ISSUER RATING

BBB

Long-term Rating

Outlook: Stable

First rating date: 12/02/2019
Review date: 15/12/2022

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Rating Action & Rationale

- EthiFinance Ratings upgrades Sampol Grupo Corporativo, S.L.U.'s rating from "BBB-" to "BBB", maintaining the Stable outlook. Under the terms of the formalised issue, Sampol Ingeniería y Obras, S.A.'s rating is the same as that of Sampol Grupo Corporativo, S.L.U.'s.
- The rating upgrade is supported by a very positive financial performance in 2021, following the negative figures recorded in 2020, while maintaining adequate debt and liquidity levels; in addition to the improvement following the application of the new Corporate ratings methodology published by EthiFinance in October 2022
- ESG factors have not had a significant impact on the company's rating.

Issuer description

Sampol Grupo Corporativo, S.L.U. (hereinafter, "Sampol" or "the company") is a Spanish engineering company with more than 85 years of history. Its historical positioning in Spain and the Caribbean (96.7% of EBITDA in 2021) in the airport and hotel sectors, together with EPC activities in cogeneration plants, make up the majority of its business. The company currently has 15 of its own cogeneration plants (five of which are under construction), obtaining revenues through the sale of the energy they generate to the industry where the plant is co-located. At year-end 2021, the company reported revenues of €207.5M and EBITDA of €21.1M (+60.1% and 63.5% YoY, respectively), reaching a NFD/EBITDA ratio of -1.17x (-0.29x YoY).

Fundamentals

Business profile

Industry risk assessment

- **Differentiated operating sectors, with different behaviour in the face of the adversities arising from COVID-19**. Grupo Sampol bases its business on a set of activities in the field of engineering and electromechanical installations, as well as participating in the entire value chain of the energy sector through the construction of cogeneration plants, the energy generated from which it sells under long-term contracts. The company's sectoral framework is characterised by its high maturity, where the presence of a significant number of competitors and low product differentiation intensify competition and the pressure exerted by demand. However, although turnover has remained fairly even, the energy segment has shown much greater resilience than the engineering segment to the effects of COVID-19 in terms of profitability, mainly due to the extension of execution times in relevant engineering projects (and the consequent increase in labour consumption), mainly in the Caribbean market.
- **Reduced ESG risk when considering both sectors together**. If we were to consider only the engineering sector's score, its value of 3.3/5 on the EthiFinance Ratings risk scale would have no effect on the sector's rating. However, if we take into account the proportional share of the energy segment, its score of 1.7/5 leads to an adecuate overall view of the rating of the sector (as a whole) in which the company operates, although it is not enough to positively affect the rating.

Competitive positioning

- **Company with an extensive track record and an adequate competitive positioning, standing as a medium-sized player in the Spain-Caribbean axis.** With more than 85 years of experience as a family business, Sampol's historical positioning is centred on its activities in Spain and the Caribbean, mainly in the airport and hotel sectors, in addition to its activity related to the construction of power plants (EPC and energy sales). At the end of 2021, although its operational diversification remained limited, it was more appropriate geographically, operating in eleven countries where the group's subsidiaries try to take advantage of both their size and their pioneering status in many parts of the Caribbean, among other factors, to establish close relationships with customers and position themselves as a relevant player in their sectors of operation, achieving low pressure from their suppliers to achieve adequate returns on their operations.

- N**eutral ESG score (58/100), not affecting its rating**. ESG-related risks could increase and have not yet been fully taken into account, increasing the likelihood of an issue that could moderately affect revenues, cash flows or reputation. However, problems are unlikely to occur in the short to medium term.

Governance

- **Family company with a concentrated governance structure, which could present a modest extra financial capacity, if necessary**. The ownership structure is entirely controlled by the founding Sampol family, with Mr. Gabriel Sampol holding 100% of the shares. The company does not have a Board of Directors, but rather Grupo Sampol Corporativo, S.L.U. is the sole administrator, which in turn is administered by Mr. Gabriel Sampol. Ms. Carmen Sampol (Mr. Gabriel's daughter) has held the position of CEO since 2000, being an important link between the shareholding structure and the management of the group. Although this type of shareholder's high level of commitment to the business is favourably valued, the extra financial capacity that the company might need is more limited. In terms of corporate management in recent years, observing Sampol's recent operating and financial performance, this is assessed as adequate.

Financial profile

Cash-flow & indebtedness

- **Slight increase in profitability, driven by a significant increase in turnover**. In 2021, Sampol recorded a net result of €6.3M (+220.5% YoY), boosted by the significant increase in turnover, which reached a record €207.5M (+60.1% YoY), confirming the post-COVID recovery. Following the cost containment policy implemented in 2020, in 2021 the company increased its operating expenses, resulting in the decrease of gross margin percentage (-5.8pp YoY). In terms of EBITDA, Sampol recorded a similar increase to that of revenues (+63.5% YoY), although the low profitability of the engineering business dragged the aggregate EBITDA margin down to 10.2%, representing a sole 0.2pp growth. With regard to the evolution of its activity by market, the international business, Sampol's traditional stronghold, reduced its weight in EBITDA for the second consecutive year (35.2% in 2020 vs. 27.6% in 2021), despite having increased revenues by 39.4%, with the domestic market becoming the new protagonist of activity, accounting for 72.4% of total EBITDA.

- **Reduced indebtedness focused on the medium term, with positive and stable net cash flow**. Sampol reduced its gross financial debt position at year-end 2021 (-2.8%), as part of its strategic objective of gradually repaying debt, although in the first half of 2022 it took out two loans amounting to €25M to meet the CAPEX needs of the new plants to be developed, which means that from 2023 onwards it will use its cash position to repay its obligations. Specifically, total financial debt was reduced to €61.4M in 2021, driven by a €4.8M debt amortisation, bringing its NFD/EBITDA ratio to -1.2x (-0.3x YoY) at year-end, maintaining a positive net cash position (€24.6M) and adequate leverage for its business model. The 2022 forward guidance suggests that Sampol will remain net cash positive for another year, at around €10M.

- **Sufficient cash flow generation**. The company has been reporting adequate cash generation from operations, sufficient to meet investment needs and debt repayments. In fact, in 2021 the company was able to distribute dividends to its sole shareholder for the first time since EthiFinance has been analysing this company, and may even repeat this action in 2023 with the flows from its business.

Solvency

- **Positive solvency levels**. Sampol has a financial structure characterised by positive levels of financial autonomy, with an equity/gross financial debt ratio of 100.7%, which provides a certain cushion to its creditors against future losses, as well as having valuable assets that could be monetised in times of stress.

Liquidity

- **Adequate liquidity position**. Sampol operates a relatively working capital intensive business, supported by a profitable business model, and has recently strengthened its liquidity with the help of the aforementioned funds raised. We believe that, at year-end 2021, the company had a solid refinancing profile and adequate liquidity risk, with available credit lines and a cash position at year-end 2021 of €18.9M and €86.0M, respectively. This will allow the company to maintain sufficient available sources to support a growing business plan in terms of investments.

Main financial figures

Consolidated financial figures					
(Th. €)	2020	2021	2021 vs 2020	2022e	2022e vs 2021
Turnover	129,578	207,460	*60.1%*	251,204	*21.1%*
EBITDA	12,901	21,087	*63.5%*	25,523	*21.0%*
EBITDA Mg.	10.0%	10.2%	*0.2pp*	10.2%	*0.0pp*
Financial expenses (FE)	2,963	4,251	*43.5%*	4,369	*2.8%*
EBITDA/FE	4.4x	5.0x	*0.6x*	5.8x	*0.9x*
Equity	59,675	61,857	*3.7%*	71,930	*16.3%*
Gross financial debt (GFD)	63,211	61,416	*-2.8%*	75,695	*23.2%*
Equity/GFD	94.4%	100.7%	*6.3pp*	95.0%	*-5.7pp*
Net financial debt (NFD)	-11,342	-24,568	*-116.6%*	-16,441	*33.1%*
NFD/EBITDA	-0.9x	-1.2x	*-0.3x*	-0.6x	*0.5x*
Funds from operations (FFO)	10,434	17,536	*68.1%*	17,720	*1.0%*
FFO/NFD	-92.0%	-71.4%	*20.6pp*	-107.8%	*-36.4pp*
Cash & equivalents	74,553	85,984	*15.3%*	92,135	*7.2%*

Rating sensitivity

Factors that could (individually or collectively) impact the company’s rating:

Positive factors (↑).

- Exceeding the profitability targets of the five-year Strategic Plan, which would mean achieving an EBITDA margin above 10.3% on a steady basis until 2026, while maintaining its NFD/EBITDA ratio at 0x or below.
- Improvement of ESG factors, which could increase the overall score and positively influence the final rating.

Negative factors (↓).

- Substantial deviation from the company's strategic objectives, which would mean not achieving either the projected sales figures or profitability levels, as well as a significant increase in its NFD/EBITDA ratio (above 1.5x), approaching the financial covenant set within the 2019 bond issuance.

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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