

CREDIT OPINION

14 June 2023

New Issue

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RATINGS

<b>Suez</b>	
Domicile	Paris, France
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
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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Suez

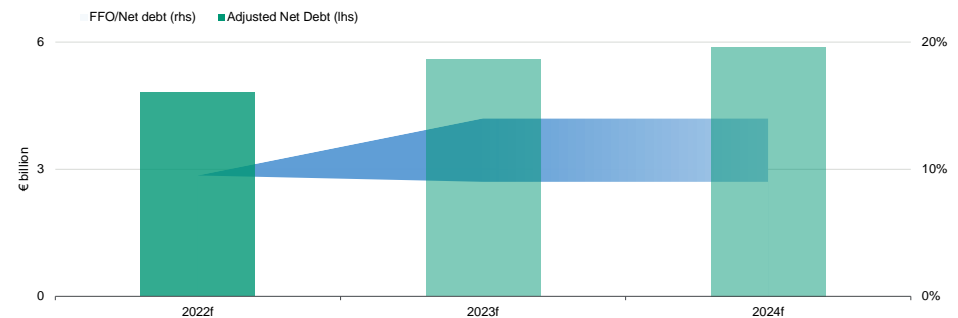
Update to credit analysis

Summary

The credit quality of [Suez](#) (Baa2 stable), the holding company that acquired a range of former SUEZ water and waste assets from [Veolia Environnement SA](#) (Veolia, Baa1 stable), is underpinned by the group's scale and positioning, with assets generating revenue of €8.8 billion in 2022 on a full-year basis; the low risk profile of its water business, which provides essential services to many low-risk counterparties in the public sector; the diversification of its revenue base by business, contract type and somewhat by geography; a strong integration across the value chain for water, sewage and waste treatments; and underlying positive structural dynamics with tightening regulations on water and waste that will benefit from greater expertise and a rising sophistication in operations.

These positive factors are balanced by the group's exposure to economic cycles through its waste activities in [France](#) (Aa2 stable) given the prevalence of industrial clients in the segment and the paucity of regulated activities; a fairly leveraged financial profile, as reflected by its expected Moody's-adjusted funds from operations (FFO)/net debt of 9%-14% in the first few years of operations, with no intention to reduce the financial debt in subsequent years; and a dividend policy that appears to favour shareholders over creditors with a payout ratio potentially exceeding 100%, subject to shareholders' commitment to maintain an investment-grade credit rating.

Exhibit 1  
Stabilisation of the financial metrics over 2023-24



The 2023-24 estimates represent our forward view, not the view of the issuer.  
Source: Moody's Financial Metrics™

## Credit strengths

- » Scale, positioning and expertise of the group
- » Low risk profile of its water business and the strong integration across the value chain for water, sewage and waste treatments
- » Strategy focusing on the consolidation of existing positions, with a priority for organic growth and margin improvement resulting in higher cash flow
- » Supportive long-term industry trends

## Credit challenges

- » Exposure to macroeconomic cycles through its waste business, which contributes roughly half to EBITDA, and exposure to industrial customers
- » Leveraged financial profile, with no intention to reduce the financial debt in subsequent years
- » Dividend policy, which appears to favour shareholders over creditors
- » Operational turbulences induced by the carve-out and the new ownership

## Rating outlook

The stable outlook reflects our expectation that the consolidated financial metrics for Suez will be commensurate with a Baa2 rating, including FFO/net debt trending towards the mid-teens in percentage terms. It further assumes successful execution of the strategic plan following the carve out, including the cost reduction programme.

Suez's revised guidance reflects a change in our adjustments approach in respect of renewal expenses, not in Suez's risk profile.

## Factors that could lead to an upgrade

A rating upgrade is unlikely in the next two years given the need for a new management team to build a track record. In the longer term, upward pressure on the ratings could develop if Suez were to achieve FFO/net debt approaching the high-teens in percentage terms on a sustained basis. Any potential upgrade would also take into consideration changes in the company's scale and diversity across geographies.

## Factors that could lead to a downgrade

Suez's ratings could be downgraded if credit metrics appear likely to remain persistently below the guidance for the Baa2 rating, which includes FFO/net debt trending towards the mid-teens in percentage terms because, for example, of weaker-than-expected operating performance, a dividend policy resulting in payments exceeding the free cash flow before dividends over the period or a more aggressive financial policy than expected.

## Key indicators

Exhibit 2

### We expect Suez's key credit metrics to stabilize over 2023-24

	Dec-22	Moody's 12-18 Month Forward View
(FFO + Interest Expense) / Interest Expense	5.4x	4.5x - 6.2x
FFO / Net Debt	9.5%	9% - 14%
RCF / Net Debt	8.7%	7% - 12%

All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's forward view is Moody's opinion and does not represent the views of the issuer.

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Profile

Headquartered in Paris, Suez provides environmental services to municipalities and industrial customers mainly in five countries and holds smaller positions in Asia and Africa. The group comprises two business lines, which have quasi equal weights in terms of EBITDA:

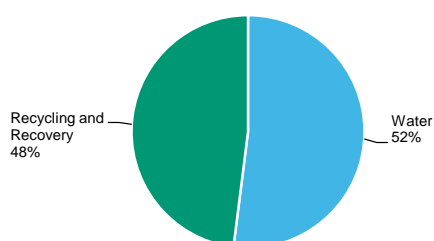
1. Water mostly covers municipal water activities under concession regimes, with strong positions in France, where the group is the second-largest group, and in [Australia](#) (Aaa stable), with a 14% market share in the unregulated water market. Suez also runs operations directly or indirectly in the [Czech Republic](#) (Aa3 negative), [Italy](#) (Baa3 negative) and [India](#) (Baa3 stable).
2. Recycling and Recovery includes waste collection, elimination, sorting and recycling with operations in France including non-hazardous and hazardous waste, where Suez is the largest group in this industry, and in [the UK](#) (Aa3 negative), where the group is the third-largest company treating non-hazardous waste only, as well as in Africa and [China](#) (A1 stable).

In 2022, 73% of Suez's revenue (€8.8 billion on a full year basis) came from France and 27% outside France.

Suez's ultimate shareholders comprise a consortium led by the infrastructure funds Meridiam and GIP (holding 39% each), alongside the [Caisse des Dépôts et Consignations](#) (Aa2 stable) and [CNP Assurances](#) (A1 stable) (19%) and employees owning 3%.

Exhibit 3

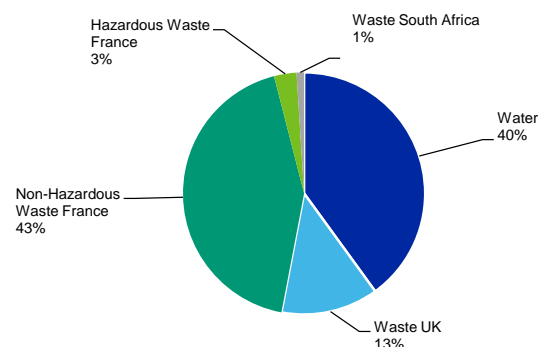
**Pro forma EBITDA split by activity in 2022**



2022 EBITDA restated on a 12-month basis, inclusive of closed M&As on a full-year basis (EnviroServ, IWS in France, Recycling and Recovery UK)  
Source: Company's reports

Exhibit 4

**Pro forma revenue split by activity and geography in 2022**



2022 revenue restated on a 12-month basis, inclusive of closed M&As on a full-year basis (EnviroServ, IWS in France, Recycling and Recovery UK)  
Source: Company's reports

## Detailed credit considerations

### Suez has emerged from the Veolia-former SUEZ merger with high financial leverage

Suez is the French holding company that acquired former SUEZ's French water and waste assets, including hazardous waste activities, some of its unregulated municipal water operations outside France, its UK waste activities and global digital and environmental activities from Veolia. Suez bought related assets for around €13 billion. In addition, Suez acquired in 2022 a 51% stake in a South African waste company EnviroServ based on a €130 million enterprise value.

Suez has a fairly leveraged financial profile, as measured by reported net debt/EBITDA of 3.3x in 2022 pro forma, with no plan to reduce gearing in subsequent years. This financial profile results from the prevalence of two infrastructure funds in the shareholding structure. If cash flow is stronger than expected, then we expect additional capital spending, higher dividends or acquisitions, even if we assume that the strategy will focus on organic growth over the next two years.

At the same time, the consortium of shareholders does not intend to increase the group's financial leverage and is committed to maintaining an investment-grade credit rating, as illustrated by the additional €2.35 billion equity injection at year-end 2022 to partially fund the series of waste acquisitions closed in H2 2022, as well as the flexible dividend policy.

### Long-term public sector contracts and diversification support cash flow stability

Suez is the largest waste management and the second-largest water treatment company in France, with revenue of €8.8 billion in 2022. The group provides essential services to many low-risk counterparties in the public sector, with exposure to municipalities representing around 70% of revenue. The group's credit profile is supported by its diversification and leading market positions across its water and waste businesses, mainly in France. The diversification of its revenue base by business and contract type helps mitigate the strain on its earnings from a deterioration in any one activity and supports the relative stability of its cash flow.

Suez benefits from contracts portfolio, which ranges from long-term concessions with low-risk counterparties in the public sector to short-term contracts with industrial and commercial (I&C) customers. Contracts vary by market and can be either capital intensive, which require the group to invest in infrastructure in exchange for the right to provide services on a long-term basis, or structured as operating and maintenance or management contracts, which require little investment.

However, the group is exposed to the risk of concessions not being renewed at maturity: contract losses for Suez over 2023-24 will mainly include the contracts with the cities of Bordeaux, Saint Etienne, Cannes and Strasbourg. The loss will represent cumulative revenue close to 5% of consolidated revenue by 2023. In the absence of new contract gains, the losses will strain Suez's cash flow generation.

### Positive sector dynamics but also growing competition

Suez operates in sectors that are inevitably exposed to short-term economic pressures but benefit from positive long-term underlying global dynamics. These include population growth, the trend towards urbanisation and industrialisation, modernisation of infrastructure and rising living standards in emerging economies.

Together with the public concern over the effect of climate change on scarce resources and tightening environmental regulations, these positive dynamics support increasing demand for existing technologies for the provision of water, wastewater and waste management services, and new services and technologies that, for example, facilitate water conservation and waste recovery. Against this backdrop, competition — notably from Asian companies — is intensifying, especially in the lower part of the value chain. However, our assessment of Suez's credit profile factors in its scale and ability to provide a wide range of services and technologies across business lines as competitive advantages.

### Low-risk water activities but with volume exposure

Suez benefits from the low risk profile of its water business, which provides essential water and wastewater services to individuals and businesses, often on behalf of local municipalities. There is volume exposure but volatility is mainly subject to weather conditions (temperature and rainfall) and potentially macroeconomic trends, as illustrated by the recent pandemic. Demand for water also continues to experience a slow structural decline in advanced economies, especially in Europe, because of a more resource aware population, which translates, for example, into an increasingly higher adoption of water-efficient appliances and rising water tariffs.

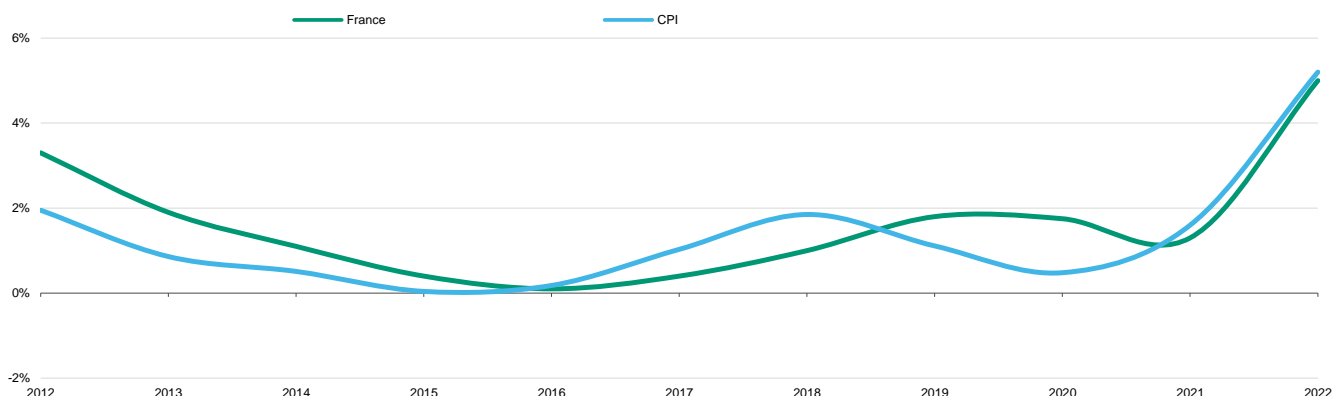
The market structure is, however, well established and the barriers to entry are high because of the entrenched knowledge of incumbent operators' assets under management, EU directives that resulted in complex operations because of laws and regulations on the quality of drinking water and the treatment of wastewater, and the benefits of critical mass.

In France, which represented around 28% of total revenue in 2022 on a 12-month basis, Suez has concession agreements with a maturity of around 10 years, whereby it operates and maintains the local authority's infrastructure. A typical renewal rate of around 75% provides revenue visibility and stability. The non-cyclical nature and stable structure of the French market for water and sanitation services provide a solid base of predictable earnings and cash flow.

Tariffs paid by the consumer (usually the price per cubic metre) under water contracts are typically driven by inflation-linked indexation formulas and are designed to mirror the movements in the cost base (for example, wages and energy prices). Since 2014, inflation in France has been particularly weak but started to recover in 2017, rising above 1% for the first time since 2013 and stabilising at around +1.5% per year since 2019. The further rise in inflation observed across Europe since the start of the energy crisis in Q4 2021, and exacerbated by the Ukraine invasion, is passed through to customers in most situations because of indexation clauses. Inflation pass-through includes, however, a 12-18-month time lag, which is likely to weigh on Suez's performance over 2023-24.

Exhibit 5

### Tariff indexation compared with inflation Suez's water tariffs in France (annual percentage change)



Source: Company's report

### The waste business is exposed to cyclical macroeconomic conditions because of the prevalence of industrial customers and commodity prices

In France, the waste business, which accounted for 45% of total revenue in 2022 on a 12-month basis, is more exposed to cyclical macroeconomic conditions than water, reflecting the higher proportion of industrial and commercial customers (around 30% of revenue), and contract terms that are more often linked to the volume collected or processed and, in turn, to industrial production. Changes in treated volume are typically correlated with industrial production in Europe.

The waste business is also exposed to raw material price volatility as a result of the rising contribution of recycled waste in the business mix, whereby Suez purchases the collected waste to recycle at the fluctuating price of raw materials. Contract provisions include some pass-through mechanisms to share the volatility with industrial clients, although with a lag effect, which can weaken the segment's profitability when prices decline.

In the UK, Suez's operations, contributing around 13% to total revenue in 2022 on a 12-month basis, appear to be less exposed to economic cycles. This is because they mainly focus on sorting and recycling, with a predominant exposure to municipal waste (more than 95% of the treated volumes), and on energy from waste, with revenue comprising fixed gate fees and the sale of electricity and heat output through long-term power purchase agreements.

### Operational performance supported by a solid business model and a cost reduction programme

On a pro forma basis, restated on a 12-month basis and inclusive of closed M&A transactions on a full-year basis, Suez reported revenue of €8.8 billion in 2022 for its first year of operation, 60% driven by waste businesses. Pro forma EBITDA was €1.4 billion in 2022, including €138 million of cost savings, as part of the group's four-year efficiency programme. The group's financial profile is leveraged, as measured by reported net debt/EBITDA of 3.3x in 2022 pro forma, with acquisitions being funded through a mix of capital increase, ORAs (see section below) and debt.

We expect Suez's revenue to continue to grow over the next two years, supported by favourable commercial momentum and tariff revisions reflective of higher inflation. However, in 2023, we expect the financial performance to be affected by the lag to pass through to customers the high inflation in 2022, with indexation taking place at the anniversary date of the contracts, which will exceed the annual cost savings.

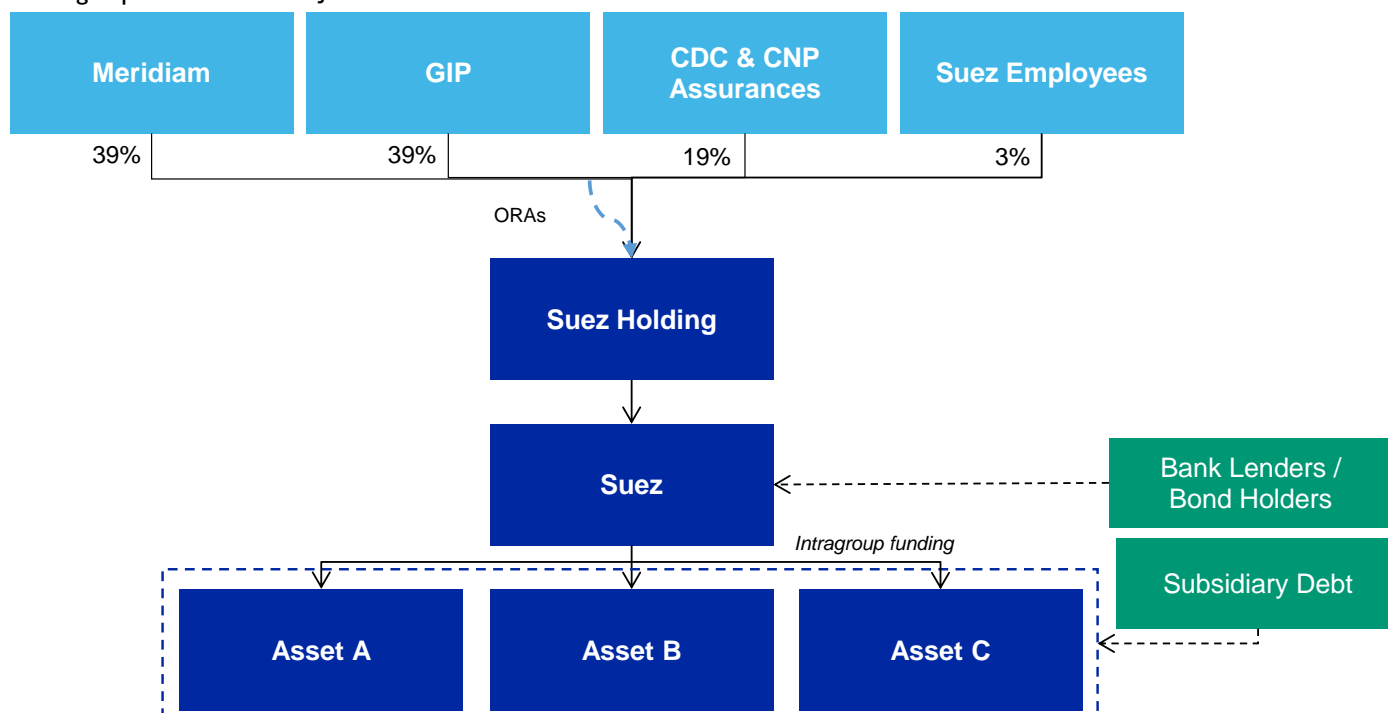
Over the next two years, we expect that Suez's strategy will focus on consolidation of its existing positions, with priority given to organic growth including gains in market shares, and margin improvement through continuation of the substantial performance improvement and the cost reduction plan. Over a longer term, we also expect potential opportunistic small-to-medium-sized acquisitions in new geographies.

### Supportive debt contractual features

Our assessment of Suez's financial profile takes into account the terms and conditions of the debt and the existence of an undertaking agreement, which, in combination with the consortium's anticipated financial policy, provide a framework consistent with a Baa2 rating.

Exhibit 6

#### Suez's group structure as of 14 June 2023



Sources: Company and Moody's Investors Service

We take into account that acquisitions closed in 2022 were partly financed by two bonds mandatorily redeemable in shares (the ORA - Obligations Remboursables en Actions) both due 2057, issued by Suez Holding whose sole asset is 100% of the shares issued by Suez. Without effective ring-fencing between the companies, any debt at Suez Holding is relevant to consideration of the credit quality of Suez. However, the ORA has equity-like characteristics given that conversion is mandatory at maturity, after 35 years, at a fixed ratio; coupons may be deferred on a cumulative basis; it is deeply subordinated; there is no provision for default, cross-default or acceleration; and payments to the ORA holders are subject to a financial lockup covenant. Given the terms and characteristics of the ORA and assuming that shareholders will maintain a prudent level of capacity against the lockup covenant, the presence of the instrument does not constrain the ratings.

Future noteholders will benefit from further protections, including events of default resulting from any changes to the subordination provisions, payment restrictions or mandatory conversion provisions of the ORA; or a breach or termination of, or a significant amendment to, the undertaking agreement — the main purpose of which is to mirror these terms and conditions — entered into by, inter alia, Suez, its parent and ultimate shareholders.

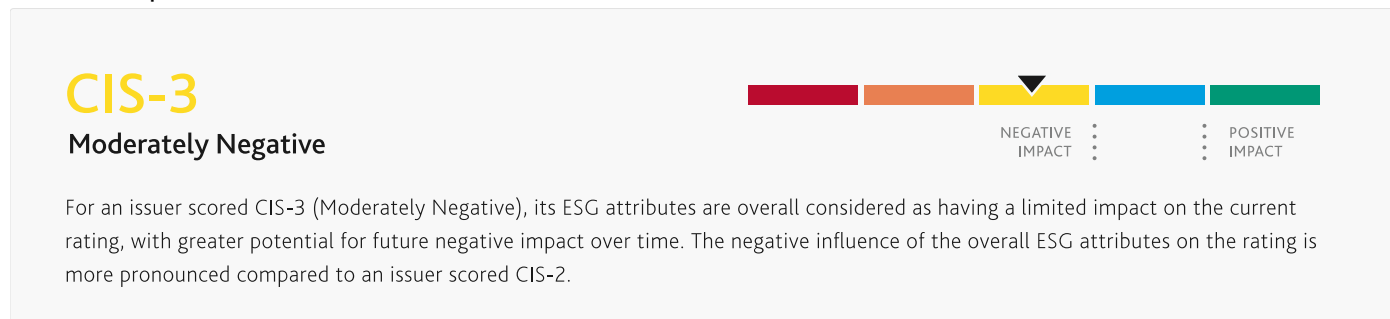
We consider these features supportive of Suez's Baa2 rating because they will limit the calls on the company's cash flow; and the expected restrictions against changes in the ORA's terms and conditions and the notification requirements in the public notes and in the undertaking agreement should maintain the ORA's credit-supportive qualities with respect to the notes, notwithstanding the private nature of the instrument.

## ESG considerations

### Suez's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 7

#### ESG Credit Impact Score



Source: Moody's Investors Service

Suez's ESG Credit Impact Score is moderately negative (**CIS-3**), indicating that its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The company's **CIS-3** reflects a moderate exposure to environmental and social risks, including potential risks of pollution albeit reduced by the solid track record of operational teams. The scores also incorporate a moderate exposure to governance risks, reflective of the group's limited track record given its recent foundation.

Exhibit 8

#### ESG Issuer Profile Scores



Source: Moody's Investors Service

### Environmental

Suez's exposure to environmental risks is moderately negative (**E-3** issuer profile score) driven by risks around natural capital, water management and pollution as a result of the group's portfolio of water and waste-water treatment units, as well as waste sites (landfills) and hazardous waste treatment facilities in France. Pollution or other incidents could have significant negative impact on the group's reputation, business outlook and financial situation. We also incorporate the group's moderate exposure to carbon transition risks given its fleet of waste collection trucks and the portfolio of incinerators.

### Social

**S-3** issuer profile score reflects moderately negative social risks for Suez. The score takes into account the fundamental utility risks around demographics and societal trends including potential concerns over affordability, expectations that utilities should act as public service, and reputational risk. We also consider the group's labour intensity and relatively unionised workforce and exposure to potentially risky operations given the recently acquired hazardous-waste treatment businesses. These pressures are mitigated by the group's positive track record in health and safety indicators and the spending to promote skills and social mobility.

### Governance

Suez's governance risk is moderately negative (**G-3**) reflecting the company's absence of track record given its recent foundation, resulting in a new shareholding structure and management team with limited experience in the sector. The score also takes into

account the absence of regular financial disclosures over 2022, which will improve from 2023 as per management's commitment to report on a half-year basis.

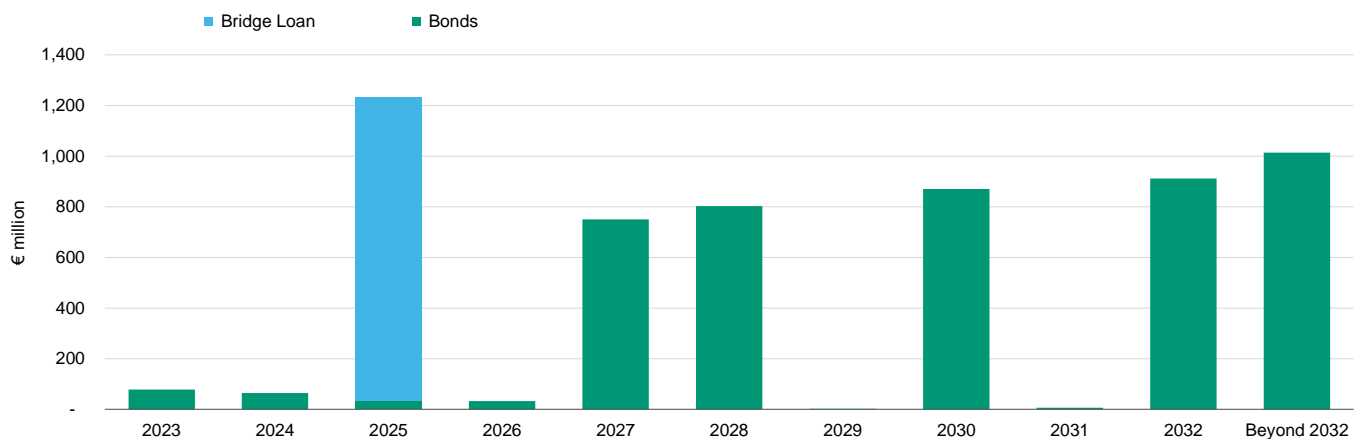
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

### Liquidity analysis

Suez's liquidity is solid, underpinned by €2.5 billion of available cash and undrawn committed credit facilities as of 31 December 2022. These include €773 million undrawn credit facilities maturing in 2027. Together with strong cash generation, these sources are sufficient to cover the group's capital spending and expected dividend payments, as well as low debt maturities over the next 18 months.

Exhibit 9

#### SUEZ's debt maturity profile as of December 2022



Sources: Company and Moody's Investors Service



## Methodology and scorecard

The primary methodology used in rating Suez is our [Environmental Services and Waste Management](#) rating methodology, published in May 2023. The assigned Baa2 rating is three notches higher than the scorecard-indicated outcome of Ba2, which reflects the very broad diversification of Suez's revenue base by sector and geography; the low risk profile of its water business, which accounted for 52% of pro forma EBITDA in 2022, underpinned by long-term concessions or regulations; and the company's solid liquidity, supported by €1.8 billion of cash at the end of 2022.

Exhibit 10

### Key rating factors

Suez

Environmental Services and Waste Management Industry Grid [1]	Current FY 12/31/2022		Moody's 12-18 Month Forward View As of June 2023 [2]	
	Measure	Score	Measure	Score
<b>Factor 1 : Business Profile (15%)</b>				
a) Business Profile	A	A	A	A
<b>Factor 2 : Scale (20%)</b>				
a) Revenue (USD Billions)	Baa	Baa	Baa	Baa
<b>Factor 3: Profitability and Efficiency (10%)</b>				
a) EBIT Margin (%)	2.5%	B	5% - 7%	Ba
<b>Factor 4 : Leverage and Coverage (40%)</b>				
a) FFO / Debt	7.1%	B	7% - 11%	B
b) Debt / EBITDA	7.1x	Ca	6.5x - 7x	Caa
c) EBIT / Interest Expense	2.4x	Ba	2.5x - 3x	Ba
<b>Factor 5: Financial Policy (15%)</b>				
a) Financial Policy	Ba	Ba	Ba	Ba
<b>Rating:</b>				
a) Scorecard-Indicated Outcome		Ba2		Ba2
b) Actual Rating Assigned				Baa2

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] This represents Moody's forward view, not the viewer of the issuer.

Source: Moody's Investors Service

## Ratings

Exhibit 11

Category	Moody's Rating
<b>SUEZ</b>	
Outlook	Stable
Issuer Rating -Dom Curr	Baa2
Senior Unsecured -Dom Curr	Baa2
Commercial Paper -Dom Curr	P-2
ST Issuer Rating -Dom Curr	P-2

Source: Moody's Investors Service

## Appendix

Exhibit 12

### Moody's-adjusted financial data

(in EUR million)

Dec-22

<b>INCOME STATEMENT</b>	
Revenue	6,844
EBITDA	922
EBIT	253
Interest Expense	104
<b>BALANCE SHEET</b>	
Cash & Cash Equivalents	1,766
Total Debt	6,576
Total Liabilities	20,614
<b>CASH FLOW</b>	
Funds from Operations (FFO)	465
Dividends	40
Retained Cash Flow (RCF)	425
Cash Flow From Operations (CFO)	557
Free Cash Flow (FCF)	51
<b>PROFITABILITY</b>	
EBITDA Margin %	8.1%
EBIT Margin %	3.7%
<b>INTEREST COVERAGE</b>	
EBITDA / Interest Expense	8.8x
(FFO + Interest Expense) / Interest Expense	5.4x
<b>LEVERAGE</b>	
Debt / EBITDA	7.1x
Net Debt / EBITDA	5.2x
FFO / Net Debt	9.7%
RCF / Net Debt	8.8%
FCF / Net Debt	1.1%

Source: Moody's Financial Metrics™

Exhibit 13

## Peer comparison

(in EUR million)	SUEZ	Veolia Environnement S.A.			Hera S.p.A.			ACEA S.p.A.		
	Baa2 Stable	Baa1 Stable			Baa2 Negative			Baa2 Negative		
	FYE Dec-22	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-20	FYE Dec-21	FYE Dec-22
Revenue	6,844	26,209	28,760	43,081	7,079	10,555	20,082	3,205	3,816	4,957
EBITDA	922	3,362	3,729	5,674	991	970	990	1,023	1,137	1,189
Total Assets	20,614	46,062	53,889	74,446	11,035	14,032	17,119	9,674	10,629	11,339
Total Debt	6,576	23,914	25,506	34,133	4,337	4,264	6,416	4,653	5,149	5,407
Net Debt	4,810	17,378	14,187	23,752	3,350	3,378	4,473	4,011	4,469	4,847
FFO / Net Debt	9.7%	15.3%	20.5%	15.9%	23.0%	26.8%	19.8%	22.5%	21.5%	20.1%
RCF / Net Debt	8.8%	12.9%	16.6%	11.5%	18.2%	21.1%	14.9%	20.2%	19.3%	17.1%
(FFO + Interest Expense) / Interest Expense	5.4x	6.6x	7.6x	6.0x	10.4x	13.0x	11.2x	11.5x	12.4x	11.9x
Debt / Book Capitalization	47.2%	73.9%	66.7%	68.5%	57.0%	54.6%	62.4%	66.7%	67.2%	66.2%

Source: Moody's Financial Metrics™

Exhibit 14

## Moody's-adjusted debt breakdown

(in EUR million)	FYE Dec-22
<b>As Reported Total Debt</b>	6,367
Pension	209
<b>Moody's Adjusted Total Debt</b>	6,576
Cash & Cash Equivalents	(1,766)
<b>Moody's Adjusted Net Debt</b>	4,810

All figures are calculated using our estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 15

## Moody's-adjusted EBITDA breakdown

(in EUR million)	FYE Dec-22
<b>As Reported EBITDA</b>	775
Unusual Item Adjustments	162
Pensions	(8)
Non-Standard Public Adjustments	(8)
<b>Moody's Adjusted EBITDA</b>	922

All figures are calculated using our estimates and standard adjustments.

Source: Moody's Financial Metrics™

## Moody's related publications

### Press Release

- » [Moody's assigns definitive Baa2 rating to SUEZ \(former Sonate Bidco\); stable outlook](#), 6 April 2022
- » [Moody's assigns \(P\)Baa2 rating to Sonate Bidco; stable outlook](#), 2 November 2021

### Issuer comments

- » [SUEZ : Waste acquisitions are credit negative, although enlarge scale and diversification](#), 23 September 2022

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