



ISSUER RATING

Long-term Rating

Outlook: Stable

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## Rating Action & Rationale

- EthiFinance Ratings affirms Greenvolt Energias Renováveis, S.A.'s long-term rating at "BBB-", maintaining the outlook at Stable.
- This rating is supported by: i) solid growth drivers for the renewable energy industry in the coming years; ii) strong visibility of cash flows and high profitability levels; and iii) Greenvolt's leading position in the biomass and distributed generation sectors in Portugal, while also being a medium-sized player in the development of wind, solar PV and storage projects in Europe.
- This rating is mainly constrained by: i) Greenvolt's current limited level of diversification at a revenue level by geography and business line as well as its small scale; and ii) its moderate-to-high level of indebtedness, with the EthiFinance Ratings net leverage ratio reaching 4.4x at YE22. Nonetheless, this is in our view in line with Greenvolt's current expansionary phase as well as with the capital-intensive nature of its activities.
- Since the company operates in two distinct segments (renewable energy production and development of wind/solar PV/storage projects) our rating takes into account the specificities of both. As such, we have retained a weighted average of each activity based on their projected EBITDA.
- In line with our methodology, the renewable energy industry has low ESG risks (heatmap score between 0 and 2), which impacts positively on our industry assessment. Our assessment of the company's ESG policy is neutral (company ESG score between 1 and 4), resulting in our rating being positively impacted by industry-related ESG considerations.

## Issuer Description

Greenvolt Energias Renováveis, S.A. (hereafter "Greenvolt", "the group", or "the company") is a Portuguese company, listed on Euronext Lisbon (market cap of €830M at the close on October 18th, 2023), which operates in the renewable energy sector. It is the leader in Portugal (EthiFinance Ratings sovereign rating of 'BBB+' with a Stable outlook) in terms of installed injection capacity related to sustainable biomass for energy production. It operates with three divisions: biomass and structure (74.8% of FY22 revenues, after eliminations), wind, solar PV and storage utility scale projects (10.8%), and distributed generation (14.4%). At end-June 2023, Greenvolt operated five biomass power plants in Portugal and one in the UK, with an installed injection capacity of 142.1 MW (100.5 MW in Portugal and 41.6 MW in the UK). In the utility scale segment, Greenvolt is a medium-sized player, with a presence in 17 countries and a pipeline of 7.7 GW at end-June 2023, of which 2.9 GW is expected to reach at least "ready to build" (RtB) phase by end-2023 and 4.1 GW by end-2024. In distributed generation, the group is currently present in 5 countries, with a strong market position in the commercial & industrial segment in Portugal, particularly for large and medium corporates.

For 2022, Greenvolt reported revenues of €259.7M (+83.6% yoy), and EBITDA of €92.0M (+62.7%), equivalent to a 35.4% EBITDA margin. The consolidated EthiFinance Ratings NFD/EBITDA ratio was 4.4x at end-2022. Over the last twelve months to end-June 2023, the group generated revenues of €285.5m, and EBITDA of €93.5m (32.7% EBITDA margin).

## Fundamentals

### Business Profile

#### Industry Risk Assessment

- Strong industry growth in the coming years supported by sustainable long-term drivers.

The renewable energy industry has experienced a boost during the last decade, evolving from a state-subsidized sector to a market-driven one, as a result of sharp reductions of installation costs, together with efficiency increases and favourable

regulation. In addition, after Russia's invasion of Ukraine in 2022 and the subsequent disruption of global energy markets, energy independence in Europe became a top priority. In order to address this, the European Commission presented the "RePowerEU" plan in May 2022, which aims to reduce dependence on fossil fuels and accelerate the contribution of renewables in the European energy mix (45% target by 2030), increasing energy efficiency and diversifying the supply of energy sources. This plan also aims to speed up and simplify the licensing process of renewable energy projects, a major barrier to energy transition.

Therefore, strong growth is expected in the years ahead for the renewables sector, driven by favourable regulatory trends, further cost efficiency improvements, and steadily growing global demand for low CO2 electricity.

- **Strong visibility of cash flows and high barriers to entry lead to sustainable and high profitability levels.**

The company operates its biomass power plants under a guaranteed remuneration scheme in Portugal (c. 71% of biomass injection capacity at end-June 2023), while in the United Kingdom (c. 29%) revenues have both a fixed and variable component (depends on evolution of market prices). The group also intends to contract all the electricity generated in each of the projects to be kept on balance sheet through either stable long-term power purchase agreements (PPAs) or contracts for differences (CFDs). In addition, barriers to entry are high in terms of projects approval, CapEx requirements, proximity to supply, and extensive know-how needed.

These factors will probably allow Greenvolt's high profitability levels to be sustained over time, with an EBITDA margin of 35-40% to be reached over the medium-term. We note that profitability margins of biomass power plants are lower compared to wind/solar PV power plants, for the main reason that the former require raw materials (residual forest or urban biomass) to operate while the latter have very low operational costs as they rely solely on wind/solar conditions. However, the latter also come with higher volatility as wind/solar resources fluctuate considerably throughout the year and have an impact on electricity production.

### Company's Competitive Positioning

- **Leading position in the biomass and distributed generation sectors in Portugal and medium-sized player in the development of utility scale energy projects in Europe.**

Greenvolt puts the decarbonization of economies at the core of its strategic approach, standing as the current leader in the Portuguese sector for electricity production from sustainable biomass. With an accumulated experience in this segment of close to 20 years, Greenvolt has proven technical skills in the design, engineering, operation, and maintenance of biomass power plants. Besides biomass, Greenvolt is a medium-sized player in the development of utility scale solar PV, wind and storage projects, operating in 17 European countries, with a pipeline 7.7 GW at end-June 2023, of which 2.9 GW is expected to reach at least "ready to build" (RtB) phase by end-2023 and 4.1 GW by end-2024. In what concerns distributed generation, Greenvolt mainly focuses on self-consumption for the B2B segment, a fragmented market in which it believes it has greater competitive advantages, and is currently present in 5 countries, with a strong market position in the commercial & industrial segment in Portugal, particularly for large and medium corporates.

The company's aim is to add value through the implementation of its recognized technical skills, while developing renewable projects to retain 20-30% of the assets in operation on Greenvolt's balance sheet and sell the remainder, either at the RtB stage or at the commercial operation date (COD).

We also note that Greenvolt's biomass production is carried out under regulatory regimes (which protect its levels of remuneration), considering the feed-in tariffs granted in Portugal and the UK, despite the variable component in the latter. Thus, in line with our methodology and our scale assessment, we have considered Greenvolt operates in a local sector.

- **Currently a limited diversification and small competitive scale mitigated by ambitious growth and diversification strategy.**

Our rating is constrained by Greenvolt's current low diversification in terms of revenue generation both by geography (energy production is mainly concentrated in Portugal) and business line, revenues mainly come from the sustainable biomass segment as the other two business lines are still in their ramp-up stage. Hence the company's revenues are mainly derived from the sale of electricity to the public grid, amounting to €195.2M in FY22 (74.8% of revenues) and €79.7m in 1H23 (56.0% of revenues). In addition, despite considering that Greenvolt operates in a local sector (as explained above), the record revenues generated in FY22 (€259.7m) still place the company in the lower end of the sector range in terms of size.

Nonetheless, Greenvolt is currently developing an ambitious growth strategy based on two areas in addition to biomass: solar PV, wind and storage projects (the utility scale segment) and distributed energy generation, the latter being a clear bet for the future. As such, the weight of utility scale and distributed generation segments increased in 1H23, with the two segments representing 43% of revenues in 1H23 compared to 25% in FY22. At end-June 2023, its projected utility scale pipeline until 2026 reached 7.7 GW, divided into solar PV, onshore wind, and energy storage projects while in distributed generation, the group had a backlog of 165.7 MW (of which 106.5 MW EPC and 59.2 MW PPA), with 110 MW of signed capacity already under construction.

According to the company's business plan, from 2023 onward, the development of wind/solar PV projects together with distributed generation will represent over 30% of Greenvolt's total EBITDA.

### Governance

- **Recently modified shareholder structure and a specialised management team.**

The company was established in 2002 with a firm commitment to sustainability and the circular economy. In July 2018, Altri SGPS, S.A., which is listed on the Euronext Lisbon stock market, acquired the stake held by the EDP Group, becoming the holder of 100% of the company's share capital and voting rights. In July 2021, all the shares representing Greenvolt's share capital were admitted for trading on Euronext Lisbon, as a result of a successful initial public offering. Post-IPO, Altri Group owned 58.72% of Greenvolt and its subsidiaries. At the 2022 annual general meeting Altri's board of directors proposed the distribution to Altri's shareholders of a maximum number of shares corresponding to 52,523,229 shares of Greenvolt. Consequently, at end-2022, Altri held 16.64% of Greenvolt's share capital, of which 3.17% directly and 13.47% through its 100% indirectly owned subsidiary CELBI S.A.

However, in May 2023, Altri announced an additional distribution of 23,154,783 shares of Greenvolt to its shareholders and the sale of the remaining shares it held (1.34% of the share capital) during the same month. After the conclusion of these operations, Altri exited completely Greenvolt's capital and the largest shareholder became Promendo Investimentos, with a 12.59% stake, followed by Actium Capital and Caderno Azul, with 12.14% and 11.21% stakes, respectively.

Regarding the management team, the company counts with professionals with extensive experience in the renewable energy sector, such as its CEO Joao Manso Neto. He was previously with Energias de Portugal (EDP) for almost 20 years, serving as CEO and chairman of the board of directors. Regarding Greenvolt's board of directors, the presence of independent members is rather low (c.36% in 2022) and leaves room for further improvement.

### Financial Profile

- **Sustained increase in sales and EBITDA in 2022, boosted by acquisitions**

Greenvolt reported strong results for FY22 with turnover of €259.7M and EBITDA of €92.0M, representing yoy increases of 83.6% and 62.7%, respectively. In addition to organic growth, these increases were supported by the full-year consolidation of the operations of Tilbury, Greenvolt Next Portugal, Perfecta Energía, and Greenvolt Power. Greenvolt's EBITDA margin dropped slightly by 4.6ppps yoy to 35.4% in 2022 (vs 40% in 2021), negatively impacted by higher structural costs, particularly personnel expenses as the group expanded into new geographies.

In 1H23, the market environment has been marked by lower electricity prices, particularly in the UK, when compared to the record levels in 2022 (although still higher than prices observed until mid-2021). Despite of this, in 1H23, Greenvolt's revenues increased by 23% yoy to €139.1M and its EBITDA by 4% yoy to €38.3M, as the lower results in the biomass segment were entirely offset by the very good performance of the utility scale segment, which benefited from the contribution of its operating assets (169 MW at end-June 2023) and from its asset rotation transactions. Going forward, the top-line and EBITDA numbers will continue to increase as Greenvolt pursues its growth plan, which includes additional project acquisitions. Between 2021 and 2026, the company forecasts a sixfold increase in EBITDA (€56.5M in 2021) and a 12x net profit (€12.3m in 2021) increase, representing CAGRs of 43% and 63%, respectively.

For 2022, the company reported funds from operations (FFO) of €55.4M, 63.3% higher than the €33.9M in 2021. This was mainly driven by the rise in EBITDA (again, +62.7% yoy), which offset the increase in both interest and taxes paid.

Greenvolt's cash generation reflects the expansionary phase in which the company is currently immersed and is therefore characterised by significant cash outflows for investment (€220.2M in FY22 and €235.4M in FY21). As a consequence, free cash flow generation (excluding cash flow generated by financing activities) was highly negative at €198.4M and €207.2M in 2022 and 2021, respectively. To fund its expansion plan, the company successfully executed its IPO in 2021, raising around €200M in equity, and performing an additional €100m capital increase in 2022. In addition, the group issued a €150M green bond in 2022 for retail investors as well as a €200M convertible bond in 1H23, entirely subscribed by KKR.

- **Moderate-to-high level of indebtedness, current and expected, in line with the capital-intensive nature of its activities.**

The company's corporate strategy for 2022 and the upcoming years entails an increase in its financial leverage, with EthiFinance Ratings' NFD/EBITDA ratio (including lease liabilities) reaching 4.4x at end-2022 (compared to 3.7x at end-2021). Our rating and outlook factor in the company's expectation that the consolidated leverage will not exceed 5.5x over the medium-term. The non-recourse debt Greenvolt held in 2022 amounted to €188.9M, mainly concerning the €120M (c.€135M) project finance loan contracted to finance the Tilbury acquisition as well as a €65M loan through its subsidiaries V-Ridium Solar 45 and LJG Green Source Energy Alpha under a project finance type regime. Therefore, around 74% of Greenvolt's gross financial debt has recourse to the parent company, with the remaining 26% comprised of project finance type debt.

Greenvolt's goal is to be able to implement its growth plan with the funds obtained from asset sales. The company also intends to keep a specific percentage of these assets on its balance sheet (20% to 30% of the developed and operational projects) to bring the group stable cash-flows and strengthen its ability to develop assets. Consequently, we expect the NFD/EBITDA ratio levels will remain high until 2026 as a consequence of the higher expected indebtedness.

### Solvency

- **Adequate level of financial autonomy.**

As of end-2022, Greenvolt's financing structure shows an adequate level of financial autonomy, with the group's equity position (€457M) representing 59% of its total financial debt (€790M), a 15.9ppps drop compared to end-2021. This can be explained by the 69% yoy increase in total debt, necessary to help the company deploy its expansion plan, partially offset by an additional capital increase.

This situation with respect to the company's equity has been reinforced with the capital increase of €100M in June 2022, reflecting the shareholders' commitment to Greenvolt's development and the company's strategy of not solely relying on new indebtedness for growth. In addition, in 1Q23, Greenvolt issued a €200m convertible bond entirely subscribed by Kohlberg Kravis Roberts & Co. L.P. (KKR)'s global infrastructure fund, with a 4.75% coupon and a maturity of 7 years (conversion possible at the end of the third year). The majority of the shareholders voted favourably to these terms in addition to the appointment of an additional non-executive to the company's management.

### Liquidity

- **Sufficient liquidity in the short-term through a business model based on asset rotation, access to external financing, and capital increases.**

As at end-2022, Greenvolt had a strong liquidity position, with a cash balance of €381M as well as €221.3M available under its renewable commercial paper programs (€121.3M and €100M with and without placement guarantee, respectively). The company's target over the medium-term is to retain a sufficient liquidity position to face its demanding CapEx requirements. In the current context of significant investor appetite for renewable energy projects, Greenvolt expects that the increasing maturity of its portfolio will enable it to implement its growth strategy and maximize funding through asset rotation.

That said, it will be crucial to track closely how well Greenvolt is able to execute its asset rotation strategy, while also aiming to keep between 20% and 30% of the assets currently under development on its balance sheet.

### Modifiers

- Not applicable

## Summary of Financial Information

Main Financial Figures. Thousands of €.				
	2020	2021	2022	22vs21
Adjusted turnover (1)	90,100	141,507	259,742	83.6%
EBITDA (2)	33,021	56,541	91,964	62.7%
EBITDA Margin	36.6%	40.0%	35.4%	-4.6pp
EBIT	27,208	30,561	53,561	79.4%
EBIT Margin	30.2%	21.6%	20.6%	-0.5pp
EBT	25,417	22,214	32,606	51.6%
Total Assets	196,420	1,004,957	1,530,257	51.8%
Equity	67,311	350,366	465,766	33.1%
Total Financial Debt (3)	96,137	467,486	790,066	69.0%
Net Financial Debt (3)	82,037	208,729	409,073	96.0%
Equity/TFD	70.0%	74.9%	59.0%	-15.9pp
NFD/EBITDA	2.5x	3.7x	4.4x	0.8x
Funds From Operations	17,224	33,897	55,356	63.3%
FFO/NFD	21.0%	16.2%	13.5%	-2.7pp
EBITDA/Interest	20.9x	8.4x	4.7x	-3.7x

(1) Including annual sales, investment grants and other income.

(2) EBITDA on a consolidated level, including transaction costs.

(3) Excluding derivatives and shareholder loans but including lease liabilities.

## Rating Sensitivity

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

- **Positive factors (↑).**

The effective fulfilment of its targeted sales of renewable assets set for the short and medium-term, under an increase in profitability ratios and/or a reduction of debt ratios, would be a potential factor for a long-term rating improvement to BBB. For the same business risk profile, a decrease in the consolidated NFD/EBITDA ratio below 3.0x for a sustained period of time could entail a long-term rating upgrade to BBB. We view this as unlikely at the moment, given the company's growth strategy.

- **Negative factors (↓).**

A material deviation from earnings expectations that would result in lower cash generation, or a delay in asset sales that would prevent the company from reducing its leverage substantially to levels more compatible with a 'BBB-' rating could entail a downgrade to BB+. For the same business risk profile, an increase in the consolidated NFD/EBITDA ratio above 5.5x for a sustained period of time could entail a long-term rating downgrade to BB+.

## Credit Rating

Credit Rating (1)	
<b>Business Risk Profile</b>	<b>BBB+</b>
<i>Industry Risk Assessment</i>	AA-
<i>Industry ESG Assessment (2)</i>	Positive
<i>Competitive positioning</i>	BB+
<i>Governance</i>	BBB-
<b>Financial Risk Profile</b>	<b>BB</b>
<i>Cash flow and leverage</i>	BB-
<i>Solvency</i>	A-
<i>Company's ESG Assessment</i>	Neutral
<b><u>Anchor Rating</u></b>	<b>BBB-</b>
<i>Modifiers</i>	-
<b><u>Rating</u></b>	<b>BBB-</b>

(1) All scores are the result of a weighted average based on the projected EBITDA for Greenvolt's two main activities (renewable energy production and development of wind/solar PV/storage projects).

(2) Positive impact of industry ESG assessment on business risk profile.

## 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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