BB+

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 27/06/2022
Review date: 28/07/2023

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Rating Action and Rationale

- EthiFinance Ratings affirms the rating of AENOR Internacional, S.A. at "BB+", and maintain the Stable Outlook.
- The rating is based on a favourable financial profile, characterised by low financial leverage and adequate debt and interest coverage levels (DFN/EBITDA: 2.1x and EBITDA/Interest: 19.3x). In addition, it has sustainable revenue growth ($CAGR_{18-22}$ of 27.5%), reaching a record level for the group in 2022 (€96,2m), and a favourable liquidity position. We positively assess the volume of cash, the ability to generate funds from its own activity, and the visibility provided by its backlog of firm contracts.
- However, its credit quality is limited by low operating margins (EBIT margin: 1.4% and 2.2% in 2022 and 2021 respectively), as well as by its more limited business profile. It has a high concentration in the certification segment and smaller size than other players in the sector. This affects its operating profitability margins, and increases its exposure to a more limited market. In any case, at EthiFinance Ratings we believe that AENOR currently has an adequate credit profile and capacity to meet its payment obligations at the present time. We do not foresee any changes in the rating assigned over the next twelve months.
- In line with our methodology, the "Commercial & Professional Services" sector (Testing, Inspection & Certification segment) presents a medium ESG risk (sector heatmap between 3 and 3.5) due to its impact on the environment. This assessment results in a sector analysis that is not affected by this factor. With regard to the company's ESG analysis, the Group's policies are considered adequate (ESG score between 1 and 4), which also has a neutral impact on the rating.

Issuer Description

AENOR Internacional, S.A. is a player specialising in testing, inspection and certification services for companies and public bodies, with a presence in more than 90 countries in Europe, Latin America and Africa. In 2022, the company achieved total revenues and EBITDA of €96.2m and €8.7m respectively (9.4% margin), with a DFN/EBITDA of 2.1x (1.3x in 2021).

Fundamentals

Business Risk Profile

Industry Risk Assessment

- **Mature sector, with high concentration in several benchmark groups, some barriers to entry, a certain cyclical component in its demand, and moderate growth prospects.** The Commercial & Professional Services sector (Testing, Inspection & Certification segment) is characterised by its mature nature, high degree of rivalry and concentration, with the five main companies representing a combined market share of 43.3% in Spain, in 2022. In addition, the certification segment, where AENOR has its primary activity, is much more concentrated, with the top 10 companies having a combined market share of 82%. The main barrier to entry is legal, and is the requirement for certification companies to be accredited in order to operate. Certification is also increasingly required by market players, both in the B2B and B2C segments, as a means of accrediting quality to suppliers or end users. The non-essential nature and typology of these services means that their growth prospects are moderate. They are exposed to the economic cycle, which could determine their estimated evolution in an unfavourable growth scenario. These sectors develop a variety of activities with varying levels of profitability, but the mix of services offered typically results in margins (sector) of between 5% and 11% at EBIT level.

- **The sector`s ESG exposure is medium**. In general terms, the use of natural resources in the provision of services is limited, and the impact is mostly indirect. It should be noted that customer service, and the quality of services and benefits are important in this industry, as these are key issues that, together with price, can quickly affect reputation, sales and profitability.

Company's competitive positioning

- **A player of limited size in terms of turnover, though positioned as a leader in the certification segment.** Although AENOR is of medium size and has a small market share in the Testing, Inspection & Certification segment, it maintains its leading position in the certification segment. Its main activity is concentrated here, with an estimated market share of around 28%. In addition to its leadership position, it has notable competitive advantages, such as high brand recognition and a long track record. However, its operating margin is limited (EBIT margin: 1.4%; -0.8pp), and below that of its main competitors.

- **Large and recurring customer portfolio, low business diversification, and high concentration of turnover in Spain.** The group has a customer portfolio with high recurrence, and high capillarity (the top 10 customers represent 9.5% of its sales in 2022). It also has an adequate level of solvency, and a growing number of new customers. In addition, it has €131.1m of firm contracts to be executed between 2023 and 2024, which favours the visibility of future revenues. On the other hand, despite the inclusion of other business areas in its portfolio (training, inspection, laboratory, etc.), and positive development in these areas, the company`s diversification is limited. This is because 76% of its turnover is concentrated in the certification segment, where it has more than 500 certification solutions. In geographical diversification, despite AENOR's international presence in Latin America, Europe and China, the concentration of turnover in Spain is high (71.4% of turnover in 2022). This limits its position in relation to other major international players.

Governance

- **The Shareholding is concentrated in UNE, which has an experienced management team and a conservative financial policy.** AENOR is wholly owned by the Asociación Española de Normalización (UNE). They were the same entity until 2017, when a functional and legal separation took place due to regulatory requirements. Its shareholding is cosidered appropriate, as it is designated by the Ministry of Economy, Industry and Competitiveness as the only standardisation body in Spain before the European Commission. The management team is also characterised by extensive experience within the company, developing a prudent financial policy. The use of loans increased due to inorganic growth in 2022. However, it has a financial structure with adequate levels of coverage and a good capacity to repay obligations on maturity. This is with the generation of resources derived from its activity.
- **ESG Policy.** Based on the ESG data analysed, according to EthiFinance Ratings, AENOR has a neutral ESG exposure (score of 1.9). It has made firm commitments to gender equality, the work-life balance of all its employees, together with sustained work in innovation on solutions aimed at sustainability, such as the evolution of the recognised N Brand, towards sustainable N.

Financial Risk Profile

Cash-flow and leverage

- **Positive trend in terms of turnover, contributing to the growth in FFOs and EBITDA, albeit with lower operating results and margins.** In 2022, AENOR will continue its progressive recovery in terms of turnover (+9.1% in 2022 and +15.9% in 2021). EBITDA, meanwhile, reached €8.7m, giving the group a margin of 9.4% (+0.2pp). However, the results (EBIT: €1.3m and €18m in 2022 and 2021 respectively), as well as the EBIT margin (1.4%; -0.8pp) remain low, and are down from last year. Thus, despite the increase in business volume, AENOR reduced its operating margins due to the fact that it maintained prices for its entire portfolio. However, it saw an increase in the cost of contracted staff and in the prices of suppliers due to the effect of inflation. It should be noted that the results for the first half of 2023 show operating results with higher margins of around 4.2%.

- **Increase in financial debt in 2022, due to inorganic growth, but maintaining appropriate leverage ratios.** In view of the group's inorganic growth, the volume of net financial debt increased to €18.4m (€10m in 2021). During 2022, in order to repay the ICO loan maintained with Bankinter, and to finance the acquisition of the shares in Prysma alidad y medio ambiente S.A.U and its subsidiary Prysma consultoría y tecnología S.L.U, AENOR accessed the financial markets for the first time; by issuing promissory notes in the MARF for a total of €5.9m, and reduced its cash (€3.4m in 2022 and €5.0m in 2021). The DFN/EBITDA ratio stands at 2.1x, which is considered very adequate, although it deteriorates compared to 2021, when it was at optimal levels (DFN/EBITDA: 1.3x). It still has a very good interest coverage with its EBITDA, at 19.3x in 2022 (22.5x in 2021).

Solvency

- **Financial autonomy remains adequate, despite the increase in external financing requirements.** AENOR has maintained a financing structure characterised by adequate levels of financial autonomy. In 2022, despite the increase in indebtedness, the ratio between net equity and total debt remained at favourable levels (58.4%; 77.2% in 2021).

Liquidity

- **Despite the favourable level of liquidity, there are some short-term maturities, liquidity is therefore dependent on maintaining and improving operating cash flows.** In 2022 the volume of cash (€3.4m; €5m in 2021) and financial investments (€2.9m; €3.2m in 2021) were lower. However, the amount of liquid resources, together with the positive generation of operating cash, and the availability of working capital lines, favoured the company's liquidity fundamentals. On the other hand, although AENOR has an adequate capacity to meet its debt commitments, the maturities of less than a year is high (€13.3m), accounting for 53.8% of total financial debt. Given the revolving nature of short-term obligations (credit lines, loans with Bankinter, and the issue of promissory notes in the MARF), and the presence of firm contracts with customers for €131m to be executed between 2022-2023; we consider the repayment of debt maturities to be executable, but conditional on the generation of reasonable operating cash flows.

- **Modifiers**

ESG Factors

- **The group has no ongoing controversies.**

Country Risk

- **It has not been determined that there is a conditioning country risk as most of its operations are concentrated in Spain and Europe.**

Main financial and extra financial figures

Main financial igures. Thousands of €.	2020	2021	2022	22vs21
Turnover(1)	76,156	88,231	96,228	9.1%
EBITDA(2)	4,623	7,835	8,707	11.1%
EBITDA margin(2)	6.3%	9.2%	9.4%	0.2pp
EBIT	7	1,848	1,268	-31.4%
EBIT margin	0.0%	2.2%	1.4%	-0.8pp
EBT	-497	1,579	578	-63.4%
Total Assets	46,340	45,872	57,279	24.9%
Equity	13,105	14,062	14,463	2.9%
Total Financial Debt(2)	18,069	18,219	24,761	35.9%
Net Financial Debt(2)	10,612	9,965	18,416	84.8%
PN/NFD(2)	72.5%	77.2%	58.4%	-18.8pp
NFD/EBITDA(2)	2.3x	1.3x	2.1x	0.8x
Funds From Operations(2)	4,320	7,853	8,939	13.8%
FFO/NFD(2)	40.7%	78.8%	48.5%	-30.3pp
EBITDA/Interest(2)	13.5x	22.5x	19.3x	-3.3x

(1) Turnover includes other operating income (€2.5m in 2020, €3.1m in 2021 and €3.3m in 2022); (2) Includes impact of adjustments associated with operating lease commitments per methodology. Unadjusted EBITDA (€3.0m in 2020, €1.7m in 2021 and €4.2m in 2022); unadjusted DFT (€10.8m in 2020, €9.6m in 2021 and €13.0m in 2022), DFN without adjustments (€2.7m in 2020, €1.4m in 2021 and €6.7m in 2022), FFO without adjustments (€1.5m in 2021, €4.3m in 2021 and €4.7m in 2022).

Rating Sensitivity

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

- **Positive factors (↑).**

  Increase operating margin (EBIT margin>4%). Increase in size, service portfolio and geographic diversification.

- **Negative factors (↓).**

  Deterioration of EBITDA margin (<6%) and EBIT margin (<1.3%). Worsening EBITDA/interest (<15x) and deterioration of debt ratios (DFN/EBITDA above 2x and FFO/DFN<40%) and PN/DFT (<50%).

Credit Rating

Credit Rating	
Business Profile	**BB-**
Sectoral Analysis	*BB*
ESG adjustment	*No*
Competitive Positioning	*B+*
Governance	*BB+*
Financial Profile	**A-**
Cash flow and debt	*A*
Solvency	*BB+*
ESG Company	**No**
Anchor Rating	**BB+**
Modifiers	No
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 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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