

15 DEC 2022

Fitch Affirms Tikehau Capital at 'BBB-'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 15 Dec 2022: Fitch Ratings has affirmed Tikehau Capital SCA's Long-Term Issuer Default Rating (IDR) and senior unsecured debt rating at 'BBB-' with Stable Outlook.

Key Rating Drivers

The ratings reflect Tikehau Capital's sound balance-sheet leverage, growing third-party asset management franchise and management fee revenue. The ratings also factor in its significant exposure to on-balance sheet investments, which may lead to earnings volatility, narrower asset management franchise compared with higher-rated peers, and reliance on revenue from on-balance sheet investments to cover its cost base, albeit lower than in previous years.

Macroeconomic Pressures: More challenging economic conditions, including rising interest rates, inflationary pressures, declining market valuations and elevated recession risk, may pressure investment performance and fundraising. Positively, private debt and real assets funds, which have some inflation protection, form a large part of Tikehau Capital's assets under management (AUM).

Rapidly Growing Diversified AUM: Tikehau Capital's AUM amounted to EUR37.5 billion at end-3Q22 (end-2017: EUR13.8 billion) and were well diversified, with 37% invested in private debt, 36% in real assets, 13% in private equity, 11% in capital markets strategies and 3% in own investment activity. Apart from its capital market products, the bulk of Tikehau Capital's AUM are in closed-end funds with fees charged on either committed or invested capital, which supports the stability of its earnings base in the current environment.

Resilient Fundraising: Net client flows were EUR4.3 billion in 9M22 (2021: EUR6.4 billion), averaging 20% of beginning AUM in 2019-9M22. Net client flows were strong in private debt (22% of beginning AUM in 9M22), but lower in real assets and private equity. Tikehau Capital recorded an outflow of 10% in capital markets funds, combined with a decline in the market value of funds by 7% in 9M22. Other strategies showed valuation increases of 1%-3%.

Balance Sheet Risks: Tikehau Capital's portfolio investments (EUR3.6 billion at end-9M22) were predominantly in its own funds (EUR2.9 billion). Direct investments (EUR0.7 billion at end-1H22) were mainly represented by investments in third-party funds (EUR0.4 billion) and equity investments (EUR0.3 billion). Following the sale of two sizable exposures in 2021, the diversification of direct investments improved with only three investments above EUR50 million at end-1H22.

Solid Profitability: Management fees were EUR139 million in 1H22 (2021: EUR264 million).

Performance fees (9M21: EUR5 million; 2021: EUR19 million) are likely to remain modest in the short term due to slower exit activity, but should increase in the medium term as recently launched funds mature.

Reliance on Investment Revenue: Tikehau Capital's fee-related EBIT margin (excluding performance fees and asset management operating expenses) moderated to 29% in 1H22 from 36% in 2021, driven by increased operating expenses due to platform investments. Total operating expenses were 93% of management fees in 1H22 (2021: 79%) but strong investment income (EUR275 million), boosted by fair value gains on equity investments, supported the net result of EUR277 million (2019: EUR319 million; 2020: a loss of EUR169 million).

Sound Leverage: Tikehau Capital's gross debt/tangible equity was 0.6x at end-1H22 (end-2021: 0.5x). Gross debt was EUR1.5 billion at end-1H22 (end-2021: EUR1.3 billion). In 1Q22, Tikehau Capital attracted USD180 million from a private placement in the US. We expect leverage to remain broadly stable in the medium term. Cash-flow leverage, based on recurring asset management income, remains weak compared with higher-rated peers, despite some improvements in recent periods due to AUM growth.

Manageable Refinancing Risk: The nearest debt maturities are EUR0.3 billion in November 2023 and EUR0.5 billion in 2026. Tikehau Capital's liquidity buffer was EUR0.4 billion at end-1H22, supported by a sizeable undrawn EUR0.8 billion revolving credit facility with maturity in 2027. Uncalled commitments with regard to Tikehau Capital's funds are sizeable (EUR1 billion) but the corresponding risk is mitigated by its contingent liquidity and flexibility to time when these commitments are called.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- An increase in balance-sheet leverage with the gross debt/tangible equity ratio approaching 0.8x.
- A materially larger investment portfolio with relation to tangible equity, in particularly in the form of direct equity investments as opposed to investments in funds.
- Weaker profitability as a result of prolonged fundraising challenges, lower management fees or losses from investment activities.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Growth in Tikehau Capital's third-party AUM leading to a more established and diversified asset-management franchise and continuing strong increase in management fee revenue, which comfortably covers operating expenses with total operating expenses/management fee revenue ratio of sustainably below 75%.
- Further reduction of the on-balance sheet investment portfolio and improved diversification resulting in lower volatility of the revenue base.

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

The rating of Tikehau Capital's senior unsecured debt is equalised with the Long-Term IDR, reflecting Fitch's expectation of average recovery prospects given Tikehau Capital's largely unsecured funding profile.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

The senior unsecured notes' rating is primarily sensitive to changes in Tikehau Capital's Long-Term IDR. Changes to Fitch's assessment of recovery prospects for senior unsecured debt in default (e.g. the introduction of debt obligations ranking ahead of the senior unsecured debt notes) could also result in the senior unsecured notes' rating being notched below the IDR.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Tikehau Capital SCA	LT IDR	BBB- 	Affirmed	BBB- 
	ST IDR	F3	Affirmed	F3
	• senior unsecured ^{LT}	BBB-	Affirmed	BBB-

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Non-Bank Financial Institutions Rating Criteria \(pub.31 Jan 2022\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

Solicitation Status

Endorsement Status

Tikehau Capital SCA EU Issued, UK Endorsed

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