ISSUER RATING

BB+

Long-term Rating

Outlook: Positive

First rating date: 14/06/2023
Review date: 18/07/2023

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Rating Action and rationale

- EthiFinance Ratings reaffirms Visalia Energía S.L.'s rating at "BB+", but changes its outlook from Stable to Positive.[1]
- The rating is supported by the group's solid financial profile characterized by a low level of indebtedness (NFD/EBITDA <2.0x and FFO/NFD >45% on average). It is constrained by the sector in which the group operates, utilities, which is generally characterized by low profitability levels. Furthermore, the group's current size is a factor conditioning its competitive positioning.
- The change in the outlook is based on the accelerated growth seen in 2022, in terms of both turnover and EBITDA. The consolidation of the strategies developed during 2021-22 has improved the outlook for the company in the coming years, with the likely achievement of higher returns, keeping the debt ratio (NFD/EBITDA) under control and facilitating a high level of financial autonomy (Equity/TFD). Although we understand that future performance is strongly linked to energy prices, we consider that if the current conditions are maintained the result could be a rating upgrade in the short-to-medium term.
- In line with our methodology, the *utilities* sector presents a high ESG risk (sector *heatmap score* between 4.0 and 5.0) given the relevant climate impact on natural resources and biodiversity. However, we consider that the energy trading sub-sector has a significantly lower impact than those related to energy generation, transmission and distribution. Consequently, the assessment is made on the basis of a medium ESG impact (*heatmap score* between 2.0 and 2.9), which has a neutral effect on the rating. We also assess Visalia's ESG score as neutral.

Issuer description

Visalia Energía, S.L. and its subsidiaries (hereafter 'Visalia, 'the company', or 'the group') operate within the energy sector as an independent group in the energy commercialization businesses, split between electricity (63% of revenues) and gas (34%), as well as in the development, construction, maintenance and operation of solar photovoltaic installations for the generation of electricity (3%). The Visalia group is the result of the integration of various independent energy marketing companies, notably Watium S.L, Syder Comercializadora Verde S.L and Servigas s. XXI, S.A., with a customer base mainly represented by homeowners' associations. The group achieved 2022 revenues of €338.9m (-18.7% YoY) and EBITDA of €24.2m (margin of 7.2%) with a NFD/EBITDA ratio of 2.4x based on aggregate figures.

Fundamentals

Business Profile

Industry Risk Assesment

- **Mature sector characterized by low levels of profitability, positive long-term prospects, and medium barriers to entry.**

  The sector, especially the retail sub-segment, has a high number of competitors and a high customer turnover (high churn rate), which feed into low profitability margins (~2-5% EBITDA margin). The associated volatility is considered as medium, resulting from the evolution of the price of electricity/natural gas marketed and the ability of companies to enter into PPA contracts for energy supply, as well as being able to market energy through indexed tariff contracts. The sector's barriers to entry are also considered medium, mainly associated with investment levels, know-how, and the degree of vertical integration required to be competitive, as well as the high level of regulation. In addition, there are high working capital needs associated with the commercialization activity, given the time lag between

[1] *The first rating granted to Visalia Energía S.L. was on 13/01/2023, becoming a public rating on 14/06/2023, being the date that appears in this report.*

the purchase of energy from OMIE and payment from customers (7-day payments vs. 30/60-day clients). The industry as a whole has a favorable long-term outlook, one which will hinge on renewable energies.

- **The energy trading sub-sector has a neutral ESG exposure.**

  The energy sector in general has a high ESG exposure, given its impact on climate, natural resources and biodiversity. Energy prices are highly volatile, having a direct or indirect impact on all industries. In general terms, energy has a significant impact on nations and communities, as it is an absolutely key factor for social stability and economic development. In terms of regulation, governments tend to tighten their policies in order to secure energy supply and can financially affect the industry with restrictions or heavy taxation. Although the energy trading sub-sector plays a relevant role in the value chain, we consider that it has a significantly lower impact compared to those industries related to energy generation, transmission and distribution. Consequently, we consider it to have a neutral ESG exposure.

Company's competitive positioning

- **Strong competitive positioning derived from Visalia's capabilities in the management of energy trading.**

  The signing of the framework energy supply agreement with Shell allows the group to guarantee supply and access to a much wider range of gas and electricity products, with three major advantages: access to a larger number of benchmark indexes, fixed and long-term prices, and full access to financial hedges and swaps. Consequently, the agreement frees the group from locking up a large amount of cash for guarantees (OMIE and hedges) as these will be provided directly by Shell. Visalia will be able to offer customers stable supply solutions at competitive prices while freeing up more resources (*working capital*), boosting the group's growth capacity. Similarly, the group's capacity to close PPAs with different producers is also noteworthy, enabling it to stabilize the average energy purchase price (a key lever for the group's future profitability).

- **Broad product diversification coupled with a loyal customer base**.

  Following the acquisition of three well-known brands in the sector (Watium, Syder and Gashogar), which are more than 10 years old and have a differential value proposal recognized by their customers and their prescription channels, the group has improved positioning in the market through a broader and more complete offer that involves all the sub-segments (electricity, gas and diesel), while increasing cross-selling capabilities for the existing portfolio. The company is consequently able to project a positive trend in the volume of energy sold in the coming years. We would highlight the efforts made in the development, promotion and sale of photovoltaic projects, which cuts across all the group's business lines, not only to offer self-consumption solutions, but also to drive growth and profitability via PPAs. Also, we consider Visalia's new commercial strategy – which is aimed at greater proximity with the networks of qualified prescribers, focusing on collaborative, efficient and stable relationships with property managers and installers to maximize synergies and capture a more loyal and lasting customer base – to be positive for future growth.

Governance

- **Group owned by an investment fund and management team, one which maintains a suitable financial policy.**

  The ownership of the group is divided between Greenmont Energy S.L. (71.84%) and Abegarpa Inversiones S.L. (28.16%). Although majority ownership by a US investment fund may raise some concerns, Greenmont appears committed to Visalia for the long term and has demonstrated its commitment to expand the group. The strategic shift that has taken place between 2021 and 2022, following the entry of Greenmont, is building a much more robust and conservative business through the acquisition and maintenance of companies with solid track record, loyal customer bases, and more prudent business models. In addition, there is the framework supply agreement with Shell, which completely changes Visalia's traditional contracting methods. The financial policy is assessed as adequate. The group combines different sources of financing, highlighting a medium level of financial autonomy (Equity/TFD) and a controlled level of debt (NFD/EBITDA below 3.0x).

- **ESG Policy.**

  The company's ESG score is neutral (score of 2.60), despite Visalia not maintaining active and robust ESG management. Vulnerability to ESG risks is high and could impact on the group's revenues, earnings, cash flow, asset value, and/or reputation in the foreseeable future (up to 5 years).

Financial Profile

The profit and loss analysis is based on the aggregated accounts of Visalia Group (provided by the company), which result from the aggregation of the figures of the audited individual accounts of the companies that currently form part of the group, regardless of their date of acquisition. These include: Watium S.L (acquired in March 2021), Syder Comercializadora Verde S.L (acquired in July 2022), and Servigas s. XXI, S.A (acquired in July 2022). This is in order to maintain a constant and comparable consolidation perimeter between periods (including Visalia Solar and Renovables). The balance sheet analysis is based on the audited consolidated accounts (auditor: Hispan Auditores, S.L) as of end-2022, which include all the companies currently forming part of the group.

Cash flow and indebtedness

- **Growing and positive FFO fuelled by the increase in EBITDA**.

  In 2022, the group achieved a new EBITDA record of €24.2m (+84.9% y-o-y) on an aggregate basis. This reflected: (i) the optimization of the customer portfolio from Visalia's former business model to focus solely on profitable customers, (ii) the restructuring towards a business model involving lower sales commissions, and (iii) the increase in energy prices under a procurement cost that remained relatively constant (profitability via PPAs). Consequently, the company has a high capacity to generate cash flow from operations (FFO/EBITDA of 77.1% in 2022), which has helped to fund the group's inorganic growth plan which entails significant investments (FCF deficit of close to €5m in 2022).

- **Debt under control despite the group's inorganic growth**.

  Based on consolidated figures as of end-2022, net financial debt amounted to €47.4m. This marked an increase of 12.1% vs 2021 due to the additional financing obtained in order to continue the group's inorganic growth plan. Consequently, the NFD/EBITDA ratio stood at 1.9x and FFO/NFD at 48.0% (5.3x and 16.9% in 2021, respectively). Interest coverage remains at an adequate level (6.6x in 2022) despite the high interest associated with the financing obtained from the majority shareholder (debt bearing interest at 7%).

Solvency

- **Medium financial autonomy.**

  We consider Visalia to have an average level of financial autonomy (equity to total financial debt ratio), one which has improved 10.4pps over 2022 to 51.3% (consolidated figures), benefiting from the increase in equity (+92.8% y-o-y) after the company delivered higher net profit (and the non-distribution of dividends), compared to a slower growth of total financial debt (+53.6% y-o-y).

Liquidity

- **Adequate liquidity position supported by recurrent generation of operating cash and lower working capital financing needs.**

  Although the structure of the group’s total financial debt remains highly concentrated in the short term (56.2% of TFD in 2022 vs. 23.2% in 2021), the essential nature of the services offered (electricity and gas) and the billing periods (30 days) effectively guarantee the generation of a solid and recurring FFO in the future. This, together with the cash and cash equivalents available (€22.4m) and undrawn financing lines (€14.3m), means that Visalia is not expected to have any difficulties in meeting its commitments in the short term.

Modifiers

Controversies

- The group does not appear to present any controversies.

Country risk

- No country risk has been identified.

Main financial and extra financial figures

Main financial aggregates. Thousands of euros.	2021[1]	2022[1]	22vs21	2021a[2]	2022a[2]	22vs21(a)
Revenues	176.173	231.227	31,2%	416.676	338.954	-18,7%
EBITDA	7.964	25.565	221,0%	13.110	24.239	84,9%
EBITDA margin	4,5%	11,1%	6,5pp	3,1%	7,2%	4.0pp
EBIT	7.214	32.079	344,6%	11.922	22.019	84,7%
EBIT margin	4,1%	13,9%	9.8pp	2,9%	6,5%	3.6pp
EBT	3.922	26.092	565,3%	8.741	15.844	81,3%
Total Assets	83.350	148.613	78,3%	149.582	139.017	-7,1%
Equity	18.577	35.819	92,8%	34.444	36.788	6,8%
Total Financial Debt[3]	45.453	69.799	53,6%	69.308	67.609	-2,5%
Net Financial Debt[3]	42.280	47.410	12,1%	62.313	58.087	-6,8%
Equity/TFD	40,9%	51,3%	10.4pp	49,7%	54,4%	4.7pp
NFD/EBITDA	5,3x	1,9x	-3,5x	4,8x	2,4x	-2,4x
FFO	7.157	22.774	218,2%	10.385	18.687	79,9%
FFO/NFD	16,9%	48,0%	31.1pp	16,7%	32,2%	15,5pp
EBITDA/Interest	5,0x	6,6x	1,6x	5,5x	5,4x	-0,1x

[1]Consolidated audited accounts of Visalia Energia S.L.[2] Aggregated accounts at 31 December 2021 and 2022 provided by the company itself, which result from the aggregation of the figures of the audited individual accounts of the companies that currently form part of the group, regardless of their date of acquisition. [3]The TFD includes debt with partners (Greenmont Energy LTD) for €10m with tacit renewal that the shareholder will maintain until its exit from the shareholding, accruing interest at 7%.

Rating Sensivity

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑).**
  Favourable economic environment resulting in a positive evolution of the sector and higher business volume. Improvement in debt levels (NFD/EBITDA below 1.7x, FFO/NFD above 50%, and/or EBITDA/interest above 7.5x on average). Increased financial autonomy (Equity/TFD above 75% on average).

- **Negative factors (↓).**
  Deteriorating ratios (NFD/EBITDA above 2.5x, FFO/NFD below 40%, and/or EBITDA/interest below 5.0x on average) and Equity/TFD (below 50% on average).

Credit Rating

Credit Rating	
Business Profile	**BB**
Sectoral Analysis	BB
ESG Sector Adjustment	No
Competitive Positioning	BB
Governance	BB+
Financial Profile	**BBB-**
Cash flow and debt	BBB
Solvency	BB
ESG Adjustment Company	No
Anchor Rating	**BB+**
Modifiers	No
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 and Outlook 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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