EthiFinance Ratings

SOLARIA ENERGIA Y MEDIO AMBIENTE SA
A83511501
CORPORATE RATING

BBB+

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 26/03/2019
Review date: 04/04/2023

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Rating Action & Rationale

- Ethifinance Ratings upgrades Solaria Energía y Medioambiente, S.A.'s rating from "BBB" to "BBB+", maintaining the outlook at Stable.
- The company's rating is underpinned by a satisfactory business profile, which is driven by an excellent sector rating that compensates for a still weak competitive positioning as a result of the diversification and competitive scale of its business. Similarly, the assessment of a satisfactory financial profile contributes to the improvement of the rating.
- According to our new methodology, ESG factors currently contribute to an improved business and financial profile.

Issuer description

Solaria Energía y Medioambiente, S.A. and its subsidiaries (hereinafter Solaria) has been involved in the solar photovoltaic sector since 2002, where it has positioned itself as a leading developer and producer in the Spanish market. Currently, its generation capacity continues to grow, reaching 2.8 GW in operation and under construction (96% Spain) with projects mostly subject to energy sales agreements (75% of sales).

In the last financial year, where the sale of energy to the market has continued to be favored by high pool prices and the addition of more capacity, Solaria obtained total revenues of €167.4M (+51%), maintaining a positive profitability situation (EBITDA margin of 88%), which allows it to adequately cover its financial expenses.

Fundamentals

Business Profile

Industry Risk Assesment

- **Sector with positive competitive fundamentals.**

Under our methodology, Solaria's sector rating is achieved based on its status as a utility company, which is adjusted on the basis of the characteristics of a 100% renewable energy producer with an advanced track record in the energy sector. Thus, positive fundamentals are recognised in the set of factors that place the industry rating at AA. Limited earnings volatility and a very favourable outlook for growth in demand for solar energy are elements enhancing the rating, as well as a positive situation regarding barriers to entry and profitability.

- **Sector properly aligned with ESG factors.**

In line with our new methodology, the renewable production sector is well aligned with ESG factors ('heatmap score' between 1 and 1.9). It is thus considered a sector that is already benefiting from ESG trends, or is structurally positioned to benefit from them. These trends are providing significant business opportunities and long-term visibility for the sector as a whole and result in a three notches upgrade in the sector's score (+1).

Company's competitive positioning

- **Adequate competitive positioning. Competitive advantages offset the concentration of activity and the competitive scale of the group.**

Solaria is listed on the Spanish Stock Exchange since 2007, and since 2020, it isa member of the largest capitalisation group of listed companies (IBEX-35). At this time of high volatility in the market, its market capitalisation exceeds €2,000m.

The company has been a specialist in solar PV for more than 20 years and is currently one of the leading companies in Spain, with 2.8 GW in operation and under construction and a 2025 target of 6.2 GW, adequately supported by its pipeline. In its trajectory it has passed through the entire value chain of the sector, including the manufacture of photovoltaic cells and modules, and since 2018 its strategy has been focused on the development, financing, construction, management and operation of its own plants. The largely integrated participation in the activities, including part of the integral construction with the design of the plants and the purchase of equipment, and their focus on large plants allows them to build at costs considered very competitive (460,000 €/MW in 2022).

On the contrary, diversification of activities and competitive scale are elements that have ample room for improvement under our methodological approach. Thus, the €167.4m of revenues generated in 2022, which is a new record for the group, places the group in the lower range in terms of size despite considering that the company is operating in a local sector. In addition, we note that more than 87% of these revenues were generated in Spain through a limited number of projects resulting in a strong concentration of customers under PPA. In their favour, the positive solvency of offtakers is valued. Similarly, for this review, the progress in the strategic markets of Portugal, Italy and Germany improves our view regarding diversification.

Governance

- **Positive assessment of governance as a reflection of the soundness of the management structure and the financial policy implemented. The practices identified in management with respect to ESG factors help to improve the business profile.**

The family group and founder of Solaria, DTL Corporación, remains at the head of the shareholding. DTL reduced its stake by 5% in 2022 to maintain the current 34.9% and has 3 directors out of 6 members in total, 2 of which are independent. The structure is completed by a large group of shareholders with an investment profile and an additional free float of 40.4%.

In 2018, the company increased capital (€96.7M) as a major milestone in the financial restructuring process already launched, which included the cessation of industrial activity, the sale or refinancing of projects, thereby reducing debt and relaunching the project on the basis of 75 MW and 2.3 GW in the pipeline. Shortly after, the company became one of the leading independent production companies in the national market with a clearly defined strategic base, benefiting from a policy of no dividend distribution, a sustained return on investment target due to its competitive advantages, and an adequate execution of growth plans by the management.

The ESG performance, measured through the analysis of our ESG factors, currently allows us to improve Solaria's financial profile by one notch.

Financial Profile

- **Continuity in a positive development of results and profitability.**

In the last financial year, Solaria maintained its capacity to obtain a positive result in its activity, where it continued to stand out for its high profitability. Thus, in 2022 the net result increased to €90M after a significant growth of 87.4% compared to the previous year. The improvement in operating revenues as a whole, driven by the improvement in turnover, allowed to reach €167.4M (+51.4%), which together with the lower growth in costs allowed to generate a high gross operating margin. As a result, EBITDA increased to €147M (+57.5%) with an EBITDA margin improvement over total revenues of 87.9%.

The results are consistent with a very capital intensive activity, finding at this point an improvement in interest coverage with EBITDA generated reaching a ratio of 6.8x compared to 5.5x in 2021.

- **Advancement of Project Finance to support investment, which allows for positive financial flexibility.**

The use of Project Finance continues to lead the financing for investment in new wind farms and land purchases, an aspect that favours a financial structure focused on the long term and continued growth while safeguarding cash flow. In this regard, it should be noted that Non-Current Liabilities continued to account for a large part of Solaria's financing at the end of 2022, reaching 82.9% of Total Liabilities.

It is also important to note that at the end of 2022, Project Finance continued to comfortably meet its financial commitments, an aspect that continues to be exceptionally favoured by the continuity of pool prices that are much higher than estimated.

During 2022, financial debt increased by €187M to a total of €933.5M. The maintenance of the cash position allowed a similar increase in Net Financial Debt to €782.9M. However, the improvement in EBITDA allowed the leverage ratio to improve to 5.4x (6.4x in 2021), which is considered positive in the environment of companies with higher visibility on cash generation. We also note that, of the total financial debt, only €92m (10% of total) corresponds to corporate debt, which is also of a commercial nature as it corresponds to the promissory notes issued under its MARF programme (€40m drawn down in 2022) and the group's confirming (€52m) that help finance working capital. Thus, the debt maturing in the short term outside the commercial cycle is only 4% and is favourably supported by the cash generation in the projects.

Thus, the greater role of long-term debt associated with projects continues to favour good financial flexibility.

- **Positive cash flow from operations conditioned by the current timing of continuity in a relevant investment.**

The achievement of a positive Operating Cash Flow (FFO) continues to accompany the evolution of Solaria in line with the positive profitability of the activity, an aspect that favours the continuity of investment in new projects with the support of debt. After the variation in working capital (€-15.7M) and the significant net investment (€-331.5M), free cash flow remained negative, which was adequately compensated by continued fundraising and dividend withholding to maintain the level of net cash.

An important milestone in the financing of the investment is the pre-agreement with the European Investment Bank (EIB) to provide EUR 1.7 billion in financing for the construction of 5.6 GW of its project portfolio, subject to project appraisal and approval by the EIB.

Solvency

- **Moderate level of solvency sustained by the results for the year.**

The Equity situation continues to show a level adjusted to Solaria's activity, which continues to grow with the capitalisation of the positive results for the year. Ethifinance adjusted the negative effect of the financial instruments arising from the energy sale agreements (-€27.2M) to bring Equity to a figure of €371.5M at the end of 2022, which represents a percentage of 39.8% of total financial debt. Capital management in this time of significant leap in investment targets for the construction of new projects is considered a key aspect to follow in the evolution of the group.

Liquidity

- **Favourable liquidity position.**

According to the above, liquidity is favourably supported by the positive trend in Operating Cash Flow accompanied by an intensive use of Project Finance, aspects that we expect to be maintained in order to keep an adequate level of cash flow with respect to debt maturities. At the end of 2022, cash stood at €150.7M (€152.9M in 2021). In addition, the company relies on confirming lines and a promissory note programme of up to €100M.

With this cash position and an adequately spread debt service over time, a favourable liquidity situation is assessed that will need to be actively managed for the continuity of investment objectives. In this regard, the investment strategy keeps focusing on a minimum return of 12% IRR on projects, which the company ensures through its integrated activity and scale of projects that minimise construction costs and maximise cash flow.

It is also worth highlighting the market value of its portfolio and the group's pipeline of advanced development projects. Although the sale of projects is not a strategic aspect, the company did formalise the planned agreement with the Basque Energy Agency (EVE) for the sale of a 30% stake in two projects for a total of 100 MW. This agreement reflects the work carried out to position the Basque Country as a strategic area and is accompanied by the recent announcement to make public the development of a new 'mega-project' of up to 1.3 GW in the province of Álava, which also highlights the planned obtaining of a 30% tax exemption on the investment.

Summary of financial information

Main Financial Figures				
€ thousands	2020	2021	2022	2022-21
Adjusted turnover (1)	64,504	110,524	167,348	51.41%
EBITDA	49,062	93,383	147,087	57.51%
EBITDA Mg.	76.06%	84.49%	87.89%	-2.39pp
Financial Expenses (FE)	-12,985	-16,873	-21,374	-26.68%
EBITDA/FE	3.78x	5.53x	6.88x	-1.09x
Total Assets	715,507	1,042,752	1,426,958	36.85%
Equity	222,514	247,355	344,728	39.37%
Adjusted Equity (2)	231,993	280,000	371,472	32.67%
Adjusted Financial Debt (3)	455,616	746,552	933,551	25.05%
Net Financial Debt (NFD) (3)	374,308	593,701	782,894	31.87%
NFD/EBITDA	7.63x	6.36x	5.32x	0.06x
Funds From Operations (FFO) (4)	38,320	79,701	130,164	63.32%
Cash & Equivalents	81,308	152,851	150,657	-1.44%

(1) Including work realised for own net tangible assets.

(2) Excluding financial instruments.

(3) Excluding derivatives in financial debt and including commercial debt (used confirming).

(4) Calculated as operative cash-flow minus variations of current assets.

(5) Including parts of current financial investments and excluding non-available cash.

Modifiers

- **Controversies:** Not applicable.
- **Liquidity:** Not applicable.
- **Country Risk:** Not applicable.

Rating Sensitivity

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

- **Positive factors (↑).**

  A rating upgrade is not envisaged at this stage.

- **Negative factors (↓).**

  The situation of 75% of revenues not subject to market risk favours a rating upgrade at this point. However, a reduction of this percentage to 70% or lower on the same debt position would be indicative of a rating downgrade. Thus, the maintenance of debt levels is an important milestone, noting that a reduction in interest coverage to a level of 5.5x would be a further indication on the basis that this cannot be compensated by improvements in other financial or qualitative areas.

Score

Rating Snapshot	
Business profile	**A**
Industry	AAA
Competitive positioning	BB
Governance	BBB+
Company ESG (1)	Positive
Financial profile (2)	BBB-
Cash-flow & Indebtedness	**BBB-**
Solvency	B
Rating Anchor	**BBB+**
Modifiers	No
Final Rating	**BBB+**

(1) Positive impact of ESG valuation on financial profile.

(2) 75% infrastructure ratios and 25% standard ratios.

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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