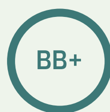
EthiFinance Ratings

COX ABG GROUP SA

A87073193 CORPORATE



ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action y Rationale

- EthiFinance Ratings initiates the long-term rating of Cox ABG Group, SA assigning a BB+ rating with a Stable outlook.
- The rating is supported by the company's favorable business profile within an industry that benefits from generally positive fundamentals, including moderate profitability levels, controlled volatility, effective barriers to entry, and positive long-term growth prospects. The company maintains a promising competitive position due to its scale and market share, further strengthened by the strategic advantages derived from the important shift of the company following the acquisition of Abengoa. Additionally, its business and geographic diversification contribute to its resilience. Cox's recent IPO is also viewed as a good milestone, improving financial flexibility and providing additional access to capital to support its expansion and investment initiatives.
- Nevertheless, the rating is constrained by the company's relatively modest financial profile. While the company has so far maintained a favorable net leverage position (EthiFinance Ratings NFD/EBITDA < 2.5x in 2023) and a moderate capacity to cover interest expenses (EBITDA/Interest < 3x in 2023), its business strategy is expected to evolve towards a more aggressive financial policy as it transitions to a build-to-own model. This strategic shift is anticipated to exert pressure on key metrics, leading to an increase in leverage over the coming years (NFD/EBITDA > 3.5x on average) and a gradual weakening of solvency ratios in the medium term (Equity/TFD < 30% on average), despite the temporary improvement in 2024 driven by the IPO proceeds.
- To assess the company's financial profile under our methodology, a proportional mix of credit metrics has been taken into account in line with the EBITDA contribution of each of the EP/Services and Project/Concessions activities. Therefore, the 'standard cyclicality' table has been used for EP/Services and the 'infrastructure' table for the Project/Concessions segment, given the group's adherence to regulated tariffs and/or contractual provisions (PPAs and WPAs), limiting the cash flow volatility.
- Under our methodology, the company operates in both the engineering and the utilities sector, specifically in water and renewable energy concessions. Regarding ESG-related risks, we believe the former presents a medium risk (sector heatmap score between 3 and 4), whereas the latter exhibits an adequate alignment with ESG factors (score between 1 and 2). This assessment has a positive impact on the overall sector analysis. Additionally, our assessment of the company's ESG policy is neutral (company ESG score between 1.5 and 2), which does not warrant any adjustment to the financial risk profile based on ESG policies.

Issuer Description

Cox ABG Group SA (hereinafter, Cox or the group) is a vertical and horizontal integrated organization specializing in the water and energy sectors. The group's current structure emerged from the transformative acquisition of certain Abengoa's productive units in 2023. This acquisition marked the beginning of a new phase, with the company operating under a dual-structure model: Asset Co, managing concession assets with long-term recurring revenues, and Service Co, providing engineering, procurement, and O&M services.

The group is currently in a post-acquisition phase that is characterized by consolidation and deliberate strategic growth. This stage is centered on the integration of newly acquired assets and the improvement of profit margins. These efforts are aligned with the group's objective to expand its operations, prioritizing sustainable, concession-based revenue streams in the coming years. In November 2024, Cox Group successfully completed its Initial Public Offering (IPO) on the continuous Spanish stock market, raising €175m at an initial price of €10.23 per share.

As of end-December 2023, the company reported revenues of €580.7m, compared to the €42.6m in 2022, with an EBITDA of €103.4m (€-5.7m in 2022), equivalent to an EBITDA margin of 17.8%. EthiFinance Ratings adjusted NFD/EBITDA ratio stood at 2.5x. Cox currently has a current market capitalization of c. €700m.

Fundamentals

Business Risk Profile

Industry Risk Assessment

- **Sector with positive fundamentals, moderate profitability levels, limited volatility, high barriers to entry, and positive growth prospects.**

  Cox operates as an utility of water and energy, offering services of EP and O&M. Given the nature of these industries, profitability in the engineering and procurement sector tends to be relatively low (EBIT margin ~5%). However, this is balanced by the significantly higher profitability of the utility sector, especially in energy generation (EBIT margin >20%), driven by low operating costs, and substantial capital investment requirements. Additionally, the sector's exposure to volatility is mitigated by the widespread use of regulated tariffs and long-term purchase agreements (PPAs and WPAs). High entry barriers—such as significant capital requirements, regulatory constraints, and the necessity of a strong development pipeline—further shape the

industry landscape. Moreover, global forecasts from international organizations indicate sustained growth in water infrastructure and energy demand, consumption over the medium and long term, particularly in the renewable energy sector. Our assessment therefore incorporates these growth prospects into our outlook for the industry.

- **Medium-low sector risk overall in ESG terms.**

  The analysis of ESG-related risks indicates that while the engineering and construction sector carries a medium risk (sector heatmap score between 3 and 4), the utilities sector presents an adequate alignment with ESG factors (score between 1 and 2). As a result, industry-related factors contribute positively to the overall sector assessment. Regarding environmental factors, both industries have a moderate impact on the climate, with limited direct emissions, albeit with often high Scope 3 emissions. The financial materiality is currently low due to insufficient regulation, though this is expected to evolve in the short-to-medium term. The impact on biodiversity is considered moderate despite significant land use. The sector has a substantial impact on natural resources, given its intensive consumption of raw materials and the generation of considerable waste with low recyclability. However, the impact on the supply chain remains limited due to strong competition and low financial dependence. Consumers and national economies benefit from infrastructure improvements and the employment opportunities generated by the construction industry.

Competitive Positioning

- **Competitive positioning bolstered by Abengoa´s integration, but risks and pressures weigh on operational performance.**

  Cox Group, leveraging its track record and the acquisition of Abengoa's productive units, has established itself as a key player in the engineering and utilities sectors, with a strong focus on energy and water infrastructure. The company benefits from extensive industry experience and a strong ability to execute complex, large-scale projects, with its work recognized internationally for technological quality and global reach. Its vertically integrated business model provides competitive advantages across the entire value chain. The integration of Abengoa posed several challenges that could have impacted Cox's market positioning, particularly due to reputational concerns stemming from Abengoa's insolvency, which may have initially affected stakeholder confidence. However, the process appears to have been managed effectively, with notable progress in addressing these complexities. A key example is the recent IPO, which has helped restore credibility and strengthen market trust.

- **Strengthened diversification with a build-to-own strategy, though still reliant on EPC projects.**

  Cox Group is currently implementing a strategic transition to a more sustainable build-to-own approach, focusing on the acquisition and management of long-term projects and concessions following its integration of Abengoa's business units. This shift enabled, in 2023, the company to assume control of desalination concessions and energy projects, diversifying its revenue streams and establishing a platform for future growth. However, the company remains still reliant on EPC, which constituted 78% of total sales in 2023, underscoring a continued dependence on short-term project cycles. Within the energy segment, the Transmission and Infrastructure business, particularly in Latin America, accounted for 68% of sales.

  International operations contributed 89% to consolidated sales in 2023 and 91% in the first half of 2024, reflecting geographic diversification across key markets such as Brazil, Algeria, Chile, and Morocco. Despite this diversification, revenue concentration among four key clients, accounting for over 30% of total revenue, exposes the company to financial and operational risks. It is worth noting that Cox is developing an international energy generation pipeline totaling 3.4 GW, though most projects are still in the early stages with a more limited likelihood of reaching commercial operation. Simultaneously, the company is actively pursuing opportunities in water project concessions and transmission lines initiatives, in line with its medium- to long-term strategic objectives. These efforts aim to secure stable and recurring income streams, further supporting the company's long-term growth ambitions.

Shareholder Structure and Governance

- **Concentrated ownership with external oversight, leveraging its 2024 IPO to diversify capital and enhance transparency.**

  Cox maintains a concentrated shareholding structure, led by its founding partner and Executive Chairman, Mr. Enrique José Riquelme Vives, who holds a controlling 65.1% stake following the 2024 IPO. The second largest shareholder, Mr. Alberto Zardoya Arana, owns 14.1%, while the remaining shares are held by minority shareholders, including a free float of approximately 17%. Notably, the IPO attracted support from prominent key investors such as AMEA Power and Attijariwafa Bank, who joined as minority stakeholders.

  The company's governance framework is reinforced by a 12-member board of directors, including 9 independent members, ensuring a balance between concentrated ownership and external oversight. The

concentrated ownership structure provides strategic stability and continuity, capitalizing on Mr. Riquelme's extensive expertise in the energy sector. However, it also introduces potential risks, particularly in periods of financial stress, where reliance on the financial capacity of the majority shareholder could pose vulnerabilities. These risks have been partially mitigated by the IPO, which diversified the company's capital base, attracted influential investors, enhanced financial transparency, and bolstered confidence among shareholders.

- **Strong leadership and expertise drive Cox's strategic transition, backed by a bold financial approach.**

  The management team is led by CEO Mr. Ignacio Moreno, whose expertise is complemented by a highly skilled group of executives with extensive experience in Abengoa, financial institutions, and other leading organizations. EthiFinance Ratings underscores the importance of the clear delineation of roles between the Executive Chairman and the CEO, ensuring a strong distinction between strategic leadership and operational management.

  The team has experience in different areas of the industry, allowing them to handle regulations, market changes, and new technologies. Their mix of stability and expertise helps them work toward long-term goals and adapt to the sector's shifts. The company's transition to a build-to-own strategy, while promising, involves significant debt financing, reflecting a bold and ambitious financial policy that will be pivotal for its success.

- **Neutral Company ESG policy score.**

  The company has a still limited ESG risk policy (score between 1.5 and 2). ESG issues are already considered and managed, leading to a low probability of occurrence of an ESG-related impact on revenues, results, cash flows, asset value or reputation. The business strategy is being adapted to benefit from ESG-related sector trends. Meanwhile, strong governance and management are contributing to limiting risks and using ESG as an opportunity. Governance policies are favorable, characterized by a qualified board of directors, public disclosure of policies (code of business conduct and corruption policy) and internal analysis of ESG issues. This is complemented by a medium/low level of social metrics and a low level of environmental metrics.

Financial Risk Profile

Sales and Profitability

- **Strong revenue growth and improved EBITDA following Abengoa acquisition, with margin and efficiency improvements remaining key priorities.**

  By the end of 2023, Cox reported revenues of €580m, a significant increase from €42.5m in 2022. This substantial growth was largely driven by the acquisition of Abengoa's productive units, which brought an additional €546m. This positioned the company as a key player in the water and energy sectors, collectively accounting for 95% of total revenue. The gross margin expanded to €447.3m (77%), while EBITDA reached €103.4m, primarily supported by concessions, with water generating €29m (28%) and energy contributing €75m (72%). Nevertheless, the EPC and Services divisions underperformed, delivering a combined EBITDA of €-1m, which constrained the overall EBITDA margin to 17.8%, falling short of industry benchmarks.

  Financial expenses surged to €41.5m, reflecting the burden of integrating Abengoa's debt-heavy assets. Despite these challenges, EBT finally improved to €34.7m (€-6m in 2022), signaling positive financial momentum. This upward trend was further reinforced by H1 2024 results, with reported revenues of €306m and a significantly improved EBITDA margin of 26.5%. While the company has demonstrated impressive growth and strategic expansion, addressing operational inefficiencies and enhancing profitability will be critical to ensuring long-term sustainability and competitiveness.

Leverage and Coverage

- **Rising levels of leverage and expected pressure on the interest coverage ratio are anticipated in the coming years as the business plan progresses.**

  By the end of 2023, the acquisition of Abengoa's business units had a substantial impact on Cox's financial structure, driving EthiFinance Ratings adjusted Total Financial Debt to €313.2m, a sharp increase from €18.8m in 2022. This debt is primarily composed of project finance (70%), and financial leasing (14%). EthiFinance Ratings adjusted Net Financial Debt also rose significantly to €359.3m from €16.9m in 2022, leading to a deterioration in debt metrics, as evidenced by the EthiFinance Ratings adjusted NFD/EBITDA ratio of 2.5x, which is projected to increase (3.5x on average) in the medium term due to the group's capital-intensive expansion strategy. While the predominant reliance on project finance mitigates direct corporate risk, EthiFinance Ratings considers these leverage levels substantial. Despite a favorable interest coverage ratio of 2.5x in 2023, indicating a manageable short-term debt burden, this ratio is expected to remain constrained as expansion plans demand further capital.

Cash Flow Analysis

- **Positive cash flow generation marks Cox's post-acquisition phase, despite ongoing liquidity and volatility challenges.**

  In 2023, Cox reported a substantial improvement in operating cash flow (FFO), reaching €56.5m compared to €-5.6m in 2022, reflecting the implementation of its new business model following the acquisition of Abengoa's productive units. Nonetheless, working capital outflows of €30.8m highlighted the inherent volatility of the sector. Net Investment Cash Flow amounted to €115m, primarily driven by the cash held by Abengoa's productive units at the time of acquisition. This resulted in a Free cash flow of €140.7m, facilitating debt amortization and increasing the cash position by €95.9m, though €44m of this amount remained restricted. As of H1 2024, free cash flow declined to €-19.2m, culminating in a closing cash balance of €78.8m, including €37m categorized as restricted. Nevertheless, the cash position is expected to improve by year-end, primarily supported by proceeds from the IPO.

Capitalization

- **Moderate levels of financial autonomy.**

  At the end of 2023, the company's financial autonomy remained constrained, as reflected in an adjusted Equity/Total Financial Debt ratio below 35%, which could limit its financial flexibility and ability to withstand external shocks. While the proceeds from the IPO and the expected positive financial performance in 2024 may provide temporary relief, the company's business plans suggest that this ratio will deteriorate in the short to medium term. Without additional capital increases to support the financial plan, the anticipated rise in debt may further weaken the company's financial position, potentially affecting its ability to pursue strategic initiatives.

Liquidity

- **Good liquidity position**

  The company's liquidity position remains positive. As of year-end 2023, short-term reported debt stood at €65.9 million, representing 24% of total financial debt. This, combined with solid operating cash flow, available credit lines, and cash reserves, ensures a strong capacity to meet short-term obligations. Additionally, 60% of the company's financial debt matures beyond four years, reinforcing financial stability. This long-term debt structure helps mitigate short- and medium-term cash flow pressures, supporting overall financial resilience.

Modifiers

Controversies

- **The group currently has no significant controversies.**

Country Risk

- **No country risk has been identified as a determining factor.**

Main Financial Figures

Main financial figures. Millions of €.	2022	2023	2024E[1]	2025E[1]	2026E[1]	2027E[1]	22vs23
Turnover	42.6	580.7	702.1	1,402.1	1,674.8	2,007.0	20,9%
EBITDA	-5.7	103.4	166.0	175.3	209.4	301.0	60.6%
EBITDA Margin	-13.3%	17.8%	23.6%	12.5%	12.5%	15.0%	5.8pp
EBIT	-6.0	61.0	97.9	99.5	115.6	166.6	60.5%
EBIT Margin	-14.0%	10.5%	13.9%	7.1%	6.9%	8.3%	3.4pp
EBT	-6.7	35.9	68.9	56.1	76.1	95.8	91.6%
Total Assets	82.3	994.6	1,392.6	1,515.8	2,269.6	2,869.9	40.0%
Equity	33.0	108.6	335.8	376.7	432.3	503.2	209.2%
Total Fin. Debt Adjusted [2]	18.9	313.1	417.0	631.2	1,322.9	1,634.9	33.2%
Net Fin. Debt Adjusted [3]	17.0	259.3	253.7	620.0	1,204.3	1,633.5	-2.2%
Equity/Total Fin. Debt Adj.	175.3%	34.7%	80.5%	59.7%	32.7%	30.8%	45.8pp
NFD Adj. /EBITDA	-3.0x	2.5x	1.5x	3.5x	5.8x	5.4x	-1.0x
Adjusted FFO	-5.6	56.5	119.4	118.2	170.5	218.7	111.3%
Adj. FFO/NFD Adj.	-32.9%	21.8%	47.1%	19.1%	14.2%	13.4%	25.3pp
EBITDA/Interest	-3.1x	2.5x	3.6x	3.5x	4.5x	3.8x	1.1x

(1) Estimates by EthiFinance Ratings, based on company projections, historical data and emerging market trends.
(2) It includes project finance debt, loans with credit institutions, financial leasing and other financial debts.
(3) It´s calculation does not include restricted cash for €44m.

Credit Rating

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

Rating Sensitivity

- **Positive long-term factors (↑)**

A sustained improvement in both qualitative factors and the group's financial profile could support a positive change. Improvements in debt levels, such as an adjusted NFD/recurring EBITDA ratio below 2x on average, would be beneficial. Additionally, an increase in financial autonomy (adjusted Equity/Total Financial Debt above 100%) and a business model increasingly focused on energy generation and water (with this line contributing more than 70% of EBITDA on a sustainable basis) would also support a potential rating upgrade.

- **Negative long-term factors (↓)**

Worsening economic conditions and a decrease in business volume. Furthermore, the company's forecasts are heavily dependent on EPC/services sales. Failure to achieve these targets would severely undermine its business plan, resulting in a negative impact on the assessment. Deterioration of leverage and coverage ratios, with adjusted NFD/recurring EBITDA above 6x, adjusted FFO/NFD below 10% on average, and EBITDA/Interest coverage below 3x on average, along with adjusted Equity/TFD below 30%.

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:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. 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. Principal methodology used in this research are :
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- 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.

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