to a full disclosure obligation during this period. Any change in Euler Hermes Rating GmbH's rating assessment will result in a change in the published rating notation, meaning that this notation represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if a follow-up rating is performed.

Please note that summaries of contracts, laws and other documents contained in the rating report cannot replace careful study of the complete texts. Euler Hermes Rating GmbH cannot guarantee that the information used to prepare this report has not changed since it was collected and is still accurate at the time of publication. Euler Hermes Rating GmbH is under no obligation to complete the information that it considered when issuing the rating.

The dissemination and use of this rating report may be prohibited by law in certain jurisdictions. Euler Hermes Rating GmbH therefore recommends that any persons who come into the possession of this information inquire about and comply with any prohibitions that may be in place. Euler Hermes Rating GmbH assumes no liability of any kind with respect to the dissemination and use of the rating in any jurisdiction whatsoever.

Euler Hermes Rating GmbH

Hamburg, 18 October 2018