BB

ISSUER RATING

Long-term Rating

Outlook: Stable

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Rating Action and Rationale

- EthiFinance Ratings raises Cunext Group's rating from "BB-" to "BB", maintaining the outlook at Stable.
- The rating is based on the group's activity in an industry with high barriers to entry and a wide range of markets, within which it maintains a solid position in southern Europe. Copper's role in energy transition creates a favourable environment for the group's growth. Management has established guidelines to improve profitability and a deleveraging objective, which has led to a decreasing debt level (NFD/EBITDA~3x, FFO/NFD~30%), and an improvement in interest coverage (EBITDA/interest~6x).
- On the contrary, the tight solvency level (PN/TFD~50%), together with price volatility, and the correlation to the economic cycle limit the rating.
- The rating upgrade is based on the improvement in profitability margins, as well as an optimisation of debt levels, which have a favourable impact on the financial profile. The rating also considers the impact of the investment plan for the upstream integration. This will have a positive ESG impact as a result of the reduced environmental footprint, as well as a progressive improvement in its financial profile, mainly reflected in low indebtedness.
- In line with our methodology, the materials sector presents a high ESG risk (heatmap sector between 4 and 5) given its impact on the environment. This assessment results in a sector analysis that is downgraded by one category. On the other hand, the assessment of Cunext Group's ESG policies has given a neutral result (63/100), and does not have an impact on the rating. The social and environmental indicators are assessed as favourable, supported by international certifications, and a strong commitment to reduce environmental impact. However, the main limiting factor is the lack of separation of powers, with the majority shareholder serving as CEO of the group.

Issuer Description

Cunext Group is a business group specialising in the transformation of copper and, to a lesser extent, aluminium, to obtain different products, mainly for the energy, automotive, enamelling, railway and distribution industries. Through its production plants (Cordoba, Vitoria and Zaragoza in Spain, and Brescia in Italy) with a smelting capacity of 200,000 tonnes/year of copper and 60,000 tonnes/year of aluminium, it supplies its products to more than 30 countries. At year-end 2022, the company reported revenues of €1,886m (+8.8% yoy), EBITDA of €24.8m (EBITDA margin of 1.3%), and an adjusted NFD[1] /EBITDA ratio of 3x.

[1] Total financial debt includes the participating loan granted by Ekarpen SPE, as it has fulfilled one of the early repayment assumptions; and the amount drawn down on non-recourse factoring lines. Derivative financial instruments are not considered.
For the calculation of the net financial debt, the amount of cash and cash equivalents and 25% of the raw material inventory was subtracted from the total financial debt when considered liquid (traded daily on the international metal trading exchange).

Fundamentals

Business Profile

Industry Risk Assesment

- **Sector characterised by high barriers to entry, correlation to the economic cycle, and price volatility.**

  The metallurgical sector, specifically in the copper and aluminium segments, is characterised as a mature industry with significant barriers to entry in terms of investment, know-how and customer relationships. Both metals are considered as commodities, characterized by their intensive use in a wide range of markets. However, they are highly correlated with the economic cycle and feature high price volatility.

- **Industry with long-term drivers related to sustainability.**

  Among the multiple uses of copper, its role in energy transition stands out, which is a structural growth driver for many raw materials. According to leading market research institutes, by 2030 total forecast demand is to exceed 30m tonnes/year (c. 24m tn/year in 2022). The growing use of copper in the renewable energy industry, together with the increased demand for electric vehicles (boosted by government policies) makes for a favourable future outlook.

- **The sector has a high ESG exposure.**

  In line with our methodology, the materials sector presents a high ESG risk (sector heatmap between 4 and 5) given its impact on the environment. ESG-related risks in the sector companies, as well as their impacts on social, environmental and stakeholder factors, are already material and affect the fundamentals of the sector (write-offs, etc.). Companies in this sector need to transform their operations, or else face significant risks in the short to medium term. This assessment results in a sector analysis that is downgraded by one category.

Company's competitive positioning

- **Consolidated competitive position in the copper transformation business based on its size and experience in the sector.**

  Cunext Group is positioned as a reference company in copper transformation in Southern Europe and North West Africa, while its position is more limited as an aluminium transformer. Its solid competitive position is based on its size (production capacity of 200,000 mt/year of copper), a key driver in the sector. This is in addition to extensive experience and know-how that have enabled it to establish itself as a relevant supplier. Of particular note is the joint-venture agreement signed in 2020 with the largest trader of non-ferrous recycles in North America. This was for the development of a production plant in the United States (commissioned in August 2022 and fully operational since 1Q23), which is expected to progressively strengthen the group's competitive position.

- **Concentration in the copper market tempered by the wide variety of target markets. Revenues generated mainly in Europe.**

  The group's business model is focused on products within the copper value chain (72.6% of the added value[2] 2022), a metal with a wide variety of applications, which favours the wide range of target markets (energy, automotive, railway, enamelling, among others). In terms of geographical diversification, as a result of the locations of its main production centres, the domestic market accounted for 51.3% of value added in 2022. This, together with sales in the rest of Europe, accounted for 87.4% of AV. The presence in Africa (7.4% of AV), as well as the

[2] Sales figures taking into account their added value, as this detail is considered more representative as it does not include price variations of raw materials.

production plant in the US enhance the diversification of the group.

Governance

- **Diversified shareholding that stands out for its industrial expertise.**

  The shareholding structure of Cunext Group is mainly controlled by Mr. Dámaso Quintana Pradera (43.5% of the share capital), and Mr. Ignacio Gracia Pérez (29.6%), while the rest of the share capital is held by investors from the industrial sector. This diversified industrial ownership structure favours stability and the implementation of long-term strategic objectives.

- **Extensive experience of the management and board of directors, who act under a financial policy that has resulted in continuous improvements.**

  Professional management characterised by a high level of know-how and expertise in the metallurgical industry. The group's management has strengthened and diversified the group from an operational and geographic point of view. It's efforts are focused on achieving greater vertical integration, and increasing the capacity for processing recycled copper in its factories. However, Cunext's financial profile is characterised by a high level of debt and low financial autonomy, although both indicators have improved.

- **ESG Policy**

  The assessment of Cunext Group's ESG policies resulted in a score of 63/100, which does not have an impact on the rating. The indicators for social and environmental aspects are in a favourable situation in contrast to the benchmark. This is supported by environmental and health and safety certifications across the group, as well as a strong commitment to further reducing its environmental impact (reflected in improved KPIs). However, the main limiting factor is the lack of separation of powers, with the majority shareholder acting as CEO of the group.

Financial Profile

Cash Flow and Leverage

- **Business model that generates a positive operating cash flow.**

  The group generates positive funds from operations (FFO) year on year (€16.7m in 2022), with a recurring FFO to EBITDA conversion ratio1 of 67.3%, well below the average margin of its peers (83.9%). Despite recurrent cash generation, operating cash flow is conditioned by the volatility of its working capital needs. However, the favourable difference between the collection and payment period of 25 days, and the inventory turnover of c.13 days, result in a comfortable position for the group. In 2022, recurring operating cash flow1 of €62.4m (€7.4m in 2021) covered total investments, and almost all the debt repayments for the period. Even so, it maintained a cash level similar to that of the previous year (€24.6m in 2022).

- **Acceptable financial structure, partially offset by the high liquidity of its assets.**

  The group's business model has high financing needs, which, together with limited profitability, results in an acceptable leverage. This is mitigated by the high liquid component of some of the group's investment items (inventories + Arteche shareholding). These are considered relevant levers that strengthen the capacity to meet financial commitments, under certain hypothetical unfavourable situations. The debt ratio improved significantly in 2022 to 3x (5.7x in 2021), and is expected to remain below the historical average. Interest coverage is reinforced by the financing factors applied for its customers, which generates a natural coverage (EBITDA/net interest of 6.5x).

Solvency

- **Weak financial autonomy.**

  As the business model is capital intensive, the sector is mostly characterised by low levels of financial autonomy. In the case of Cunext, its equity is reinforced by the annual results, with no capital increases in its recent history. Despite this, and assuming early repayment for the equity loan granted by Ekarpen SPE, the lower financial debt has allowed for a significant improvement in the ratio (58.2%). For the following years, the ratio is expected to remain at a still limited level.

Liquidity

- **Satisfactory liquidity profile.**

  Cunext Group maintains a healthy liquidity profile, based on a satisfactory refinancing profile and a liquidity ratio of more than 2x. The first factor reflects the company's ability to access credit, therefore it is not expected to have problems maintaining revolving debt, although its ability to refinance may depend on existing market conditions. On the other hand, the high liquidity ratio is based on the company's ample cash position (€24.6m) and available credit lines (€141.5m). This in addition to its operating cash generation (recurring FFO €16.7m), which together comfortably cover the maturity of the debt and investments for the period.

Modifiers

- **Liquidity**

  It is considered that the group will not be liquidity stressed, a priori, and has no impact on the rating.

- **Country Risk**

  Most of the group's turnover is generated in Spain and countries within Europe. It is considered that the group does not present a relevant country risk, so it does not affect the assigned rating.

- **Controversies**

  No disputes have been identified as of the date of issuance of this document that could affect the rating.

Main Financial Figures[3]

Main financial aggregates. Thousands of euros.	2020	2021	2022	22vs21
Turnover	1.217.872	1.733.195	1.886.286	8,8%
EBITDA	11.653	17.700	24.764	39,9%
EBITDA Margin	1,0%	1,0%	1,3%	0.3pp
EBIT	5.252	11.910	16.541	38,9%
EBIT Margin	0,4%	0,7%	0,9%	0.2pp
EBT	2.082	8.945	13.026	45,6%
Total Assets	223.556	329.462	308.094	-6,5%
Equity	47.876	54.519	66.118	21,3%
Total Financial Debt[1]	82.813	150.936	113.592	-24,7%
Net Financial Debt[2]	46.151	101.603	73.163	-28,0%
Equity[3] /TFD[1]	57,8%	36,1%	58,2%	22.1pp
NFD /EBITDA[2]	4,0x	5,7x	3,0x	-2,8x
Funds From Operations[4]	17.930	7.420	16.657	124,5%
FFO[4] /NFD[2]	38,9%	7,3%	22,8%	15,5pp
EBITDA/Interest[5]	3,2x	3,4x	6,5x	3,2x

[1] Total financial debt includes, from 2021, the participating loan granted by Ekarpen SPE, as it has fulfilled one of the early repayment assumptions; it also includes the amount drawn down on non-recourse factoring lines. The TFD does not consider derivative financial instruments.
[2] For the calculation of the net financial debt, the amount of cash and cash equivalents and 25% of the raw material inventory was subtracted from the total financial debt when considered liquid (traded daily on the international metal trading exchange).
[3] Equity includes only in the period 2020 the participating loan granted by Ekarpen SPE, as one of the early repayment assumptions has been met in 2021.
[4] Recurring FFO: FFO - change in fair value of derivative instruments.
[5] For the calculation of the ratio, the financial results were taken into account, as a consequence of the revenues generated by the pass-through of a financing factor to its customers.

Rating Sensitivity

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

  Continued growth in turnover, accompanied by an improvement in profitability margins based on greater upstream integration. Consolidation of investments and business development in other markets that can improve the group's competitive positioning. Optimisation of solvency levels (adjusted PN/TFD > 60%) and debt ratios (adjusted NFD/EBITDA <2x) on a sustained basis.

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

  Significant loss of production and sales volumes. Sustained reduction in profitability margins. Entry into losses and consequent deterioration of financial autonomy (equity/TFD < 30%). Significant increase in the adjusted NFD/EBITDA ratio > 4.5x. Deterioration in operating cash generation and liquidity position. Difficulty in accessing credit.

[3]The audited financial statements as at 31 December 2022 are the first audited financial statements prepared in accordance with EU-IFRS.

Credit Rating

Credit Rating	
Business Risk Profile	**BB-**
Industry Risk Assessment	*B+*
Sector ESG Adjustment	*Negativo*
Competitive Positioning	*BB-*
Governance	*BB+*
Financial Risk Profile	**BB+**
Cash Flow and leverage	*BB+*
Solvency	*B+*
Company's ESG Adjustment	Neutral
Anchor Rating	**BB**
Modifiers	-
Rating	**BB**

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 Corporate Rating 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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