

Rating Action: Suez Environnement

Moody's assigns A3/P-2 issuer ratings to SUEZ Environnement Company; stable outlook

First-time ratings assigned

New York, March 04, 2009 -- Moody's Investors Service has today assigned first-time A3 long-term and Prime-2 short-term senior unsecured issuer ratings to SUEZ Environnement Company SA. The rating outlook is stable.

"The assigned A3 issuer rating reflects that SUEZ Environnement Company (SUEZ Environnement or the Group), which remains controlled through a shareholder agreement by GDF SUEZ, operates in the relatively low-risk water and waste industries, with strong positions in its core markets," explains Niel Bisset, a Senior Vice President in Moody's Infrastructure Finance Group. "The rating also takes into account that management's strategy should continue to focus on long term profitable and cash generative growth through capital investment and 'tuck-in' rather than 'transforming' acquisitions and a leverage limit defined by Net Debt/EBITDA of less than 3x." The rating further takes into account structural considerations and the substantial proportion of debt at the subsidiary level. Therefore, Moody's has positioned SUEZ Environnement's A3 rating one notch below the consolidated group's credit quality, which is viewed as mid-single-A by Moody's.

"The A3 rating is underpinned by the Group's long track record and leading positions in many of the markets in which it operates, notably in water in both France and Spain, and through its SITA subsidiaries in waste in France, Belgium and the Netherlands," says Mr. Bisset. Moody's also recognises the Group's positive underlying industry dynamics, including population growth, the ongoing trends of urbanisation and industrialisation, and an expectation of rising living standards. Although these positive trends are partly offset by the negative impact of environmental concerns on water consumption and slowing waste volume growth, Moody's believes the trends are likely to continue to support demand for the expertise and services offered by the Group over the long term.

In assigning the rating Moody's considers that management will continue to take a cautious approach to growth, with an emphasis on steady expansion. The Group is expected to use a combination of development capex and tuck-in acquisitions to achieve its targets of revenue and EBITDA growth. Moody's notes that, in the current tougher market conditions, the Group has recently adapted its short-term priorities to focus on free cash flow by reducing temporarily its investments and accelerating its Compass cost-reduction programme.

Moody's views the maintenance of a moderate financial risk appetite as an important supporting factor for SUEZ Environnement Company's rating, and notes management's stated commitment to a maximum leverage tolerance as defined by a Net Debt/EBITDA limit of less than 3x, compared with the reported ratio of 2.8x at the end of 2008. Moody's views positively the relative predictability of the business, which has been reflected in the stability of results for the past few years, when revenues increased to EUR12.4 billion in 2008 from EUR11.4 billion in 2006, and the EBITDA margin remained between 16.9%-17.1%. However, the rating also recognises that leverage has risen: net debt increased to €6 billion at the end of 2008 from EUR3.9 billion at the end of 2006, with retained cashflow (RCF)/Net Debt declining as a result to approximately 16% in 2008 from over 21% in 2006.

Moody's views as positive the ongoing control exercised through a shareholder agreement by GDF SUEZ (rated Aa3) over SUEZ Environnement Company. Also highlighted is the importance of the Financial Framework agreement between GDF SUEZ and the Group in underwriting its liquidity, and the assumption that this will remain in place until it has established its own funding sources.

SUEZ Environnement's A3/P-2 issuer ratings take into account the structural subordination of bond holders to creditors at subsidiary level given the large amount of debt located at subsidiaries. Accordingly Moody's notches SUEZ Environnement Company's own rating by one notch down from the consolidated Group's credit quality, which is seen as mid single-A. Moody's recognises that the Group plans to refinance a large proportion of its subsidiary debt at the holding Company level but believes that this process will take time to implement fully.

The stable rating outlook reflects Moody's assumption that in the context of weaker economic conditions the Group will manage investment according to its financial strategy -- and will therefore calibrate capital expenditure according to the cash generated from operations, and its success at making targeted disposals

which is likely to be more difficult in the current environment. On that basis, the stable outlook assumes that credit metrics should gradually improve such that RCF/Debt is in excess of 16%, and FFO/Interest coverage is around 4.5x, thresholds which in Moody's view are consistent with a consolidated credit profile of mid single-A given the Group's business risk profile.

The A3/Prime-2 ratings were assigned by evaluating factors believed to be relevant to the credit profile of SUEZ Environnement such as (i) the business risk and competitive position of the issuer versus other within its industry; (ii) the capital structure and financial risk of the issuer; (iii) the projected performance of the issuer over the near to intermediate term; and (iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals. These attributes were compared against other issuers both within and outside SUEZ Environnement's core peer group, and the assigned ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

SUEZ Environnement Company, headquartered in Paris, France, is one of the two leading global groups active in environmental services. It reported turnover of EUR12.4 billion in 2008.

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