GENERAL DE ALQUILER DE MAQUINARIA SOCIEDAD ANONIMA
A83443556

BB

ISSUER RATING

Long-term Rating

Outlook: Positive

First rating date: 06/04/2021
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Rating action and rationale

- EthiFinance Ratings reaffirms the rating of General de Alquiler de Maquinaria S.A (GAM) at "BB", but changes its outlook from Stable to Positive.
- The rating is based on the solid business model with consolidated competitive advantages, adequate revenue diversification, and a strong position in a mature industry with favourable fundamentals (high barriers to entry and good growth prospects). The rating is also reinforced by the background and ample financial capacity of the majority shareholder.
- The rating is constrained by a financial structure marked by tight financial autonomy (equity/adjusted TFD <40%) affected by the increase in adjusted total financial debt (+44.0% yoy) resulting from precautionary purchase of machinery and spare parts in order to mitigate the effect of the crisis on supply chains and inflationary pressures, as well as to accelerate inorganic growth through the purchase of strategic companies. However, these moves are expected to materialise in an improvement in the company's results and in its capitalisation, which would strength financial ratios and could lead to an improvement in the rating. Hence the upgrade to the outlook.
- In line with our methodology, the capital goods sector presents a medium-to-high ESG risk (sector heatmap between 3.5 and 3.9) given its impact on the environment. This assessment results in a sector score that is downgraded by one notch. The company's ESG assessment is considered as adequate (ESG score between 1 and 4), which has a neutral effect on the rating.

Issuer description

GAM, based in the Asturias region in Spain, is specialised in the integral rental service of machinery for lifting, handling, and energy needs. It also offers maintenance services, training, purchase and sale, distribution of different brands of machinery, as well as other auxiliary services. GAM, listed since 2006, is positioned as a reference company in its domestic market (market capitalisation reached €132.54m as of 29/03/2023). For 2022, GAM reported turnover of €223.2m (+32.7% yoy) with recurring EBITDA of €58.3m (EBITDA margin of 26.1%), giving an adjusted NFD/EBITDA ratio of 4.0x.

Fundamentals

Business profile

Sector analysis

- **The machinery rental sector is highly fragmented, has high barriers to entry (in order to be competitive), and tends to develop in line with macroeconomic trends** In Spain, the machinery rental industry is characterised by a high number of *players* (>1,250 companies). It is estimated that more than 70% of the sector's income is generated by small companies with less than 50 employees, with family shareholders, with limited-service capacity, and specialised in a specific category of machinery. The low concentration of the market means that prices can easily be affected by smaller companies, as they are very aggressive in pricing. Despite this, a few larger business groups dominate the industry with their wide range of products and services, where competitive barriers (*know-how*, initial investment, customer loyalty) are important. The machinery rental sector, through the offer of outsourcing of services, provides different target industries with advantages and flexibility in terms of fixed cost savings, greater efficiency, and adaptation to demand. However, the evolution of the sector is conditioned by the macroeconomic environment and in particular the development of the construction sector (the main target market).
- **The sector has a medium-to-high ESG exposure (*sector heatmap score between 3.5 and 3.9*).** The capital goods sector is characterised by the use of a significant amount of raw materials, which generates environmental impacts from extraction, transport, etc. In addition, the supply of raw materials is increasingly problematic, given the geopolitical uncertainties present. The sector is also affected by human

rights issues. Consequently, ESG exposure is considered medium-to-high, resulting in a sectoral score that is downgraded by one notch.

Competitive positioning

- **Strong competitive positioning in the Iberian market (Spain and Portugal) with limited international presence.** GAM is positioned as one of the leading players in the industry in Spain, based on its strong experience and know-how, and a large, diverse, high-quality machinery fleet of a favourable average age. GAM enjoys a competitive position in the Iberian market, but its international presence is limited.

- **Business concentrated in Spain and only in the process of greater operational diversification.** GAM's operations are highly concentrated in geographical terms. The company generates 76.0% of its sales and 66.2% of its EBITDA in Spain. At the operating level, GAM's business continues to show a progressively lower dependence on machinery rental activity (56.4% of revenues in 2022 vs. 58.8% in 2021), focusing on the growth of its long-term services, as well as those that do not require high capex, an aspect that strengthens the recurrence and solidity of the generation of results. GAM is also pursuing growth via M&A, taking advantage of the sector trend towards consolidation. This has accelerated diversification and the establishment of greater synergies with internationally recognised brands. In addition, the group is highly diversified in terms of markets and customers, with no excessive dependence on any one industry, even the construction sector (11% of total sales in 2022), or in terms of customers (top 20 represented 14.8% of total sales in 2022). These factors do mitigate the risk of high dependence on the domestic market, reducing the risk of concentration, which is particularly significant in a type of activity closely linked to the economic cycle. The diversification has enabled the group to show resilience at the business level despite the challenging economic environment of recent years.

Corporate governance

- **Majority shareholder with an industrial background and ample financial capacity.** Francisco J. Riberas Mera is the group's main shareholder, holding a de facto majority stake (his stake is 43.3%, with an additional 15% equally distributed among his three sons). The main shareholder's long-term nature, reflected in the capital increases between 2019 and 2020, together with its excellent financial capacity (majority stakes in Gestamp, Gonvarri and a significant stake in CIE Automotive) to support the group in difficult situations, are seen as positive factors in our valuation of the company.

- **ESG policy.** Although GAM has a neutral ESG exposure (score of 2.65) and has a detailed sustainability plan that encompasses various initiatives in the process of implementation, we consider that ESG-related risks could increase and are not yet fully taken into account, which could moderately affect revenues, earnings, cash flows, asset value, and/or reputation. However, the impact would remain manageable and is unlikely to be problematic in the short-to-medium term (up to 5 years) at least.

Financial profile

Cash flow and indebtedness.

- **Despite the unfavourable economic environment, GAM has shown resilience and recovery from the impact of the pandemic.** Although 2022 continued to be marked by the latent effects of Covid-19, to which the conflict between Ukraine and Russia and the related energy crisis have been added, GAM has shown extraordinary resilience. In 2022 turnover reached €223.2m, +32.7% vs 2021 (+56.5% vs 2019), with growth in all its markets and business lines. The group has benefited from greater diversification, increasing recurring business (long-term and without capex). As a result, organic revenues growth was 23% yoy. In addition, the group completed a series of acquisitions in 2022 (Grupo Dynamo Hispaman S.L, Intercarretillas S.L and Interplataformas S.L) which contributed favourably to revenues (+10% inorganic growth). GAM generated recurring EBITDA of €58.3m for 2022 (2021: €44.2m) with EBITDA margin stable at 26.1% (2021: 26.3%). For the year GAM achieved positive EBIT of €16.7m (+51.1% yoy) after high industry-specific depreciation and amortization expenses (€41.2m). EBT improved to €7.0m (+100.3% yoy). GAM's resilience in a challenging environment stems from the organic (diversification) and inorganic (acquisitions) growth strategies implemented in recent years.

- **Moderately high debt.** As of end-2022, GAM recorded an improvement in its adjusted net financial debt-to-recurrent EBITDA ratio to 4.0x (vs. 4.3x at end-2021), reflecting a stronger increase in profitability (+31.9% yoy) versus net financial debt (+24.1% yoy). Although the position has improved, we consider that the company's capacity to meet its financial obligations with its operating income is still only moderate. Going forward, GAM expects to keep its leverage ratio under control, reducing it progressively over the years (forecast at 3.2x in 2023). Its debt levels, despite being slightly high, are characteristic of the industry due to the significant investment required. In our view, GAM is not likely to have problems meeting its payment commitments, especially given its favourable situation in terms of volume and availability of machinery and spare parts for its customers. This assessment is reinforced by an improved interest coverage, standing at 6.3x at the end of 2022 (+0.6x yoy).

Solvency

- **Adjusted financial autonomy.** GAM's financing structure is characterised by a weak level of financial autonomy (ratio of equity-to-adjusted total financial debt), which has deteriorated to 33.4% at the end of 2022 (8.5pps below the previous year), affected by the increase in adjusted total financial debt to €292.2m (+44.0% yoy) versus slower growth in equity to €97.5m (+14.9% yoy). This deterioration, evidenced in the last two years, is tempered by the cyclical nature of the increase in financial debt, as the company has decided to bring forward the purchase of machinery and spare parts in order to mitigate the effect of the crisis on supply chains and rises in prices, as well as to accelerate inorganic growth through the purchase of strategic companies. We also note that the increase in debt in 2022 is mainly due to the financing obtained through the EIB (completed at the end of the year), as the corresponding investments have not been completed, with a balance available at the end of the year. In the coming years it is expected that the investment strategies will positively impact the company's results and its capitalisation, which would result in a reinforcement of its financial autonomy.

Liquidity

- **Adequate liquidity supported by recurrent operating cash flow generation and a machinery pool of low average age.** The group generates a decent level of operating cash coupled with adequate working capital management. It is also a business with significant investment needs to maintain a fleet of equipment of adequate quality. However, we believe that the group, which has a fleet of equipment with a favourable average age (8 years), could limit its capex levels in the event of occasional liquidity needs, as the durability of this type of machinery is longer. Additionally, the company could reduce growth capex linked to M&A transactions, which would automatically increase its free cash flow. Considering the recurrent generation of operating cash (forecast FFO of €65.2m in 2023), available cash (€57.5m in 2022) and undrawn credit lines at the end of December 2022 (€2.1m in credit lines + €10m for having the financing line with the main shareholder), it is determined that the group has adequate liquidity to cover financial obligations in the short term.

Modifiers

Controversies

- **The group does not have any definable controversies.**

Country risk

- **It has not been determined that there is a conditioning country risk as most of the business and operations are concentrated in the Iberian market.**

Main financial figures

Main financial aggregates. Thousands of euros.	2020	2021	2022	22vs21
Revenues	133.635	168.262	223.239	32,7%
Recurring EBITDA	38.216	44.221	58.339	31,9%
Recurring EBITDA margin	28,6%	26,3%	26,1%	-0.1pp
EBIT	7.834	11.021	16.653	51,1%
EBIT margin	5,9%	6,5%	7,5%	0.9pp
EBT	845	3.519	7.049	100,3%
Total Assets	273.956	339.209	449.522	32,5%
Equity	82.127	84.923	97.545	14,9%
Adjusted Total Financial Debt[1]	160.629	202.894	292.179	44,0%
Adjusted Net Financial Debt[1]	139.656	189.014	234.638	24,1%
Equity/ Adjusted TFD	51,1%	41,9%	33,4%	-8.5pp
Adjusted NFD/Recurring EBITDA	3,7x	4,3x	4,0x	-0,3x
FFO	34.955	44.653	54.490	22,0%
Adjusted FFO/NFD	25,0%	23,6%	23,2%	-0.4pp
Recurring EBITDA/Interest	5,4x	5,7x	6,3x	0,6x

[1]*Debt adjusted by EthiFinance Ratings, including non-recourse factoring of €8.5m (2022), €1.1m (2021) and €1.5m (2020). The net debt calculated by the company itself amounted to €180.6m at the end of 2022 (highlighting the exclusion of debt for: IFRS 16 operating leases, contracts with repurchase agreements, fixed asset suppliers, deferred payments for company acquisitions, etc.), with a NFD/EBITDA ratio of 3.1x, complying with the ratios established based on the definitions of the different financing contracts in force at 31 December 2022.*

Rating sensivity

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

- **Positive factors (↑).**
  Favourable economic environment resulting in a positive evolution of the sector and higher business volume of the group. Improvement in debt levels (adjusted NFD/EBITDA below 3.5x on average and FFO/adjusted NFD above 30%). Increased financial autonomy (equity/TFD above 45%).

- **Negative factors (↓).**
  Worsening economic environment (pressure on margins and fall in recurrent EBITDA). Deterioration of ratios (adjusted NFD/recurring EBITDA above 5x on average and FFO/adjusted NFD below 20%) and equity/adjusted TFD (below 25%).

Credit rating

Credit Rating	
Business Profile	**BB+**
Sectoral Analysis	*BBB-*
Competitive Positioning	*BB+*
Governance	*BBB-*
ESG Company	**Neutral**
Financial Profile	**BB-**
Cash flow and debt	*BB*
Solvency	*B*
Anchor Rating	**BB**
Modifiers	n.a
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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