EthiFinance Ratings

# PRYSMIAN SPA

04866320965 CORPORATE

BBB- ISSUER RATING
Long term

OUTLOOK
Stable

| | |
|---|---|
| **Initiation date** | 29/11/2022 |
| **Rating Date** | 21/05/2024 |


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## Rating Action and Rationale

- EthiFinance Ratings downgrades the long-term rating of Prysmian S.P.A. (Prysmian) from BBB to BBB-, maintaining a Stable outlook.
- This rating downgrade is driven by the upcoming deterioration of Prysmian's main credit ratios over our forecast period, following an agreement (signed in April 2024) to acquire 100% of Encore Wire, a manufacturer of electrical wire and cables based in the US, for an enterprise value of around €3.9bn. Over 2023, Encore Wire generated revenues of $2.6bn and EBITDA of $517m. This acquisition (expected to close in 2H24) will be financed by a mix of cash (€1.1bn) on Prysmian's balance sheet and new debt facilities (€3.4bn). As a result, we expect Prysmian's EthiFinance Ratings-adjusted net leverage ratio pro forma the acquisition to deteriorate substantially to 2.7x at YE24 (vs 1.2x at YE23) and then to remain above 2.0x over our forecast period (2024-2026). Nonetheless, we view this acquisition as positive from a competitive positioning perspective mainly since it increases Prysmian's North American presence, strengthening its geographic and portfolio mix.
- The rating remains supported by (i) Prysmian's large scale (#1 global market position) in the fragmented cables manufacturing market; (ii) a good geographical diversification, with a material operating presence across two continents (Europe and North America) and some presence in Latam and Apac; (iii) the strong growth drivers for cables supported by secular trends related to energy transition, electrification and digitalization; and (iv) Prysmian's positive operating performance in the past few years, leading to higher margins (adjusted EBITDA margin of 9.7% in FY23), strong cash flow generation and an EthiFinance Ratings-adjusted net leverage ratio of 1.2x at YE23 (not including the acquisition of Encore Wire).
- However, our rating is constrained by i) the tough competition and less buoyant demand in low value-added cyclical activities, such as Trade & Installers and Power Distribution incorporated in the Energy & Infrastructure business (representing 51.8% of Prysmian's EBITDA in 2023); and ii) execution risks on large high-voltage projects, as shown with several technical issues encountered a few years ago on the Western Link project.
- The capital goods industry has medium-to-high ESG risks under our methodology (sector heatmap score between 3.5 and 3.9). This results in a sector rating being downgraded one notch by industry-related ESG considerations. Heavy industries have a high impact on climate as they are highly energy-intensive in the production process and generate high levels of GHG on all scope measures. In addition to GHG emissions, the impact on pollution is also linked to the production process, which generates high levels of waste while recycling remains limited. The capital goods sector has also a significant impact on resources, using a significant amount of raw materials. However, impact on biodiversity is medium as it can vary depending on the land use and the production process. Regarding suppliers, raw materials are increasingly problematic given geopolitical uncertainties and the sector is also affected by human rights issues.
- Our assessment of the company's ESG policy is advanced (company ESG score of between 0 and 1), positively impacting our financial assessment, and more than offsetting the effect of our industry assessment. The company's favorable ESG score stems from: (i) an excellent governance assessment, particularly benefiting from a very good level of board independence and the separation of the roles of chairman and CEO; and (ii) its efforts in reducing scope 1 & 2 GHG emissions (-33% in 2023 compared to 2019), water usage and waste production. Nonetheless, the social score remains low (albeit improved compared to last year) mainly impacted by the unfavorable three-year trend regarding the employee turnover and injury frequency rate. It is important to note that Prysmian has been the subject of multiple accusations about price cartels and has been fined €104m by the authorities since 2014. In January 2022, the German Federal Cartel Office (FCO) carried out inspections at some of Prysmian's facilities due to "alleged coordination in setting the standard metal surcharges applied by the industry in Germany", to which the company indicated that it was co-operating. At YE23, it had €184m of provisions for antitrust investigations, and related matters. These controversies have not impacted the rating.

## Issuer Description

Prysmian Group is the world's #1 cable and systems company headquartered in Italy. With a c. 30k workforce and 108 plants worldwide, the group designs, produces, and installs cables for the energy and telecom industries. Prysmian has a global presence and conducts business with many high-profile customers, from national power operators to telecom companies. The group operates through three divisions: 1) Energy Products (74% of revenues and 73% of EBITDA in 2023), which manufactures cables for power connection, distribution, and industrial uses; 2) Projects (16% and 18%, respectively), including high-tech and high value-added businesses, servicing large projects such as offshore wind farms and interconnectors; and 3) Telecom (10% and 9%, respectively), producing cable and connectivity systems for telecom operators. Prysmian has been listed on the Milan Stock Exchange since 2007, with a free float equal to 100% of outstanding shares and a market cap of €13.7bn (at market close on 22 April 2024).

For 2023, Prysmian generated revenues of €15.4bn (-4.4% yoy), with adj. EBITDA of €1.5bn (9.7% margin vs 8.9% in FY22), and an EthiFinance Ratings-adjusted net leverage ratio of 1.2x at YE23 (vs 1.6x at YE22).

## Main Financial Figures

| Main financial figures. Millions of €. | FY22 | FY23 | FY24e* | FY25e | FY26e | 23vs22 |
|---|---|---|---|---|---|---|
| Revenues | 16 067 | 15 354 | 18 010 | 18 911 | 19 856 | 26,2% |
| EBITDA | 1 434 | 1 494 | 2 012 | 2 112 | 2 218 | 54,4% |
| EBITDA Margin | 8,9% | 9,7% | 11,2% | 11,2% | 11,2% | 1,6pp |
| EBIT | 1 031 | 920 | 1 339 | 1 406 | 1 476 | 73,6% |
| EBIT Margin | 6,4% | 6,0% | 7,4% | 7,4% | 7,4% | 1,8pp |
| EBT | 958 | 788 | 1 089 | 1 049 | 1 144 | 86,7% |
| Total Assets | 12 756 | 13 323 | 17 070 | 17 639 | 17 520 | 6,2% |
| Equity | 3 771 | 3 972 | 4 459 | 4 982 | 5 473 | 22,1% |
| Total Financial Debt | 3 724 | 3 608 | 6 492 | 6 399 | 5 652 | -17,6% |
| Net Financial Debt | 2 246 | 1 867 | 5 509 | 5 110 | 4 682 | -14,3% |
| Equity/TFD | 101,3% | 110,1% | 68,7% | 77,9% | 96,8% | 33,0pp |
| NFD/EBITDA | 1,6x | 1,2x | 2,7x | 2,4x | 2,1x | -1,3x |
| Funds From Operations | 1 068 | 1 140 | 1 514 | 1 520 | 1 622 | 42,0% |
| FFO/NFD | 47,6% | 61,1% | 27,5% | 29,7% | 34,6% | 18,8pp |
| EBITDA/Interest | 19,6x | 11,3x | 8,1x | 5,9x | 6,7x | 8,2x |

* Financial figures for 2024 are pro forma the acquisition of Encore Wire (assuming the closing of the acquisition on January 1st, 2024).

## Credit Rating

| Credit Rating | |
|---|---|
| **Business Risk Profile** | BBB- |
| *Industry risk assessment* | *BB-* |
| *Industry's ESG* | *Negative* |
| *Competitive Positioning* | *BBB* |
| *Governance* | *BBB* |
| **Financial Risk Profile** | BBB |
| *Cash flow and leverage* | *BBB-* |
| *Solvency* | *BBB-* |
| Company's ESG | Positive |
| Anchor Rating | BBB- |
| *Modifiers* | |
| Rating | BBB- |

## Rating Sensitivity

- **Long-term rating positive factors (↑)**

A rating upgrade could be possible with a sustained improvement in Prysmian's financial profile, particularly if the group manages to deleverage faster than expected following the acquisition of Encore Wire. For the same business risk profile, a decline in the group's EthiFinance Ratings-adjusted net leverage ratio to below 2.0x, for a sustained period of time, could entail a long-term rating upgrade to BBB.

Should the acquisition of Encore Wire not happen, the long-term rating of Prysmian could be upgraded to BBB.

- **Long-term rating negative factors (↓)**

A rating downgrade could be entailed by a sustained deterioration in Prysmian's financial profile, which could be a consequence of a more aggressive financial policy and/or if the group is unable to deleverage following the acquisition of Encore Wire. For the same business risk profile, an EthiFinance Ratings-adjusted net leverage ratio above 3.5x for a sustained period of time could entail a long-term rating downgrade to BB+.

## Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

| Unsolicited Credit Rating | |
|---|---|
| With Rated Entity or Related Third Party Participation | NO |
| With Access to Internal Documents | NO |
| With Access to Management | NO |

## Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
  - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3 Corporate%20Methodology 2023-10-06.pdf
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.