EthiFinance Ratings

ANDRITZ AG

50935F CORPORATE

A ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings affirms the long-term rating of ANDRITZ AG (ANDRITZ) at A, maintaining its Stable outlook.
- This rating is mainly supported by (i) ANDRITZ's position as one of the leading suppliers in its four business areas; (ii) its excellent geographical diversification with a broad product mix; and iii) a strong financial profile, solid cash flow generation, and an EthiFinance Ratings-adjusted net cash position of €136m at end-September 2023, resulting in a negative adjusted net leverage ratio which we expect to remain negative over our forecast period (2023-2025e).
- However, the rating is constrained by the industry risk assessment, particularly in terms of volatility of profitability and growth perspectives. This is derived by the industry's considerable exposure to the overall macroeconomic environment, mainly due to the industrial nature of its products, leading to the group's revenues being correlated to the amount of CapEx spending by its clients. Thus, in the event of an economic downturn the group's order intake will be negatively impacted, thereby affecting revenues. Also, in the event of a sustained decrease in the prices of pulp and steel, customers from these areas may lower their investment activity in plants and equipment, which would also negatively affect the order intake.
- In line with our methodology, the capital goods industry has medium-to-high ESG risks (sector heatmap score between 3.5 and 4), slightly constraining our industry assessment. 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 of our industry assessment. The company's favorable ESG score stems from: (i) an excellent governance assessment, particularly benefiting from a good level of board independence and the separation of the roles of chairman and CEO; and (ii) a very good social score, factoring in the significant year-on-year decreases in employee turnover and accident frequency rates. Nonetheless, despite its efforts in reducing scope 1 & 2 GHG emissions (-39% in 2022 compared to 2019), the environmental score remains low, negatively affected by the unfavorable three-year trend regarding water usage and energy consumption.

Issuer Description

Based in Austria, ANDRITZ is a major supplier of equipment, plant and systems for the Hydropower, Pulp & Paper, Metals, and Separation industries. The company also provides aftermarket services, ranging from maintenance and repair to advisory, inspections, and audits. At end-September 2023, the group had around 30k employees and operated in more than 280 locations in over 40 countries worldwide. The group is present in Europe (28% of 9M23 revenues), the Americas (40%, of which 25% from North America) and Asia (29%). ANDRITZ's order backlog increased significantly across all its business areas, reaching a record €10.4bn at end-September 2023 (vs €10.0bn at end-2022 and €7.9bn at end-2021), of which 36% was from Pulp & Paper, and 32% from Hydropower. ANDRITZ has been listed on the Vienna Stock Exchange since 2001, with a free float equal to 68.5% of outstanding shares and a market cap of €5.9bn (at market close on 01 February 2024).

For 2022, ANDRITZ generated revenues of €7.5bn (+16.7% yoy), with adjusted EBITDA of €826m (10.9% margin vs 11.1% in FY21), and an EthiFinance Ratings-adjusted net cash position of €430m at YE22. For the twelve months to end-September 2023, the group reported revenues of €8.5bn and adjusted EBITDA of €901m (10.5% margin).

Main Financial Figures

Main financial figures. Millions of €.	FY21	FY22	FY23e	FY24e	FY25e	22vs21
Revenues	6 463	7 543	8 523	8 609	8 695	16,7%
EBITDA	718	826	835	861	869	14,9%
EBITDA Margin	11,1%	10,9%	9,8%	10,0%	10,0%	-0,2pp
EBIT	480	573	580	603	609	19,4%
EBIT Margin	7,4%	7,6%	6,8%	7,0%	7,0%	0,2pp
EBT	440	540	537	560	569	22,9%
Total Assets	7 673	8 492	8 728	8 778	8 852	10,7%
Equity	1 567	1 835	2 205	2 442	2 670	17,1%
Total Financial Debt	1 782	1 601	1 469	1 271	1 107	-10,1%
Net Financial Debt	24	-430	-318	-372	-534	-1907,6%
Equity/TFD	88,0%	114,6%	150,1%	192,1%	241,2%	26,6pp
NFD/EBITDA (1)	0,0x	-0,5x	-0,4x	-0,4x	-0,6x	-0,6x
Funds From Operations	512	559	704	719	728	9,1%
FFO/NFD (1)	2152,9%	-130,0%	-221,0%	-193,1%	-136,5%	-2282,9pp
EBITDA/Interest	18,0x	25,6x	19,5x	20,4x	22,1x	7,6x

(1) The "NFD/EBITDA" and "FFO/NFD" ratios are negative due to the group's negative net adjusted debt position.

Credit Rating

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

Rating Sensitivity

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

ANDRITZ's rating already reflects what we consider to be a very strong financial profile. Consequently, a rating upgrade would most likely be entailed by a material improvement in ANDRITZ's competitive positioning.

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

A rating downgrade could be entailed by a sustained deterioration in ANDRITZ's financial profile, which could be a consequence of a more aggressive financial policy, particularly in the event of a transformative debt-funded acquisition or a significant share buyback program. For the same business risk profile, an increase in the group's EthiFinance Ratings-adjusted net leverage ratio to above 0.5x, for a sustained period of time, could result in a long-term rating downgrade to A-.

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.