

**CREDIT OPINION**

28 June 2024

Update

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**RATINGS**

**Suez**

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

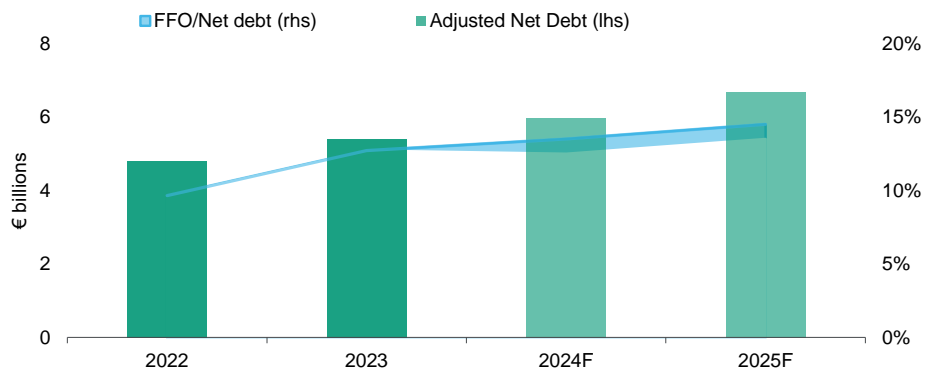
**Summary**

The credit quality of [Suez](#) (Baa2 stable), the holding company that acquired a range of former SUEZ water and waste assets from [Veolia Environnement S.A.](#) (Veolia, Baa1 stable), is underpinned by the group's scale and positioning, with assets generating revenue of €8.9 billion in 2023; 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 some 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; and a fairly leveraged financial profile, with no intention to reduce debt in the coming years.

Exhibit 1

**We expect credit metrics to gradually continue improving over 2024-25**



All figures and ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. Forecasts (F) represent our view, not the view of the issuer. Source: Moody's Financial Metrics™, Moody's Ratings forecasts

## 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 the coming years

## Rating outlook

The stable rating outlook reflects our expectation that the consolidated financial metrics for Suez will continuously improve so that they are commensurate with a Baa2 rating, including funds from operations (FFO)/net debt increasing towards the mid-teens in percentage terms.

## Factors that could lead to an upgrade

A rating upgrade is unlikely in the next 2-3 years. In the longer term, upward momentum on the ratings could develop if Suez were to achieve FFO/net debt that approaches 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, or a more aggressive financial policy than expected.

## Key indicators

Exhibit 2

### Suez

(in € millions)	2022	2023	Moody's 12 - 18 months forward view
(FFO + Interest Expense) / Interest Expense	5.4x	4.1x	4.5x - 5x
FFO / Net Debt	9.6%	12.7%	13% - 14.5%
RCF / Net Debt	8.8%	11.9%	12.5% - 14%

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Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™, Moody's Ratings

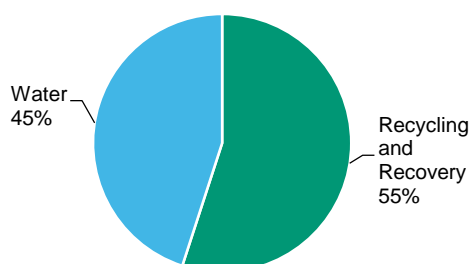
## Profile

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 fairly similar weights in terms of EBITDA:

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.

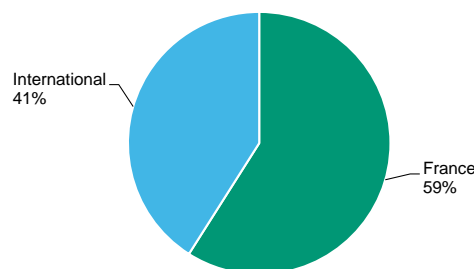
1. Water mostly covers municipal water activities under concession regimes, with strong positions in France, where the group is the second-largest player. Suez also runs operations directly or indirectly in [China](#) (A1 negative), [Italy](#) (Baa3 stable), the [Czech Republic](#) (Aa3 stable), [Australia](#) (Aaa stable), 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 market, and in [the UK](#) (Aa3 stable), where it is the second largest company treating non-hazardous waste only, as well as in Africa and China.

Exhibit 3

**EBITDA split by activity (2023)**

Source: Company filings

Exhibit 4

**Revenue split by geography (2023)**

Source: Company filings

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

## Detailed credit considerations

### High financial leverage, but credit metrics should continue to strengthen

Suez is the French holding company that acquired the 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 the global digital and environmental activities from Veolia. Suez bought these 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 illustrated by a reported net debt/EBITDA ratio (per company's definition) of 3.7x in 2023, up from around 3.3x on a pro forma basis in 2022. The increased leverage observed in 2023 was mainly reflecting spending related to acquisitions outweighing the company's free cash flow generation. Suez paid roughly €400 million following the payment of the earn-out and a price adjustment associated with the acquisition of the new SUEZ perimeter.

In 2023, Suez reported revenue of €8.9 billion, an increase of 3% (pro forma) from 2022. Its reported EBITDA (which, among others, excludes roughly €300 million of renewal and concession expenses) reached €1.4 billion. Despite a tough backdrop with high inflation, Suez kept profit margins stable. In particular, the EBITDA margin in its water segment decreased in 2023 to 19% (from 22% in 2022), as these activities were affected by particularly high inflation related to energy costs, which will only be recovered with a lag. Pressure on water margins was almost fully offset by improved profitability in the Recycling and Recovery segment, benefiting from a combination of recent acquisitions, expanding hazardous waste sub-segment (which has higher profitability) and price increases, as well as €158 million in performance gains.

Over the next two years, we expect Suez to continue to demonstrate a slow but gradual improvement in its credit metrics. In particular, revenue and profit margins will be supported by a more normalised operating environment for its water segment. Tariff revisions are reflective of higher inflation and are generally passed through with a lag of 12-18 months. Beyond 2024, we expect improved profitability to mainly be underpinned by improvements in the underlying operating performance. Ongoing improvement

in profitability will likely be a key driver for Suez to improve its FFO/net debt towards the mid-teen percentages. Following a change to the analytical treatment of renewal and concession expenses in 2022, we now treat these expenses as operating expenditure and consequently part of the company's FFO. Under the previous analytical approach, where these expenses would have been considered as capital spending, Suez's FFO/net debt would have been around 18% in 2023.

In our base case, we do not expect Suez to engage in any large acquisitions until credit metrics have sufficiently recovered. In line with its strategy, we expect that the company will focus on the consolidation of its existing positions, with priority given to organic growth, including gains in market shares and margin improvement.

In terms of financial policies, the company's financial profile results from the prevalence of two infrastructure funds in the shareholding structure. If Suez's cash flow were to be stronger-than-expected, we would expect the company to engage in additional capital spending, higher dividends or acquisitions. Furthermore, 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. In this context, Suez also has a flexible dividend policy, with no dividends paid in 2022 and 2023.

### **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 €8.9 billion in 2023. The group provides essential services to many low-risk counterparties in the public sector, and more than 80% of its revenue is recurring and based on long-term contracts. 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 a portfolio of contracts, 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.

The group is exposed to the risk of concessions not being renewed at maturity. However, no significant contract loss is expected over 2024-2025. In 2023 and beginning of 2024, French water activities had more renewed and reopened to competition contracts wins than contract losses. Suez may also choose to not renew contracts in the event contracts are loss-making or do not meet the company's profitability threshold.

### **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. Its diversification also offers some degree of pricing power.

### **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 record 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.

Whilst most contracts are volume-based, Suez is promoting and putting in place in certain instances contracts rewarding sobriety, aligning interests with clients and impact objectives.

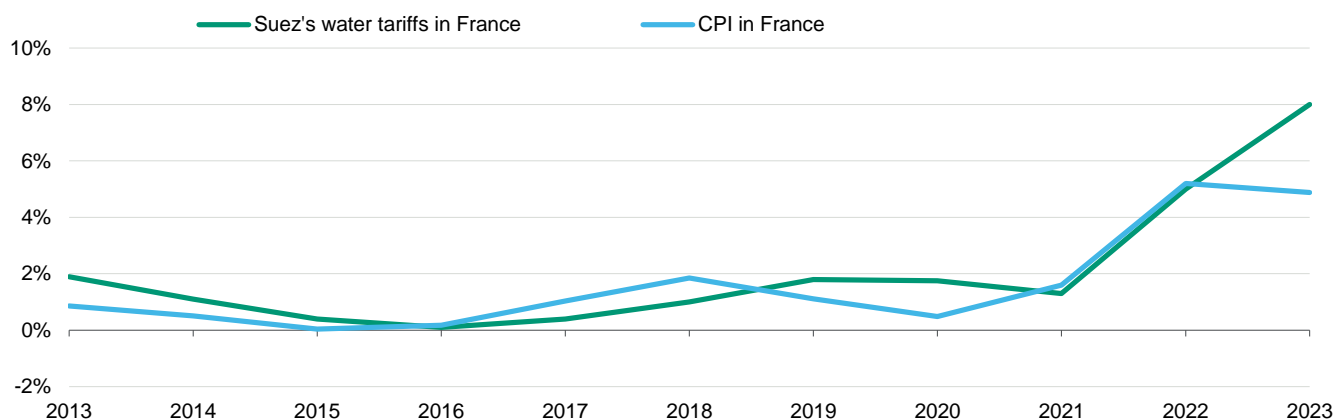
The market structure is, however, well established and the barriers to entry are high because of the entrenched knowledge of incumbent operators' assets under management, EU directives that resulted in complex operations because of laws and regulations on the quality of drinking water and the treatment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

For the French Water activities, which represented around 25% of total revenue in 2023, Suez has concession agreements with a maturity of around 10 years, under which 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). Following the start of the energy crisis in Q4 2021, and exacerbated by the Ukraine invasion, inflation increased substantially over 2022 before starting to tail off during 2023 (although remaining at comparatively high levels). Inflation is passed through to customers in most situations because of indexation clauses, although with a lag of 12-18 months. We expect Suez will have recovered the vast majority of cost inflation via pass-throughs by the end of 2024.

Exhibit 5

#### Tariff indexation compared with inflation



Source: Company filings

#### Waste business is exposed to cyclical macroeconomic conditions due to prevalence of industrial customers and commodity prices

The French waste business, which accounted for 42% of total revenue in 2023, is more exposed to cyclical macroeconomic conditions than water, reflecting the higher proportion of industrial and commercial customers (around 29% 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.

The waste segment in France is currently undergoing a period of transformation, as there will be increasingly less volumes oriented towards landfill in favor of materials recovery and waste to energy. As a consequence, Suez's ability to grow revenue and margins in the Recycling and Recovery segment will also be reflective of its ability to successfully manage this trend in line with operating performance over the past two years. In the waste industry overall, there is an increasing focus on hazardous waste. While this sub-

segment is still very small in Suez's business mix, it is growing rapidly and will allow for Suez to drive additional opportunities for growth and margin improvements. We do consider, however, that hazardous waste carries a somewhat higher business risk.

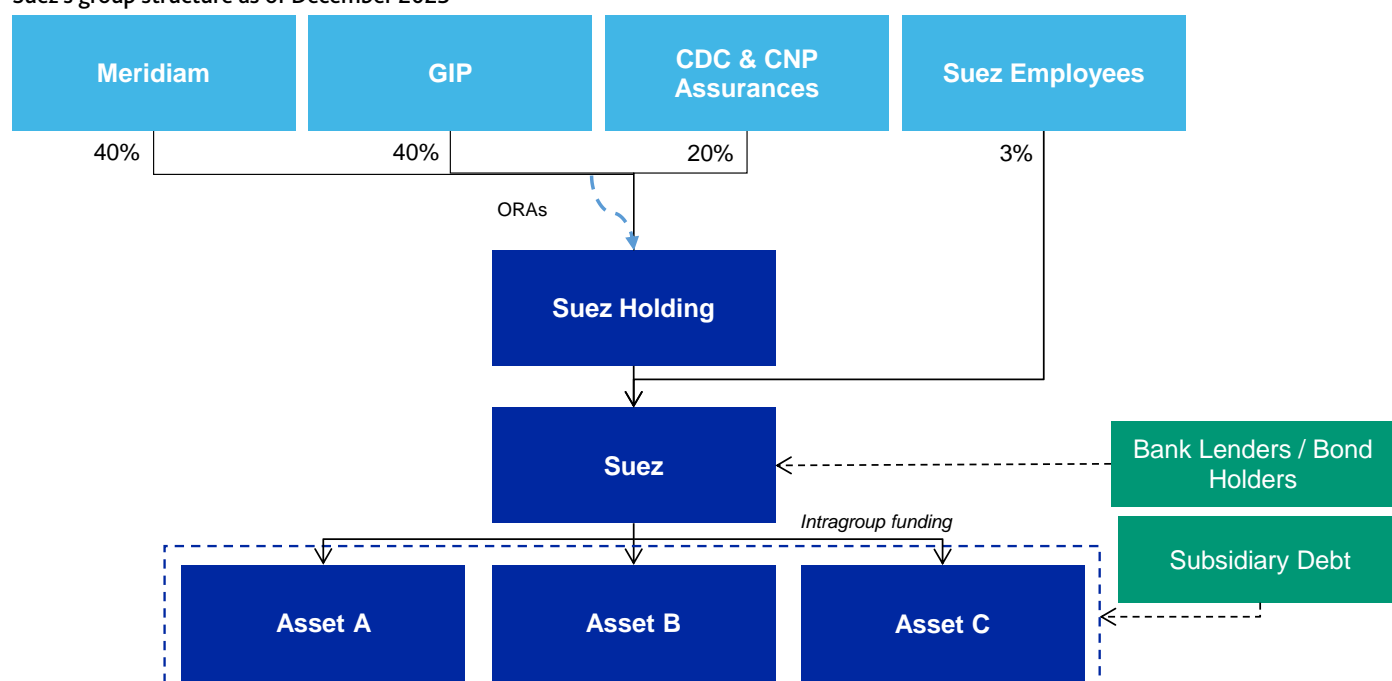
In the UK, Suez's operations, contributing around 13% to total revenue in 2023, are less exposed to economic cycles. This is because they mainly focus on sorting and recycling, with a predominant exposure to municipal waste (more than 95% of the treated volumes), and on energy from waste, with revenue comprising fixed gate fees and the sale of electricity and heat output through long-term power purchase agreements.

### 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 December 2023



Sources: Company filings and Moody's Ratings

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 the 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.

Noteholders 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.

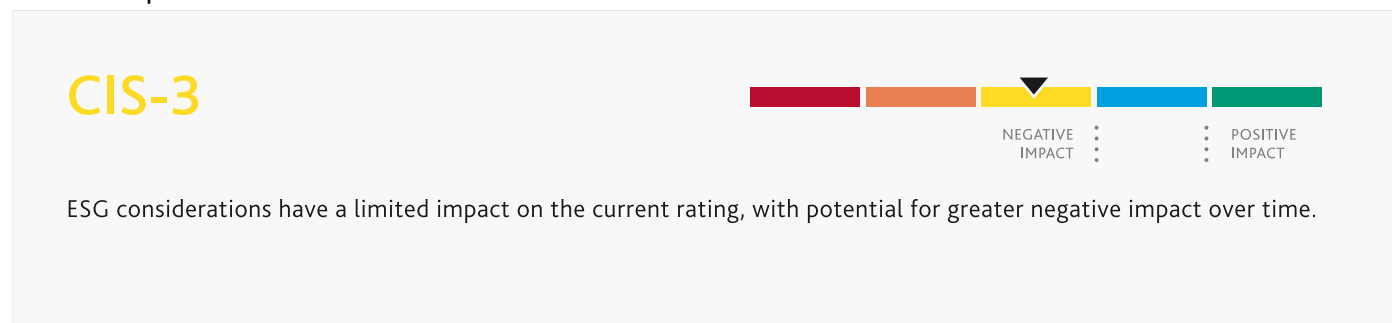
We consider these features supportive of Suez's Baa2 rating because they will limit the calls on the company's cash flow; and the expected restrictions against changes in the ORA's terms and conditions and the notification requirements in the public notes and in the undertaking agreement should maintain 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 CIS-3

Exhibit 7

#### ESG credit impact score

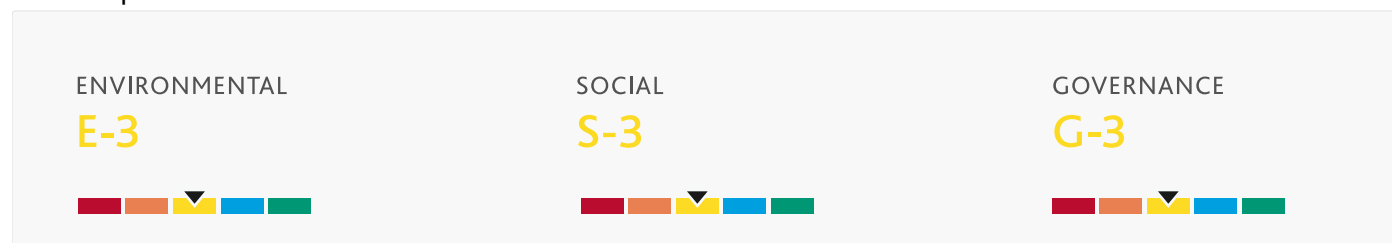


Source: Moody's Ratings

Suez's Credit Impact Score of **CIS-3** reflects a moderate exposure to environment and social risks, including potential risks of pollution albeit reduced by the solid operational track record. The scores also incorporates 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 Ratings

### Environmental

Suez's **E-3** score reflects 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. The group has a moderate exposure to carbon transition risks given its fleet of waste collection trucks and the portfolio of incinerators.

### Social

Suez's **S-3** score takes into account the typical risks faced by utilities providing essential public services, which include potential concerns over affordability and reputational risks. We also consider the group's labour intensity and relatively unionised workforce and exposure to potentially risky operations in its hazardous-waste treatment businesses.

### Governance

Suez's **G-3** score reflects the company's still short track record given its recent foundation. The score also takes account of the company's concentrated shareholding structure.

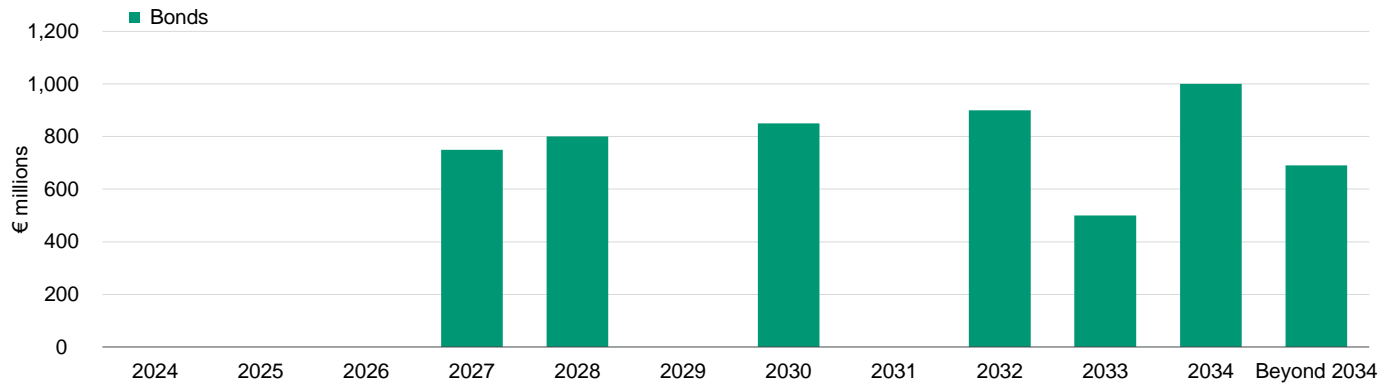
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

### Liquidity analysis

Suez's liquidity is solid, underpinned by €2.0 billion of available cash and undrawn committed credit facilities as of 31 December 2023. These include €762 million in undrawn credit facilities maturing in 2027. There are no major bond maturities until 2027 and Suez only has moderate amounts of bank debts outstanding. Suez's bonds and undrawn facilities are not subject to financial covenants.

Exhibit 9

#### Suez's bond maturity profile as of December 2023



Sources: Company filings and Moody's Ratings



## Methodology and scorecard

The primary methodology used in rating Suez is our Environmental Services and Waste Management rating methodology. 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 as well as the low risk profile of its water business, which accounted for 45% of EBITDA in 2023, underpinned by long-term concessions or regulations; and the company's solid liquidity, supported by 1.2 billion of cash at the end of 2023.

Exhibit 10

### Rating factors

Suez

Environmental Services and Waste Management Scorecard		Current FY Dec-23		Moody's 12-18 months forward view	
	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 (\$ billions)	\$9.6	Baa	A	A	
<b>Factor 3 : PROFITABILITY AND EFFICIENCY (10%)</b>					
a) EBIT Margin %	1.9%	Caa	3% - 5%	B - Ba	
<b>Factor 4 : LEVERAGE AND COVERAGE (40%)</b>					
a) FFO / Debt	10.4%	B	11% - 12%	B	
b) Debt / EBITDA	6.3x	Caa	5.5x - 6x	Caa	
c) EBIT / Interest Expense	0.8x	Caa	1x - 1.5x	B	
<b>Factor 5 : FINANCIAL POLICY (15%)</b>					
a) Financial Policy	Ba	Ba	Ba	Ba	
<b>Rating:</b>					
a) Scorecard-Indicated Outcome		Ba3		Ba2	
b) Actual Rating Assigned				Baa2	

All figures and ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations.

The forecasts are our opinion and do not represent the views of the issuer.

Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

## Appendix

Exhibit 11

## Peer comparison

## Suez

(in € millions)	Suez Baa2 Stable		Veolia Environnement S.A. Baa1 Stable			ACEA S.p.A. Baa2 Stable			Hera S.p.A. Baa2 Stable		
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	
	Dec-22	Dec-23	Dec-21	Dec-22	Dec-23	Dec-21	Dec-22	Dec-23	Dec-21	Dec-22	Dec-23
Revenue	6,844	8,880	28,760	43,080	45,584	3,816	4,957	4,430	10,555	20,082	14,897
EBITDA	923	1,046	3,729	5,675	6,104	1,137	1,189	1,244	970	991	1,337
Total Assets	21,031	20,848	53,889	74,446	73,660	10,629	11,339	11,787	14,032	17,119	15,080
Total Debt	6,574	6,597	25,506	34,134	33,946	5,149	5,407	5,760	4,264	6,416	5,424
Net Debt	4,808	5,393	14,187	23,753	23,756	4,469	4,847	5,400	3,378	4,473	4,091
FFO / Net Debt	9.6%	12.7%	20.5%	15.9%	19.6%	21.5%	19.9%	19.7%	26.8%	19.8%	25.9%
RCF / Net Debt	8.8%	11.9%	16.6%	11.5%	14.1%	19.3%	16.9%	17.0%	21.1%	14.9%	20.1%
(FFO + Interest Expense) / Interest Expense	5.4x	4.1x	7.6x	6.0x	6.1x	12.4x	11.8x	8.7x	13.0x	11.2x	8.7x
Debt / Book Capitalization	46.3%	46.8%	66.7%	68.5%	68.7%	67.2%	66.2%	67.1%	54.6%	62.4%	58.1%

All figures and ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics™

Exhibit 12

## Moody's-adjusted net debt reconciliation

## Suez

(in € millions)	2022	2023
<b>As reported total debt</b>	<b>6,365.3</b>	<b>6,366.5</b>
Pensions	209.1	230.3
<b>Moody's-adjusted total debt</b>	<b>6,574.4</b>	<b>6,596.8</b>
Cash & Cash Equivalents	(1,766.2)	(1,203.8)
<b>Moody's-adjusted net debt</b>	<b>4,808.2</b>	<b>5,393.0</b>

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Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 13

## Moody's-adjusted EBITDA reconciliation

## Suez

(in € millions)	2022	2023
<b>As reported EBITDA</b>	<b>776.6</b>	<b>1,026.1</b>
Unusual Items - Income Statement	161.7	28.1
Pensions	(7.5)	(7.9)
Non-Standard Adjustments	(7.4)	0.0
<b>Moody's-adjusted EBITDA</b>	<b>923.4</b>	<b>1,046.3</b>

All figures and ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations.

Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 14

## Overview on select historical Moody's-adjusted financial data

Suez

(in € millions)	2022	2023
<b>INCOME STATEMENT</b>		
Revenue	6,844	8,880
EBITDA	923	1,046
EBIT	254	169
Interest Expense	105	219
Net income	87	(133)
<b>BALANCE SHEET</b>		
Net Property Plant and Equipment	2,650	2,717
Total Assets	21,031	20,848
Total Debt	6,574	6,597
Cash & Cash Equivalents	1,766	1,204
Net Debt	4,808	5,393
Total Liabilities	14,842	14,956
<b>CASH FLOW</b>		
Funds from Operations (FFO)	464	686
Cash Flow From Operations (CFO)	557	648
Dividends	40	45
Retained Cash Flow (RCF)	424	640
Capital Expenditures	(466)	(687)
Free Cash Flow (FCF)	51	(85)
<b>INTEREST COVERAGE</b>		
(FFO + Interest Expense) / Interest Expense	5.4x	4.1x
<b>LEVERAGE</b>		
FFO / Debt	7.1%	10.4%
RCF / Debt	6.4%	9.7%
Debt / EBITDA	7.1x	6.3x
Net Debt / EBITDA	5.2x	5.2x

All figures and ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations.

Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

## Ratings

Exhibit 15

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

Source: Moody's Ratings

## 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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