Research Update:

Tikehau Capital SCA Assigned 'BBB-/A-3' Ratings; Outlook Stable

March 21, 2022

PRIMARY CREDIT ANALYST

Philippe Raposo
Paris
+ 33 14 420 7377
philippe.raposo@spglobal.com

SECONDARY CONTACT

Nicolas Malaterre
Paris
+ 33 14 420 7324
nicolas.malaterre@spglobal.com

Rating Action Overview

- Tikehau Capital SCA is a listed Paris-based alternative asset manager with €34.3 billion of assets under management (AuM) as of year-end 2021.
- Tikehau Capital operates through four business lines--private debt, real assets, private equity, and capital markets strategies--indicating some diversification despite its moderate size. The company is gradually expanding its geographic footprint and gaining scale thanks to increased fundraising.
- We assigned our 'BBB-/A-3' long- and short-term issuer credit ratings to Tikehau Capital.
- The stable outlook reflects our expectation that Tikehau Capital will pursue its growth strategy and maintain good investment performance and fundraising. We expect its financial profile will prove resilient, with modest debt to S&P Global Ratings-adjusted total equity (ATE) below 0.8x and increased locked-in management fees resulting in adjusted EBITDA interest coverage remaining above 6.0x on a sustainable basis.

Rating Action Rationale

Our rating on Tikehau Capital reflects its modest, albeit steadily growing, size in the global alternative asset management market and its modest balance sheet leverage. Tikehau Capital is mostly active in Europe, with greater presence in its home market, France. That said, it has accelerated its international expansion both in Europe and globally, with offices in Asia and New York. Over the past five years, the company has accelerated its growth, both organic and inorganic, and has more than tripled its AuM to €34.3 billion in 2021 from €10 billion in 2016. Tikehau Capital has used its balance-sheet as a growth enabler, via acquisitions such as France-based Sofidy in 2018 and U.S.-based niche infrastructure manager Star America in 2020. It has also grown by investing in its own funds to align its interests with those of third-party investors, consequently boosting its fundraising. As a result of this balance-sheet strategy, Tikehau Capital has relatively sizable debt compared to rated peers with more asset-light business models. We expect adjusted debt to be close to €1 billion at end-2022, which is still modest when compared with the €2.5 billion ATE we anticipate at the same date.

We think the asset manager's strategy builds on good prospects for alternative asset managers in Europe. We expect stronger allocation from institutional investors looking for yield in a still low-interest-rate environment, and from the increasing disintermediation of banking credit, will result in continued growth across the European alternative market. The French market has cemented its position as the second-largest alternatives center in Europe after the U.K. Tikehau Capital's business profile is underpinned by its still-limited size in AuM compared with more established peers, in particular U.S.-based entities such as Oaktree Capital Group, Apollo Global Management, Ares Management, or Intermediate Capital Group in the U.K. However, we factor in Tikehau Capital's track record in achieving its business targets and its good position to capture solid market prospects without compromising on its financial risk profile.

Tikehau Capital has built a solid reputation in its chosen fields and is broadening its core expertise. Historically, the company has been involved in European private debt, real estate, and capital market strategies. Since its initial public offering in 2017, the company has expanded volumes and expertise in all these strategies and added new ones, such as debt secondaries, private equity, infrastructure, and tactical strategies, including some in Asia and the U.S. In addition to new strategies, we expect Tikehau Capital will continue to launch larger vintages of its flagship funds. Although the company has capitalized on its niche market position in its home country to grow--French investors still represent 64% of the investor base--we view positively the growth rate of international investors that should allow Tikehau Capital to sustain sound fundraising levels in the coming years. Moreover, as of December 2021, 56.7% of the Tikehau Capital's equity is held by management and employees, which encourages executives to have a long-term view and avoid excessive risk-taking, despite the strong growth in funds' deployments.

Tikehau Capital's growth strategy has been successful, and we expect the asset manager to further expand it. We view positively the company's ability to use its own balance sheet to develop new strategies and fund vintages, as it aligns its interests with those of investors. This is a demonstrated way of accelerating growth of third-party AuM. Moreover, the company has demonstrated its ability to navigate the business through a challenging environment during the COVID-19 pandemic. Tikehau Capital launched several funds, continued to fundraise--albeit at a slower pace than planned pre-pandemic--and invested its funds and own balance-sheet despite various lockdowns in Europe. We think Tikehau Capital has built a strong enough platform to continue its AuM growth, although we understand management will continue investing in staff to fuel medium-term growth. Our base case therefore incorporates an increase in management fees, own portfolio income (interest and dividends), and operating expenses, including additional personnel. This results in an adjusted EBITDA margin of 50%-55% over next two years. There is a risk that a material and sustained decline in market valuations could harm net investment returns and ultimately net profit, but the company benefits from having mainly closed-end funds with long lockup periods that support predictable management earning fees.

Tikehau Capital's strategy results are materializing across cashflow and balance sheet metrics. We estimate that Tikehau Capital's modest balance sheet financial leverage will stabilize in the next two years, as measured by adjusted debt to ATE of 0.4x-0.5x. Tikehau Capital's cash financial metrics and EBITDA have also improved as the company has expanded. We think EBITDA interest coverage is commensurate with an investment-grade rating, at 7.8x at end-2021, and we expect it to remain above 6.0x in next two years despite the recent debt issuance of $180 million in March 2022. Our adjusted EBITDA calculation includes five-year average realized investment income and net realized performance fees, to which we apply a 50% haircut to avoid part of the volatility introduced to the metric. We also exclude unrealized investment income.

S&P Global Ratings acknowledges a high degree of uncertainty about the extent, outcome, and consequences of the military conflict between Russia and Ukraine.

Irrespective of the duration of military hostilities, sanctions and related political risks are likely to remain in place for some time. Potential effects could include dislocated commodities markets -- notably for oil and gas -- supply chain disruptions, inflationary pressures, weaker growth, and capital market volatility. As the situation evolves, we will update our assumptions and estimates accordingly. See our macroeconomic and credit updates here: Russia-Ukraine Macro, Market, & Credit Risks.

Outlook

The stable outlook reflects our expectation that Tikehau Capital will pursue its growth strategy and will show resilience thanks to locked-in management fees over the next two years. It also reflects our forecast of adjusted EBITDA to interest coverage above 6.0x and adjusted debt to average tangible equity below 0.8x.

Downside scenario

We could lower the ratings if Tikehau Capital materially increases its financial leverage appetite so that its debt to average tangible equity increases above 0.8x or if its interest coverage deteriorates below 6.0x on a sustained basis. We could also lower the rating on Tikehau Capital if its investment performance deteriorates substantially, causing long-term fundraising prospects to wane.

Upside scenario

Although unlikely at this stage, we could upgrade Tikehau Capital if it materially grows its market presence and further lowers its financial risk, as measured by cash metrics, in line with higher rated peers.

Company Description

Tikehau Capital is a Europe-based alternative asset manager founded in 2004 with €34.3 billion of assets under management as of December 2021. It is a Euronext-listed investment company with a main geographic footprint in Europe, particularly in France, but the company has recently increased its presence in Asia and North America. Tikehau Capital operates through four business lines: private debt, real assets, private equity, and capital markets strategies.

Our Base-Case Scenario

Assumptions

- Fee-paying AuM growth of 15%-20% over the next two years, owing to strong fundraising prospects. The proportion of non-domestic investments should also gradually increase over time. As a result, we expect management fees to grow substantially as locked-in fee-paying AuM increase.

- Realized investment income averaging €65 million in the next two years.
- Adjusted EBITDA gradually increasing toward €300 million at end-2023.
- No new debt issuance and a gradual reduction of cash on hand as the company invests in its own funds.

Key metrics

- Adjusted EBITDA margins of about 50%-55%.
- Adjusted debt to adjusted total equity at 0.4x-0.5x.
- Adjusted interest cover of about 6.5x-7.5x.

Liquidity

Based on likely cash sources and uses over the next 12-18 months, we consider that Tikehau Capital has a strong liquidity profile, and think it could withstand current adverse market circumstances while maintaining sufficient liquidity to service its obligations.

We expect principal liquidity sources over the 12 months from Dec. 31, 2021 will include:

- €459 million of adjusted cash and cash equivalent, after a 50% haircut;
- €725 million of undrawn revolving credit facility; and
- €190 million-€200 million of cash funds from operations.

We expect principal liquidity uses over the same period will include:

- €90 million in annual dividend distribution; and
- Potential outflow for acquisitions, which we include despite no specific target or amount disclosed by Tikehau Capital.

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Stable/A-3

Business risk: Fair

- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Modest

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)

- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating	
Tikehau Capital SCA	
Issuer Credit Rating	BBB-/Stable/A-3

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914