BBB+

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 05/12/2023
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Rating Action and Rationale

- EthiFinance Ratings upgrades its rating for Planta Solar Puertollano 6, S.A. from 'BBB' to "BBB+", maintaining the Stable outlook.
- Under the new Project Finance methodology, the rating is based on a low operational risk (A-) and, complemented by a financial structure for debt repayment with an expected minimum debt service coverage ratio (DSCR) of 1.38x, determines a preliminary rating of BBB+. Although the 'regulatory risk' modifier is a constraint on the final rating (-1 notch), this is offset by the modifier measuring the sensitivity of the projections to reasonable negative deviations in cash generation.

Project Description

Planta Solar Puertollano 6, S.A.U. (hereinafter, "PSP6" or "the project") is a company dedicated to the generation of electricity through the operation of a photovoltaic solar plant. The plant is located in Fuenmayor (La Rioja), has an installed capacity of 10.44 MW, and has been in operation since 2008 under the regulated regime.

Fundamentals

Operational risks

- **Very low operational risk stemming from project type, technical performance, and alignment with 'extra-financial' factors.**

The project has a good rating in terms of the risks related to its technological and operational complexity (A), all of which is favoured by the operator's experience and a generally positive operational performance with respect to fulfilment of the objectives laid out in the project’s economic and financial plan. In addition, the alignment of the project with environmental and social factors, which acts as a modifier on the technical side, enhances our assessment of the project.

PSP6 is now in its fifteenth year of operation. Operation and maintenance (O&M) is based on a service contract with its own shareholder, Solaria Energía y Medioambiente, which has sufficient experience in this area and provides an alignment of interests.

- **Low level of market risk, highly conditioned by regulation.**

PSP6 is a project highly dependent on regulation, which has a direct impact on the assessment of its market risk and which, despite a low valuation for the economic rationale of the project, gives it an overall low associated risk (A+).

In this way, we consider that the project has an outstanding defence against market risk, an aspect favoured by the priority of dispatch in the sale of energy and the revenue mechanism that limits to a large extent the dependence on prices in the electricity market ('pool').

The project's revenues depend mainly on the regulated parameters, which, in accordance with the mechanism in place since 2013, are reviewed periodically during the regulatory life. This is intended to ensure that the regulated revenues (around 80%) at all times complement those received from the sale of energy to the pool in order to compensate for both the operating costs of the project and cover the total investment assigned to the plant, as well as a target return (known as the ‘reasonable return’), which is reviewed every 6 years. Although the 'reasonable return' is currently fixed until the end of 2032 (7.398%), the value of this return until regulatory maturity (2038 in the case of PSP6) - which is a key element in determining market risk – is not known.

Changes to the regulatory regime, as have been seen in recent years, could pose an obstacle to achieving the project's cash generation targets, and thus could result in a downgrade of the rating. However, at this point in time, the regulatory fundamentals are assumed to remain in place following recent changes and, in general, continue to limit the project's exposure to market risk.

- **Low partner risk and a counterparty that does not limit the rating.**

The project belongs to the Solaria Group, the parent company of which is Solaria Energía y Medioambiente, S.A., a specialist and benchmark company in the photovoltaic sector. Its shares have been listed on the Spanish stock market since 2007 and have been included in the Ibex-35 since 2020. Solaria has a rating of BBB+ at EthiFinance Ratings.

In this way, both the risk derived from the partner and the main counterparties, such as the O&M provider and the Spanish electricity system as payer, do not constitute a direct limitation to the rating of the project.

Financial risks

- **Positive results in a context of improving revenues.**

During 2022, the project improved its performance and cash generation, making progress in reducing its debt as planned. The improvement in revenues (+6.7% compared with 2021), favoured by the pricing environment in the market, was reflected at the EBITDA level (+11.8%), allowing an improvement also in cash generation before debt service to generate a comfortable DSCR of 2.10x (1.85x in 2021).

In the first half of 2023 the project's DSCR dropped to 1.46x as a result of the update of the remuneration parameters for the current period, as well as the regulatory adjustments and the reduction in the pool.

- **Favourable capacity for debt repayment.**

The financial debt of PSP6 corresponds to a "Project Bond" issued in 2017 for a total of €45.1m with a term of 20 years. At the end of 2022 the outstanding principal was €36.5m.

The financing was structured under the usual project finance features and a debt sizing of 1.50x for the DSCR and an estimated 'reasonable return' of 6.5% from 2020. Under the updated Base Case, which maintains the yield at the initial 7.398% and extends this from 2019 to at least 2032, the projection continues to show a positive repayment capacity. With our sensitivity, which assumes a €40 MWh pool from 2025 and a drop in the regulatory IRR to 3.5% in 2032, the project adequately supports its DSCR with a minimum of 1.38x.

Modifiers

- **Regulatory risk**

  The project's dependence on regulation to achieve the necessary financial targets and the recent changes to the regulation imply a direct downgrade of the rating by one notch as a modifier to the 'preliminary rating'.

- **Cash-flow sensitivity**

  The debt repayment capacity under a reasonable scenario of downward revenue sensitivity in the Base Case acts as an upward modifier of one notch on the preliminary rating.

Financial Highlights

Main fiancial figures							
€ miles	2020	2021	2022	2022-21	1H 2022	1H 2023	1H 2023-1H 22
Turnover	6,211	6,817	7,274	6.7%	4,037	3,149	-22.0%
EBITDA	5,021	5,859	6,550	11.8%	3,679	2,820	-23.3%
EBITDA margin	80.8%	85.9%	90.0%	4.1pp	-	-	-
Net result	465	1,260	1,874	48.7%	1,234	757	-38.7%
Total balance	47,392	44,336	42,294	-4.6%	43,837	40,900	-6.7%
Equity with subordinated debt	9,583	8,412	8,183	-2.7%	8,822	7,642	-13.4%
% o/Balance	20.2%	19.0%	19.3%	0.4pp	20.1%	18.7%	-1.4pp
Adjusted NFD (excluding subordinated debt)	32,395	30,543	28,480	-6.8%	29,372	28,695	-2.3%
Adjusted NFD / EBITDA	6.5x	5.2x	4.3x	-0.86x	-	-	-
Cash	5,227	5,323	5,578	4.8%	5,600	4,478	-20.0%
Cash flow generated (1)	5,460	5,839	5,839	0.0%	3,304	2,240	-32.2%
Debt Service Coverage Ratio (1)	1.70x	1.85x	2.10x	0.25x	2.09x	1.46x	-0.63x

(1) Calculated for covenant compliance purposes.

Credit Rating

Score	Rating
A - Final operating risk (OR + Modifiers)	A+
B - Market risk	BBB+
C- Extra-financial factors	BBB
D- Sponsor risk	BBB+
1) Business risk profile (A+ B +C +D)	**A-**
2) Fiancial risk profile (DSCR)	**1.38x**
3) Anchor rating (intersection 1 +2)	**BBB+**
Modifiers:	
- Downside analysis	+ 1 notch
- Regulatory risk	- 1 notch
4) Final rating (3 + modifiers)	**BBB+**

Sensitivity Analysis

- **Positive factors in the long term (↑)**

  An improvement in the regulatory environment or a new ruling extending the visibility of revenues until debt maturity could be catalysts for a potential rating upgrade.

- **Negative factors in the long term (↓)**
  - An actual or expected DSCR in the Base Case equal to or less than 1.30x.
  - Regulatory changes resulting in increased market risk.

Regulatory information

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

- Annual Audit Reports.
- Corporate Website.
- Information published in the Official Bulletins.
- Rating book provided by the Company.

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.

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, and in accordance with the Project Finance Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Long-term Corporate Rating scale 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.

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