



ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings affirms the long-term rating of Prysmian S.P.A. (Prysmian) at BBB, changing its outlook from Positive to Stable. This outlook change is a consequence of the capping mechanism, in line with our methodology, which caps the final rating at BBB due to an assessment of the business risk profile at BB+.
- This rating is mainly supported by (i) Prysmian's large scale (#1 global market position) in the fragmented cables manufacturing market; (ii) a good geographical diversification, with a material operating presence across two continents (Europe and North America) and some presence in Latam and Apac; (iii) the strong growth drivers for cables supported by secular trends related to energy transition, electrification and digitalization; and (iv) a solid financial profile, with the group managing to considerably improve its EthiFinance Ratings-adjusted net leverage ratio, which we forecast at 1.3x at end-2023 (compared to 1.6x at YE22, 2.8x at YE21 and 3.5x at YE20) and to remain around this level over our forecast period (2024-2025e).
- However, the rating is slightly constrained by i) the tough competition and less buoyant demand in low value-added cyclical activities, such as Trade & Installers and Power Distribution incorporated in the Energy & Infrastructure business (representing 50.1% of Prysmian's EBITDA in the last-twelve months to end-September 2023); and ii) execution risks on large high-voltage projects, as shown with several technical issues encountered a few years ago on the Western Link project. We also note that, in line with our methodology, Prysmian's final rating is capped at BBB due to an assessment of the Business Risk Profile at BB+.
- 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 the effect of our industry assessment. The company's favorable ESG score stems from: (i) an excellent governance assessment, particularly benefiting from a very good level of board independence and the separation of the roles of chairman and CEO; and (ii) its efforts in reducing scope 1 & 2 GHG emissions (-24% in 2022 compared to 2019), water usage and waste production. Nonetheless, the social score remains low, negatively affected by the year-on-year increase in the employee turnover rate as well as the unfavorable three-year trend regarding the injury frequency rate. It is important to note that Prysmian has been the subject of multiple price cartel accusations, and has been fined €104m by the authorities since 2014. In January 2022, the German Federal Cartel Office (FCO) carried out inspections at some of Prysmian's facilities due to "alleged coordination in setting the standard metal surcharges applied by the industry in Germany", to which the company indicated that it was co-operating. At YE22, it had €179m of provisions for antitrust investigations, and related matters. These controversies have not impacted the rating yet.

Issuer Description

Headquartered in Italy, Prysmian Group is the world's #1 cable and systems company. With a c. 31k workforce and 108 plants worldwide, the group designs, produces, and installs cables for the energy and telecom industries. Prysmian has a global presence and conducts business with many high-profile customers, from national power operators to telecom companies. The group operates through three divisions: 1) Projects (16.0% of revenues and 18.5% EBITDA in the twelve months to end-September 2023), including high-tech and high-value-added businesses, that service large projects such as offshore wind farms and interconnectors; 2) Energy Products (73.5% of revenues and 68.6% EBITDA), which manufactures cables for power connection, distribution, and industrial uses; and 3) Telecom (10.5% of revenues and 12.9% EBITDA), producing cable systems and connectivity products for telecom operators transmitting sound and data. Prysmian has been listed on the Milan Stock Exchange since 2007, with a free float equal to 100% of outstanding shares, and a market cap of €11.3bn (at market close on 31 January 2024).

For 2022, Prysmian generated revenues of €16.1bn (+26.2% yoy), with adj. EBITDA of €1.4bn (8.9% margin vs 7.3% in FY21), and an EthiFinance Ratings-adjusted net leverage ratio of 1.6x at YE22. For the twelve months to end-September 2023, the group reported revenues of €15.8bn, and an adjusted EBITDA of €1.5bn (9.8% margin).

Main Financial Figures

Main financial figures, Millions of €.						
	FY21	FY22	FY23e	FY24e	FY25e	22vs21
Revenues	12 736	16 067	15 654	15 732	16 519	26,2%
EBITDA	929	1 434	1 602	1 573	1 652	54,4%
EBITDA Margin	7,3%	8,9%	10,2%	10,0%	10,0%	1,6pp
EBIT	594	1 031	1 208	1 177	1 236	73,6%
EBIT Margin	4,7%	6,4%	7,7%	7,5%	7,5%	1,8pp
EBT	513	958	1 085	1 047	1 100	86,7%
Total Assets	12 016	12 756	13 787	13 387	13 563	6,2%
Equity	3 089	3 771	4 397	4 336	4 359	22,1%
Total Financial Debt	4 522	3 723	3 499	3 136	3 146	-17,7%
Net Financial Debt	2 620	2 245	2 081	2 069	2 036	-14,3%
Equity/TFD	68,3%	101,3%	125,7%	138,2%	138,5%	33,0pp
NFD/EBITDA	2,8x	1,6x	1,3x	1,3x	1,2x	-1,3x
Funds From Operations	752	1 068	1 169	1 167	1 223	42,0%
FFO/NFD	28,7%	47,6%	56,2%	56,4%	60,1%	18,9pp
EBITDA/Interest	11,5x	19,6x	13,1x	12,1x	12,1x	8,2x

Credit Rating

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

*In line with our methodology, our final rating is capped at BBB due to an assessment of the Business Risk Profile at BB-

Rating Sensitivity

• Long-term rating positive factors (↑)

Prysmian's rating already incorporates what we consider to be a strong financial profile. This, we view an upgrade based on this criterion as unlikely as the improvement of the financial risk profile would have to be quite significant to overcome the rating cap. Consequently, a rating upgrade would most likely be entailed by an improvement in Prysmian's competitive positioning. For the same financial risk profile, a slight improvement of its business risk profile to BBB- would result in the final rating no longer being capped at BBB and therefore a long-term rating upgrade to BBB+.

• Long-term rating negative factors (↓)

A rating downgrade could result from a sustained deterioration in Prysmian's financial profile. This could be a consequence of a more aggressive financial policy, particularly in the event of a transformative debt-funded acquisition. For the same business risk profile, an increase in the group's EthiFinance Ratings-adjusted net leverage ratio to above 2.5x, for a sustained period of time, could lead to a long-term rating downgrade to BBB-.

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.

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