

Company: Bellon

Sector: Investment Holdings

SR Rating	Outlook
SR1	Stable

Rating rationale

We reaffirm our SR1 short-term rating to the €300m NEU CP instruments of Bellon S.A., the second-highest grade in our rating scale. This reflects the strong credit metrics, cautious financial policy, and sound credit profile of the sole asset owned by the company, despite the lack of portfolio diversification.

Bellon is a family-owned holding company the only asset of which is 42.2% of Sodexo's issued capital (57.1% of voting rights as of 31 December 2018). Bellon is 72.6%-owned by Pierre Bellon (Sodexo's founder) and his children, while other members of the family hold 7.8% and the Sodexo-owned holding company Sofinsod 19.6%. Since Bellon owns only one asset, we believe that following a strict holding approach to assessing Bellon's credit metrics is insufficient. Hence, we have also followed a more traditional corporate approach using proportionate consolidation for computing several key credit metrics.

Sodexo is a global provider of food services and facility management services to various end-markets. The group generated sales of €21.2bn and EBITDA of €1.37bn over the last twelve months (to end-February 2019). Sodexo is listed on Euronext Paris and is a CAC 40® constituent, with a market capitalization of €14.6bn. Sodexo has generated steadily improving operating results over recent years, reflecting the position of strength from which the group operates and high client retention. Also, we value Sodexo's exposure to non-cyclical sectors (representing around 50% of group sales), which provides good protection against the troughs of business cycles.

Sodexo has paid a steadily rising dividend to its shareholders thanks to good cash generation. Sodexo's dividend policy is based on a payout ratio of 50% (of recurring net income), which amounted to €403m in 2019 (paid in February). We are very comfortable with Bellon's interest coverage ratio (dividend received/financial expenses), since dividends received from Sodexo in 2018 (€168m) cover more than six times both operating and financial expenses (altogether c. €25m). Our proportionate adjusted net leverage ratio (adj. EBITDAR/adj. net debt) of 3.1x at Bellon's level is moderate, albeit slightly higher than Sodexo's adjusted net leverage ratio (2.8x).

Since the drop in Sodexo's market capitalization in April 2018 (of around 20%) due to a profit warning for its FY17/18 results, Sodexo shares have recovered most of the value lost. Thanks to this and positive cashflow (after dividends paid) of €130m in 2018, Bellon's loan-to-value ratio (net financial debt/asset value) at the current share price improved to a very low 6% as of April 2019 (from 10% last year). We project the LTV ratio to slightly improve over the next three years based on sound cash generation and cautious financial policy.

Bellon's financial policy is conservative, and is strongly adhered to. The holding's dividend policy is to distribute no more than 10% of dividends (received from Sodexo) to Bellon's family, and there is a strong willingness to maintain both the dividend paid and the loan-to-value ratio at a low level.

Bellon's positive free cashflow (after dividends) has been mainly used to reimburse financial debt/retain cash on its balance sheet, and to a lesser extent reinvest in Sodexo's shares (in 2016 and 2018). Note that Bellon also bought back its own shares from Bellon family members in 2016 (€150m). Similar buyback operations may occur in the future.

Debt structure

Total reported debt stood at €531m as of end-December 2018, which was mainly made up of i) equity-linked swaps for a total amount of €350m maturing in 2020, ii) US private placements for €105m due 2022, and iii) NEU CP instruments for €35m. Note there are several maintenance covenants attached to the equity-linked swaps. We expect compliance with the covenants with a large headroom based on our forecast.

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Including the cash position of €8m, net reported debt stood at €523m as of end-December 2018, or a loan-to-value ratio of 6% at the current share price pro forma the €171m dividend received in February 2019. Adjusted for operating leases and pension deficits, our adjusted loan-to-value ratio also comes out at 6%.

Note that Bellon obtained a revolving credit facility (RCF) of €150m maturing in July 2020, which is used as a back-up line for the NEU-CP program.

Liquidity analysis

We assess Bellon's liquidity as satisfactory since it may sell some amount of highly liquid Sodexo shares while keeping control of the company. In addition, Sodexo should obtain new financing easily given the group's solid credit metrics.

Also, the €150m RCF (maturing in July 2020) serving as a back-up line for the NEU CP program was undrawn as of April 2019.

Credit outlook: Stable

Our Stable outlook reflects our view that credit metrics will not change materially over the next twelve months. Sizeable cash generation may be balanced by the potential acquisition of additional Sodexo shares and potential buyback of Bellon shares.

Rating sensitivity

Bellon is positioned in the low range of our SR1 rating. An upgrade to SR0 would require a diversification of Bellon's investment portfolio, an option which is currently excluded based on our talks with the company.

We may downgrade our rating to SR2 if Sodexo's credit profile deteriorates, if dividends paid by Sodexo decline substantially, or if Bellon's financial policy becomes more aggressive.

REGULATORY DISCLOSURES

SPRR/2019/000375/RAT/24/05/2019

Initiation report: No

Rating initiation: SR1 on 5 June 2018.

Rating nature: Solicited short-term public rating (the rating report was published after having been reviewed by the issuer)

Name of the rating committee chair: Anthony Giret, Credit Analyst.

Material sources used to support the rating decision:

- Financial statements 2018, 2017, 2016
- Discussions with Bellon management

Limitation of the Rating action:

Spread Research believes the quality and quantity of information available on the rated entity is sufficient to provide a rating.

Spread Research has no obligation to audit or verify the accuracy of data provided.

Principal methodology used in this research: available at www.spreadresearch.com

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PRESS RELEASE



Spread Research reaffirms its SR1 short-term rating to the NEU CP instrument of Bellon S.A. with a Stable outlook

Lyon, May 24th, 2019 – Credit rating agency Spread Research reaffirms its SR1 short-term rating to the NEU CP instrument of Bellon S.A. with a Stable outlook. The short-term instrument rating is part of the financial documentation of the €300m NEU CP of Bellon S.A.

Rating rationale

Spread Research has analysed both the short-term credit profile and liquidity profile of Bellon S.A. in order to assign its short-term rating. Spread Research based its analysis on two main pillars – the credit profile and liquidity analysis – as detailed in our methodology for short-term ratings, available on our website (<https://www.spreadratings.com/la-notation-de-votre-entreprise/>).

The outcome is SR1, the second-highest grade in Spread Research's rating scale. This reflects Bellon's strong credit metrics, cautious financial policy, and the sound credit profile of the sole asset owned by the company, despite the lack of portfolio diversification.

Credit profile

Bellon S.A. (Bellon) is a family-owned holding company the only asset of which is 42.2% of Sodexo's issued capital (and 57.1% of its voting rights). Sodexo S.A. (Sodexo), a provider of food services and facility management services, benefits from strong credit metrics and has generated satisfactory operating results over recent years, reflecting the position of strength from which the group operates and its high client retention rate. This has translated into a steadily increasing dividend paid to Sodexo's shareholders.

We are very comfortable with Bellon's interest coverage ratio, since dividends received in 2018 (€168m) cover more than six times both operating and financial expenses (altogether c. €25m). Bellon's positive free cashflow (after dividends) has been mainly used to reimburse financial debt/retain cash on its balance sheet, and to a lesser extent reinvest in Sodexo shares. Our rating is underpinned by Bellon's cautious financial policy. The holding's policy is to distribute no more than 10% of dividends (received from Sodexo) to its shareholders, and there is a strong willingness to maintain the loan-to-value (LTV) ratio at a low level. Pro forma the €171m dividends received in February 2019, Bellon's loan-to-value (net financial debt/asset value) at the current share price improved to a very low 6% as of December 2018 (from 10% the previous year).

Liquidity profile

We assess Bellon's liquidity as satisfactory since i) it could obtain new financing easily given the solid credit metrics, and ii) it may sell some amount of Sodexo shares while keeping control of the company.

Credit outlook

Our Stable outlook reflects our view that credit metrics will not change materially over the next twelve months. Sizeable cash generation may be balanced by the potential acquisition of additional Sodexo shares and potential buyback of shares.

Bellon S.A.

Bellon S.A. is the animating holding company of Sodexo. As of April 30 2019, Bellon S.A. held 42.2% of the shares of Sodexo and 57.1% of actual voting rights.

Spread Ratings

Spread Ratings is the trademark under which Spread Research operates as a Credit Rating Agency, registered and regulated by the European Securities and Markets Authority (ESMA). Spread Research itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Spread Research capitalizes on over fourteen years of experience in assessing corporate debt financial instruments.

Our analysts are sector specialists and the team produces credit opinions for investors as well as private and public credit ratings. Our ratings are recognized by the EU banking (EBA) and insurance (EIOPA) regulators. Spread Research is one of the few rating agencies approved by the Bank of France to provide financial ratings for NEU CP (short-term) and NEU MTN (medium-term) programs.

The public report as well as all regulatory information are available on our website - <https://www.spreadratings.com/>.

Press contact

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PRESS RELEASE



Spread Research confirme la note court terme SR1 à l'instrument NEU CP de Bellon S.A. assortie d'une perspective de crédit stable

Lyon, le 24 mai 2019 – L'agence de notation financière Spread Research confirme la note court terme SR1 à l'instrument NEU CP de Bellon S.A. assortie d'une perspective de crédit stable. La notation de l'instrument court terme s'inscrit dans le cadre de la documentation financière du programme de €300m de NEU CP émis par Bellon S.A.

Fondements de la Note

Spread Research a évalué le profil crédit de Bellon S.A. et son profil de liquidité afin d'attribuer une note court terme au programme NEU CP de celle-ci. Spread Research se fonde pour son analyse sur deux piliers - le profil du crédit et l'analyse de la liquidité – détaillés dans sa méthodologie spécifique court terme, disponible sur notre site (<https://www.spreadratings.com/la-notation-de-votre-entreprise/>).

La notation finale est SR1, la deuxième note la plus élevée de l'échelle court terme de Spread Research. Elle reflète de solides indicateurs de crédit, une politique financière prudente et le fort profil crédit de l'actif contrôlé Sodexo, ceci malgré la faible diversification du portefeuille.

Profil Crédit

Bellon S.A. est une holding familiale, qui a pour seul actif la détention de titres Sodexo S.A. (à hauteur de 42,2% du capital et de 57,1 % des droits de vote). Sodexo, le groupe fournisseur de services de restauration et de services de facility management, possède de solides indicateurs de crédit et a reporté des résultats opérationnels satisfaisants au cours des dernières années. Ceci reflète les positions de leadership sur les marchés où Sodexo S.A. opère et une bonne rétention de ses clients. Cela s'est traduit par une hausse régulière des dividendes payés à ses actionnaires.

Nous jugeons favorablement les ratios de couverture de Bellon S.A., les dividendes reçus en 2018 (168 millions EUR) couvrant plus de six fois ses charges opérationnelles et financières (environ 25 millions EUR en tout). La trésorerie disponible de Bellon (après dividendes) est principalement utilisée à rembourser la dette financière / conserver la trésorerie, et dans une moindre mesure l'acquisition de nouvelles actions Sodexo.

Notre note s'appuie sur la politique financière prudente de Bellon S.A. : la politique de dividendes de Bellon S.A. est de distribuer moins de 10% des dividendes reçus (de la part de Sodexo S.A.) et la holding exprime une forte volonté de maintenir le ratio loan-to-value (LTV) à un faible niveau. Proforma du dividende reçu de €171m en Février 2019, le ratio loan-to-value s'est amélioré à un très faible 6% au mois de décembre 2018 (contre 10% l'année dernière).

Profil de liquidité

Nous jugeons la liquidité de Bellon satisfaisante en raison des possibilités de i) pouvoir obtenir facilement de nouveaux financements étant donné ses solides indicateurs de crédit et ii) de vendre des actions Sodexo S.A. sans pour autant perdre le contrôle du groupe.

Perspective de crédit

Notre perspective de crédit stable reflète notre anticipation de stabilité des ratios de crédit sur les 12 prochains mois. La génération de trésorerie disponible positive pourrait être compensée par de potentielles acquisitions de nouvelles actions Sodexo S.A. et par de potentiels rachats d'actions Bellon.

Bellon S.A.

Bellon S.A. est la holding animatrice de Sodexo. Au 30 Avril 2019, Bellon S.A. détenait 42,2% du capital de Sodexo et 57,1% des droits de vote exerçables.

Spread Ratings

Spread Ratings est la marque sous laquelle Spread Research opère en tant qu'agence de notation enregistrée auprès de et réglementée par l'ESMA (European Securities and Markets Authority). Spread Research est également un des premiers fournisseurs de recherche crédit indépendants en Europe. Fondée en 2004 et basée à Lyon, Spread Research capitalise une quinzaine d'années d'expérience sur l'ensemble des instruments de financement des entreprises par la dette.

Notre équipe d'analystes, spécialisés par secteurs d'activité, fournit des opinions de crédit et des notations, publiques ou privées. Nos notes sont reconnues par les régulateurs des activités bancaires (EBA) et assurantielles (EIOPA). Spread Research fait partie des agences de notation habilitées à noter des programmes NEU CP et NEU MTN.

Le rapport public ainsi que l'ensemble des informations réglementaires requises sont disponibles sur notre site internet-<https://www.spreadratings.com/>.

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