EthiFinance Ratings

SACYR SA

A28013811 CORPORATE

BBB- ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings affirms Sacyr's rating at BBB-, maintaining the Stable outlook.
- The rating assigned reflects the favourable fundamentals of the infrastructure sector (including the outstanding levels of profitability, low volatility due to long-term contracts and high barriers to entry), Sacyr's strong global competitive position within its sector (P3 leader), and our positive assessment of the company's governance (listed corporation with a diverse shareholder base strengthened by an experienced management team).
- The rating is constrained by its high financial leverage (NFD/EBITDA ~4.5x although NFD with recourse/EBITDA is below 1.0x, OCF/NFD ratio below 5% and an equity/TFD ratio below 25%). It also has a particularly limited interest coverage (EBITDA/interest ratio ~2.0x).
- It is worth highlighting that the volatility table for infrastructure and concessions businesses has been used to assess the company's financial profile, as the group operates in an infrastructure-based industry that has a proven track record of stability over long economic cycles and benefits from long-term contracts and significant barriers to entry, which protect it from competitors and limit cash flow volatility.
- Under our methodology, the construction and infrastructure sectors have a medium ESG risk (sector heatmap score between 3 and 3.4) given their impact on the environment. This assessment results in a sector score that is not affected by ESG factors. The company's ESG policy is considered favourable (company ESG score between 1 and 1.5), resulting in a half-notch upgrade of the financial risk profile.

Issuer Description

Sacyr S.A. and its subsidiaries operates as an infrastructure concessionaire and offers complementary services in the engineering and construction sectors. For FY23, Sacyr reported revenues of €4,609m (-7.4% YoY) with EBITDA of €1,523m (+6.7% YoY) resulting in an EBITDA margin of 33.0%. Its NFD/EBITDA ratio stood at 4.4x (0.8x considering only net financial debt with recourse over EBITDA with recourse adding dividends and distribution of assets funded with non-recourse debt). As of June 14, 2024, the company had a total market capitalization of €2,548m.

In assigning the rating, the financial projection, elaborated by EthiFinance Ratings considering the guidance provided by Sacyr for 2024-2026, have been taken into account. The company considers this information to be internal and confidential and therefore it has not been reflected in the report.

Fundamentals

Business Risk Profile

Industry Risk Assessment

- **Mature sector, moderately cyclical in terms of the operation of concessions, with greater cyclicality in the construction (tendering) of new concession projects as they depend on public investment.**

The concession business is characterised by high margins once the concession is put into operation, although depending on the concession it may be impacted by demand risk (Sacyr has no demand risk or mitigation mechanisms for 90% of its concessional assets). The infrastructure activity is at the core of the group and involves in many cases products/services of basic necessity (hospitals, water treatment plants, highways, etc.). Sector is characterised by high barriers to entry as it is a capital-intensive activity and requires a high level of know-how and experience to gain access to tenders. The construction sector, which has more limited profitability and volatility than the concession industry due to high competitiveness, were hit particularly hard by rising materials prices, supply delays, and labour shortages. However, the outlook for the construction and infrastructure sector remains positive, as infrastructure development is essential to improve competitiveness in an economy based on tourism and exports.

- **Sector with medium ESG risk.**

The construction and infrastructure sectors both have medium ESG risks under our methodology (sector heatmap score between 3 and 3.4). This results in a sector assessment which is not impacted by industry-related considerations. Regarding environmental factors, these industries have a medium impact on climate with limited direct emissions but scope 3 emissions that can be huge. The financial materiality is low because regulation is not applying to all the externalities to the industry, but this will probably change. The impact on biodiversity is medium despite land use which can be significant and problematic. However, the sector has a high impact on resources as a heavy user of raw materials (sand, etc), and on pollution by generating significant amounts of waste with limited recyclability as of today. The impact of the industry on the supply chain is limited as competition is strong and the financial dependence limited. In addition, consumers' daily lives are positively impacted by improvement of public works. Countries also benefit from the construction industry, which is a significant employer. However, it is highly unregulated, and some human rights and security issues exist.

Competitive Positioning

- **Strong global competitive position within its sector.**

Sacyr is one of the world's largest P3 (public-private partnerships) infrastructure developer. The group excels in project development and management, particularly in complex, large-scale projects globally. The group complements this activity with engineering, procurement and construction (EPC) operations and maintenance services for third parties. Sacyr's vertically integrated business model enhances efficiency and control throughout the project lifecycle, from conception to execution and operation. Sacyr's strategic focus on concessions underscores its ability to generate stable, long-term revenue streams, further supported by a diversified geographical presence. These strengths collectively reinforce Sacyr's competitive standing, enabling it to capitalize on opportunities and sustain growth in the dynamic infrastructure market. In FY23 it generated total sales of €4,609m, ending the year with 70 concession assets under management, representing 93% of total EBITDA. As of today the group continues to display a high contract inflow, with assets for a total value of €3.6bn distributed in 73 assets with a remaining asset life of 28 years, younger than majority in the sector. Sacyr maintains a wide international presence, albeit with a focus on Europe and Latam, with 76% of turnover and 89% of its backlog generated outside of Spain.

Shareholder Structure and Governance

- **Listed company with a diversified shareholder structure.**

Sacyr is listed on the Madrid Stock Exchange, where it is already consolidated in the top 5 infrastructure groups. Sacyr returned to the Ibex 35 in June 2022. Its shareholding structure includes both a considerable number of free-float shares and a group of significant shareholders (Disa Corporación Petrolifera S.A. with 14.6%, Prilou S.L 6.8%, Grupo Corporativo Fuertes S.L. 5.9%, Nerifan S.L. 5.1%, Beta Asociados S.L. 5.0%, Rubric Capital Management LP 4.4%). In May 2024, Sacyr carried out a capital increase of 9.6% for €222m. The Group carried out this operation in order to obtain additional resources to support its growth, which is focused on the concessions business.

- **An experienced management team focused on accelerating growth through a financial policy that preserves current fundamentals.**

Manuel Manrique Cecilia, also a shareholder and founder of the group, has held the position of chairman since 2011. The board of directors, made up of 14 directors, has 7 independent members. In 2023, Sacyr announced that the roles of CEO and chairman will be separated into two executive positions by 2025. The group's strategy involves rotating concession assets once the ramp-up process has concluded and the assets are operational, with limited potential for further valuation upside. This approach enables Sacyr to sustain construction activities by pursuing new and more attractive projects that involve lower demand risk.

After achieving most of the key milestones for its 2021-2025 business plan in 2022-2023, Sacyr has presented its new strategic plan for 2024-2027, with a focus on accelerating growth in the P3 sector. By 2027, Sacyr expects its EBITDA to reach €1,610m, with 95% of this generated by concessional assets. The company plans to maintain strict financial discipline. Recourse debt will be maintained below 1.0x EBITDA. By 2027, Sacyr aims to manage €30bn in investments, representing a 50% growth from the end of 2023.

- **Positive ESG Policy.**

Based on the ESG data analysed and once our new methodology has been applied, EthiFinance Ratings assesses Sacyr's ESG policies as positive (ESG score of the group between 1 and 1,5). As a result, the group's financial risk profile is upgraded by half a notch.

Financial Risk Profile

Sales and Profitability

- **Lower revenues in favour of higher profitability.**

In 2023, Sacyr's revenues totalled €4,609m, showing a 7.4% decrease from 2022, primarily due to lower contributions from the Engineering and Construction division, focused on enhancing profitability over volume. Sacyr continued executing major projects across multiple countries, including significant contributions from projects like the Pedemontana motorway (€501m) and the A3 project in Italy (€103m). The Concessions division achieved a turnover of €2,158m, with strong performance driven by ongoing projects and new commissions such as the Ruta 78 motorway in Chile and expansions in Colombia. EBITDA for 2023 increased by 6.7% to €1,523m (margin 33.0% vs 28.7%), benefiting from a strategic focus on profitability and effective risk management. Concessional projects contributed significantly to EBITDA, accounting for 93% of the total, characterized by stable revenues with no demand risk or mitigation mechanisms. Financial expenses rose to €804m (+49.8%), driven by several financial operations, rising interest rates, and early bond cancellations. As a result, Sacyr's profit before taxes of continued operations totalled €469m in 2023, a 5.2% decrease from 2022. During 1Q 2024, Sacyr reported an EBITDA of €339m (+15% YoY), highlighting its transformation into a P3-focused entity and achieving a record EBITDA margin of 34.1% (+590 bps compared to 1Q 2023). This underscores Sacyr's ability to consistently create value through its emphasis on P3 assets, which now contribute more than 90% of EBITDA.

Leverage and Coverage

- **A leveraged financial profile supported by non-recourse debt and recurring cash flow from concessions.**

Sacyr enjoys recurring operating profits (EBITDA reached €1,523m in FY23), increasing operating cash flows, and a long-term debt structure. Additionally, the sale of VSM y Sacyr Facilities helped reduce indebtedness. Net financial debt amounted to €6.7bn, resulting in a NFD/EBITDA ratio of 4.4x at year-end. This level of indebtedness is considered manageable, especially considering that only €269m is debt with recourse since most of the financing corresponds to debt linked to projects. Sacyr is committed to maintaining recourse debt below 1.0x. However, the increase in financial expenses limits its interest coverage ratio (EBITDA/interest 1.9x in 2023).

Cash Flow Analysis

- **Activity that demands high levels of investment.**

Operating cash flow will improve as the concessions are put into operation. As is usual in the infrastructure sector, the OCF (€173m) was insufficient to cover the investments required by its projects (FCF €-260m), requiring external financing, primarily non-recourse to the parent company, with projects themselves securing the funding. In 2023, the highlight was the €510m from the sale of subsidiaries Valoriza Servicios Medioambientales S.A. (€420m) and Sacyr Facilities S.A.(€90m), which allowed debt to be repaid.

Capitalisation

- **Low capitalization ratio.**

The company’s financial structure is constrained by low levels of capitalization (equity/TFD stood at 20.9% in FY23) and high investment requirements associated with awarded concessions in line with the infrastructure sector. Various past events had weakened the group's capitalization, but this has improved since selling its stake in Repsol, launching larger concession projects, and reducing debt through the sale of subsidiaries VSM and Sacyr Facilities. Aware of this weakness and in line with its strategic plan, the group undertook a €222m capital increase (9.6% of capital) in May 2024.

Liquidity

- **Favourable liquidity situation.**

Sacyr enjoys an appropriate liquidity position, with confidence in the outlook supported by its substantial cash reserves, positive operating cash flow, and its ability to access new financing to fund its high investments. The group has accumulated a strong cash position during the past few years, reaching €1.7bn in 2023. As part of the group's strategy, Sacyr carries out an asset rotation policy, which allows it to generate liquidity from divestment of mature assets. This is reinforced by a debt maturity schedule long-term in nature (60% of the company’s debt matures in 2028 and beyond).

Modifiers

Controversies

- **No controversies have been identified as of the date of issuance of this document that could affect the rating.**

Country Risk

- **There is no conditioning country risk.**

It has not been determined that there is a conditioning country risk given the diversification of the group’s business.

Main Financial Figures

Main financial figures. Millions of EUR	FY21	FY22*	FY23	23vs22
Turnover	4,675	4,977	4,609	-7.4%
EBITDA	921	1,428	1,523	6.7%
EBITDA Margin	19.7%	28.7%	33.0%	4.4pp
Adjusted EBITDA [1]	345	323	332	2.9%
EBIT	731	1,274	1,251	-1.8%
EBIT Margin	15.6%	25.6%	27.1%	1.5pp
EBT	34	495	469	-5.2%
Total Assets	14,977	17,555	17,309	-1.4%
Equity	959	1,358	1,750	28.8%
Total Financial Debt [2]	7,968	9,526	8,377	-12.1%
Net Financial Debt [2]	6,319	7,760	6,659	-14.2%
Net Financial Debt with recourse	681	546	269	-50.7%
Equity/TFD	12.0%	14.3%	20.9%	6.6pp
NFD[2]/EBITDA	6.9x	5.4x	4.4x	-1.1x
NFD with recourse/EBITDA with recourse [1]	2.0x	1.7x	0.8x	-0.9x
Operational Cash Flow	209	243	173	-28.5%
OCF/NFD [2]	2.6%	2.5%	2.6%	0.1pp
EBITDA/Interest	2.2x	2.7x	1.9x	-0.8x

* Restated
[1] Includes EBITDA with recourse + dividends and distribution of assets funding with non-recourse debt. [2] Includes lease obligations and balance drawn on non-recourse factoring, excludes derivatives.

Credit Rating

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

Rating Sensitivity

- **Long-term rating positive factors (↑)**

Significant reduction of the group's leverage levels (NFD/EBITDA <4.5x), improvement of the interest coverage ratio (EBITDA/interest > 3.5x), reinforcement of the company's solvency (equity/TFD > 25% on average).

- **Long-term rating negative factors (↓)**

Capitalization deterioration (equity/TFD below 15%), sustained NFD/EBITDA ratio above 5.5x, reduction of operating cash flow generation capacity, lower EBITDA/interest ratio (<2x on average).

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:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. 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. 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.