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Summary:

GDF SUEZ S.A.

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Summary:

GDF SUEZ S.A.

Credit Rating:	A/Stable/A-1

Rationale

The ratings on France-based multi-utility GDF Suez S.A. are based on the company's stand-alone credit profile, which we assess at 'a', based on our view of its "excellent" business risk profile and "intermediate" financial risk profile, as our criteria define these terms.

Although the Republic of France (unsolicited ratings, AA+/Negative/A-1+) is GDF SUEZ's largest shareholder, we believe that there is a "low" likelihood that the state would provide timely and sufficient extraordinary support to GDF SUEZ in the event of financial distress.

GDF Suez's "excellent" business risk profile is supported by the group's scale and diversification as one of the world's largest gas and electricity utilities and its strong competitive position in most of the markets where it operates. Our assessment also reflects the group's sizable share of regulated and contracted operations, its young and clean power generation assets, and its broad and highly diversified gas sourcing, including its leading position in liquefied natural gas (LNG). These strengths are partially offset by GDF SUEZ's increasing exposure to fast-growing but historically volatile overseas markets, depressed market conditions in its core European operations, and some political risks notably its two historic home countries.

Our assessment of the group's financial risk profile as "intermediate" reflects GDF Suez's "strong" liquidity and financial flexibility, track record of financial discipline, and our anticipation of positive free-operating cash flows. Constraints include GDF Suez's extensive investment program and high shareholder returns, which contribute to the group's significant debt burden.

Key business and profitability developments

With EBITDA increasing 4.2% year-on-year, GDF SUEZ performed relatively strongly in the first half of 2012, confirming the solidness of its unique highly diversified geographic and business mix and its resilience to depressed conditions in European energy markets. First-half 2012 results support our expectation that GDF SUEZ will slightly exceed its €17.0 billion EBITDA target for 2012, up 3% from €16.5 billion in 2011. In 2011 Europe had exceptionally mild weather, the government intervened on gas tariffs in France, and GDF SUEZ fully consolidated its recently acquired subsidiary International Power PLC (IPR; A/Stable/--). We expect the return to normal of weather conditions and retroactive gas tariffs increases in France to contribute about €900 million to GDF SUEZ's earnings growth in 2012, contracted or regulated revenues of newly commissioned assets to contribute about €700 million, and stronger exploration and production from higher commodity prices about €300 million. These factors, along with additional cost savings of about €600 million, should more than compensate for around €500 million in significant disposals in 2011 and a contraction in margins of about €500 million resulting from subdued economic conditions and oversupply in power and gas markets in Europe. We don't expect outages in Belgian nuclear plants will weigh on GDF SUEZ's performance in 2012.

These trends are likely to persist in 2013 and translate into modest growth at the group level. Longer term, we believe the likely recovery in gas markets, including the gradual recoupling of the oil and gas prices, strong global LNG demand, recovery in some power merchant markets, and sizable projects currently under construction coming on line will likely push GDF SUEZ's EBITDA above €20 billion.

Key cash flow and capital-structure developments

Standard & Poor's ratio of adjusted funds from operations (FFO) to debt weakened to 22.2% at end-June 2012 on a twelve months rolling basis from 25% at year-end 2011 mainly owing to the buyout of IPR's minorities for about €7.8 billion.

We anticipate, however, that this modest deviation from the levels we deem commensurate with the ratings will only be temporary. We expect the group's adjusted FFO-to-debt ratio to exceed 23% and keep strengthening from 2013. We base this expectation on:

- The wide acceptance of the scrip dividend options in 2012;
- The ongoing sizable disposals program, which was upscaled by €3 billion;
- Capital expenditure moderation; and
- Increasing free operating cash flows stemming from additional contracted cash flows from newly commissioned assets.

Liquidity/Short-term credit factors

The 'A-1' short-term rating is supported by GDF SUEZ's liquidity, which we consider to be "strong" under our criteria. Projected sources of liquidity exceed projected uses by more than 2.1x in the next twelve months and by more than 1.6x in the subsequent twelve months.

We factor into our liquidity assessment for the next 12 months, based on our estimates, the following sources at June-end 2012:

- About €12 billion in available cash at group level, net of outstanding commercial paper;
- Nearly €14 billion in available committed credit lines maturing beyond 12 months. This includes two syndicated facilities: €4 billion maturing in June 2015 and €4.5 billion maturing in March 2016, with two options for a one-year extension;
- Asset disposals that we estimate at about €4 billion, factoring in some of GDF SUEZ's additional plans following its IPR minority buyout; and
- Our forecast of unadjusted FFO of about €12.5 billion over the next 12 months.

Against these sources, we factor in the following liquidity uses:

- Short-term debt of about €5 billion, net of outstanding commercial paper;
- Our estimate of capital expenditures not exceeding €10.5 billion; and
- Dividend cash payments of about €2 billion as a result of the proposed script options in 2012 that nearly 80% of GDF SUEZ's shareholders agreed.

Our assessment is further supported by the group's ongoing and proactive liquidity and debt management, solid relationships with banks, and ample and proven access to capital markets, even under dire conditions. GDF SUEZ also became one of the few issuers of a century bond in March 2011. More recently, between May and October 2012, GDF SUEZ issued bond totaling about €6 billion with an average cost of 1.7%, the lowest coupons ever for the company.

Outlook

The outlook is stable. Although we anticipate that credit metrics will temporarily weaken in 2012, we expect GDF SUEZ to meet its disposal targets and the group's cash-flow generation to remain resilient to challenging economic conditions. This, we believe, will lead to a recovery of key credit metrics in line with our expectations for the current ratings. We view a ratio of adjusted FFO to debt of at least 23% as being commensurate with the current 'A' rating.

We might take a negative rating action if disposals fell short of targets and credit measures fell below our expectations. Any unexpected weakening of the group's business risk profile, if not offset by a commitment to maintain a stronger financial risk profile, could also lead to a negative rating action. More prolonged and depressed conditions for energy markets than we currently expect, or significant expansion in more volatile markets or operations could also trigger negative action.

We might raise the ratings if the group moderated its substantial shareholder returns and maintained adjusted FFO to debt close to 30% while maintaining its current business risk profile.

Related Criteria And Research

- Proposed IPR Minority Buyout Doesn't Affect GDF SUEZ Ratings Owing To Additional Announced Disposals And Scrip Dividend, April 4, 2012
- Industry Report Card: Tough Market Conditions Keep 25 Top European Utilities Under Pressure, March 28, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

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