ISSUER RATING

BBB

Long-term Rating

Outlook: Stable

First rating date: 15/09/2023

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Rating Action and Rationale

- EthiFinance Ratings assigns its first rating for Corporación Financiera Azuaga, S.L. of "BBB" with a Stable outlook.
- The rating is based on the company's strong financial position, with minimal financial indebtedness, high profitability, and cash generation at a consolidated level, as well as the achieved diversification of its investment portfolio. These factors mitigate a still limited track record and proof of the profitability of its investment strategy. The balanced debt structure and solid solvency profile are positive elements of the company's credit profile, highlighted by its excellent LTV and FFO/interest ratios.
- The concentration in Spain and the potential lack of liquidity of certain investments under negative scenarios, and overall credit quality which we assess as only medium, we consider to be the main unfavorable aspects of the investment portfolio.
- A worsening economic environment and/or deterioration in EBITDA metrics and debt levels in the company's various operating lines could negatively impact the rating, requiring further consolidation in its strategy without material deviation from projected cash flow generation. We do not foresee any rating changes in the short term at least.

Issuer Description

Corporación Financiera Azuaga, S.L., hereafter CFA, is a Spanish financial group of family origin, founded in 2020. It is composed of subsidiaries specialized in financial services and acts as an investment platform with a long-term focus on business projects across various sectors that share a clear sustainable and innovative component. CFA primarily operates in its domestic market, with some international forays. CFA achieved significant revenue growth in 2022 (to €43.1m), effectively reversing the sharp fall in 2021 (€22.3m after €38.2m in 2020), with a high EBITDA margin (76.3% in 2022). The group maintained a negative NFD/EBITDA ratio in 2022 and minimum values as of the end of the first half of 2023, along with a high interest coverage with its FFO (93.3x in 2022) and a suitable consolidated LTV ratio (<20%).

Fundamentals

Business Profile

Investment Policy

- **A well-defined investment policy and a long-term focus mitigated by a short track record.** CFA stands out for its well-defined investment policy and cautious approach in terms of required capital and expected returns. Its long-term focus and a low asset rotation policy do help compensate for the virtual absence of a track record as an investment group. Its diversification strategy shows prudent and professional management to mitigate risks, maintaining good selection and monitoring criteria. Its policy includes ESG criteria that we consider appropriate and a positive factor when assessing credit quality. CFA has identified lucrative opportunities in the market but has room for improvement in cash generation and profitability in certain investments provide financial security to the group in the future. We consider the current high interest rate environment and its potential consequences in the market as a relevant risk, requiring good monitoring and management by the group.

Investment Portfolio

- **A well-diversified portfolio that still contains risks in terms of geographic concentration, limited liquidity in certain areas, and the overall average credit quality of assets.** The investment portfolio is well-diversified in terms of industry and assets However, it lacks geographic diversification, with a concentration in Spain and limited presence in areas with immediate liquidity and disinvestment capacity, representing approximately 30-40% of the total value of its portfolio. We also highlight the overall average credit quality assigned to the full set of investments that make up the portfolio.

Governance

- **Stable and experienced management and board, but here too a limited track record as a group.** The shareholding structure is stable but concentrated. The management team is experienced in the financial and insurance sector, but has not had the time to demonstrate that the individuals concerned can work well together. The multidisciplinary team enhances management quality and covers all key areas for the group's development, including the implementation of ESG criteria.

Financial Profile

Cash-flow and leverage

- **Cash-flow and key ratios CFA has demonstrated strong cash generation and a significant investment pace.** A positive funds from operations (FFO) trend has been maintained, reaching €34.4m in 2022, following the favorable evolution and monetization of the photovoltaic park development segment, allowing the group to meet its financial commitments without difficulties. Positive free cash flow in two of the last three years, given the strong cash generation, particularly in 2022, resulted in a significant improvement in the cash position, to €33.1m, a level which we consider exceptional. The investments made during the first half of 2023 have reduced it to €9m.
- **Significant revenue growth and high profitability for the group to date.** The strategy developed so far, focused on the development and sale of photovoltaic projects, has led to a significant increase in CFA's size and profitability since its foundation in 2020. Although this focus has meant some volatility in results, the expansion has compensated for the lack of more significant contributions from emerging and developing areas. In 2022, revenue was 93.5% higher than in 2021. The high EBITDA (76.3%) and EBIT (73.3%) margins reflect efficiency in managing operating costs, and especially the high profitability of the photovoltaic park development segment, with a contraction expected from 2024 due to a shift in focus towards greater diversification and stabilized returns (estimated EBITDA margins of 20-25%).
- **Balanced financial indebtedness structure, with controlled leverage and solid interest coverage with its FFO.** CFA maintained a negative net debt position until 2022 and a balanced debt structure. Total debt reached €16.1m in 2022 (and has risen to €20.3m in 1H23) and is manageable for the group at the present time. The group demonstrates effective debt management, with a negative NFD/EBITDA ratio in 2022 and an FFO/interest ratio of 93.3x, reflecting good interest coverage and prudent management of financial commitments. Its low leverage is also demonstrated by a reduced LTV ratio of 19.6% of its total GAV (>€80M) as of the end of the first half of 2023.

Solvency

- **CFA has a strong solvency profile supported by a high equity.** With an equity/total financial debt ratio of 580.3% in 2022 (+234.6 pps vs 2021), the group has the ability to support its operations and projects with its own resources. Its equity has grown significantly, reaching €93.2m in 2022 (+48.6% YoY), supported by significant earnings retention. This all adds up to a decent cushion in the event of future challenges.

Liquidity

- **CFA has demonstrated effective liquidity management, maintaining a strong total liquidity position (of €40m as of the end of 2022) and a GAV exceeding €80m.** The group's cash position and immediate liquidity, along with the ability to maintain a balanced amortization structure, with annual amortizations of approximately €1-2m, support the financial profile, as does the composition and diversification (by sector at least) of its assets, with limited mortgage guarantees.

Main financial and extra financial figures

Main financial figures. Thousands of €.	2020	2021	2022	21vs20	22vs21
Turnover	38,162	22,270	43,103	-41.6%	93.5%
EBITDA	34,258	14,120	32,871	-58.8%	132.8%
EBITDA margin	89.8%	63.4%	76.3%	-26.4pp	12.9pp
EBIT	34,168	13,835	31,606	-59.5%	128.5%
EBIT margin	89.5%	62.1%	73.3%	-27.4pp	11.2pp
EBT	33,774	14,536	30,507	-57.0%	109.9%
Total Assets	57,422	97,084	126,594	69.1%	30.4%
Equity	48,276	62,759	93,246	30.0%	48.6%
Total Financial debt	1,605	18,158	16,070	1031.7%	-11.5%
Net Financial debt	-6,244	4,195	-24,926	167.2%	-694.1%
Equity/Total Financial debt	3008.7%	345.6%	580.3%	-2663.1pp	234.6pp
Net Financial debt/EBITDA	n.a.	0.3x	n.a.	-	-
Funds From Operations	34,416	13,649	34,435	0.1%	152.3%
FFO/Net Financial debt	n.a.	325.3%	n.a.	-	-
FFO before interest /Interest	94.8x	74.9x	93.3x	-19.9x	18.4x

Rating Sensivity

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

- **Positive factors (↑).**

  Achievement of strategic and financial objectives outlined in the company's Business Plan. Increased diversification of the investment portfolio in geographical terms. Increase in the weight of listed assets in the investment portfolio to enhance overall liquidity if necessary. Strong cash generation, growth in equity.

- **Negative factors (↓).**

  Increased concentration in certain assets and/or sectors in the investment portfolio. Deviations from the targets of the Business Plan and/or strategic objectives. Significant depreciation in asset values. Potential adverse economic impacts external to the group. Deterioration in interest coverage with its EBITDA and FFO. Increase in leverage affecting its LTV.

Credit Rating

Credit Rating	
Business Profile	**BB**
Investment Policy	*BB*
Investment Portfolio	*BB*
Financial Profile	**A+**
Financial Policy	*BB*
Indebtedness and Interest coverage	*AA*
Anchor Rating	**BBB**
Modifiers	No
Final Rating	**BBB**

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 - Investment Holding 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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