ISSUER RATING

Long-term Rating

BBB-

Outlook: Stable

First rating date: 01/10/2021
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Rating Action & Rationale

- EthiFinance Ratings affirms the rating of Elecnor S.A. at "BBB-", maintaining its outlook Stable.
- The assigned rating is based on the group's strong competitive position as a benchmark in its sector at the national level. Additionally, its diversification across business lines and geographical areas is positively valued, fostering growth and consolidation. From a financial perspective, it is noteworthy that the company's business model maintains a positive recurring cash generation capacity through its operations, with controlled leverage, although with moderate interest coverage.
- We emphasize that despite the accounting validity of integrating Celeo Concesiones e Inversiones through the equity method, the credit analysis of the company should be carried out from a global integration approach due to the significance of Celeo's figures. Thus, regardless of the present analysis being conducted on the Elecnor group, our assessment of Elecnor's financial profile (calculation of leverage ratios, interest coverage, and solvency) has been performed based on the consolidated figures of the Elecnor and Celeo group.
- According to our methodology, the company operates in both the renewable energy and high-voltage power transmission "Utilities" sector, as well as the Engineering and Construction sector. The former presents very low ESG risk (sector heatmap score between 1 and 2), while the latter presents a medium risk (sector heatmap score between 3 and 4). This assessment has a positive impact on the overall sector analysis. Regarding the company's ESG analysis, it is worth noting that the group's policies are considered adequate (company's ESG score between 1 and 2), which has a neutral effect on the rating.

Issuer description

Founded in 1958 and headquartered in Madrid, Elecnor S.A. is a company specialized in the execution of engineering, construction, and services projects. Its wide range of activities covers the sectors of electricity, power generation, gas, telecommunications, railways, water, environment, and space. Additionally, it stands out for its concession-based approach, promoting, financing, constructing, investing in, and managing energy assets, particularly those related to renewable energies. Elecnor adopts a comprehensive project management approach, participating in all stages of the value chain. As the parent company of the Elecnor group, its shares are traded on the Spanish continuous market and currently have an approximate market capitalization of €1,100M. In 2022, the group achieved a turnover of €3,613M. (+16% year-on-year), with an EBITDA of €307M. (8.4% EBITDA margin) and a pre-tax profit of €165M. (+17% year-on-year).

Fundamentals

Business Profile

Industry Risk Assesment

- **Moderately cyclical sectors, with some fragmentation and moderately high entry barriers, especially in the concession activity due to its capital-intensive nature and high technical knowledge requirements.**

  The company's activities encompass a wide range of sectors, primarily in the field of engineering and construction. The renewable energy development and operation subsector also holds significant weight in the group's revenue. The Engineering and Construction sector stands out for having lower profit margins compared to other sectors, moderately high entry barriers, and moderate volatility. The concession and renewable energy businesses are characterized by wider profit margins, lower volatility, and high entry barriers due to their capital-intensive nature and the need for extensive know-how and experience. Additionally, the renewable sector is noted for its positive growth prospects.

- **The Engineering and Construction sector present a medium risk in terms of environmental, social, and governance (ESG) factors, while the Utilities sector in renewable energy presents a very low risk.**

  Based on the overall analysis of both sectors, it is concluded that the ESG-related risks in companies within the sector and their impacts on social, environmental, and stakeholder factors are not material and do not affect the stability or fundamentals of the sector. In fact, the renewable energy industry sector is aligned with ESG factors. This assessment has a positive effect on the overall sector analysis result.

Competitive Positioning

- **Good competitive positioning with a broad track record, being a reference company in the construction and engineering sector specialized in energy infrastructure and telecommunications at the national level, and with a more moderate positioning internationally.**

  The group has been operating in the infrastructure sector since 1958, specializing in energy, electricity, and telecommunications projects. At the national level, the group positions itself as a well-established company, operating with a solid client portfolio that includes major players in the electricity sector (Endesa, Enel, Iberdrola, Red Eléctrica España, etc.) and the telecommunications sector (Telefónica, Orange, Vodafone, MásMóvil, etc.). Internationally, the group's notable efforts are focused on the renewable energy sector, particularly in Brazil and Canada, where it develops projects for construction and operation.

- **Diversified international presence, operating in over 50 countries as a result of a strong internationalization strategy.**

  The group has undergone a significant internationalization process since its establishment. In 2022, international revenue accounted for 58.7% of total sales. Additionally, the group holds a substantial backlog of projects yet to be executed, which increased by 5.10% in 2022 compared to 2021, reaching €2,408M.. Within the backlog, international projects have a predominant weight of 73%

Governance

Shareholder structure with a concentration of family origins detached from management.

The Control of Elecnor, S.A. rests in a group of shareholders comprised of 10 family groups who act as the decision-making and control unit of the company, implemented through the entity Cantiles XXI, S.L., holding 52.76% of the company's shares. It is viewed favourably that despite the family origins of the group, the current CEO of the company is independent of this relationship, and the CEO does not hold a significant stake in the company. The group's financial policy is characterized by prudent and conservative management, based on controlling indebtedness to maintain a moderate level of leverage. Additionally, it maintains a strategy of diversifying its sources of short and medium-term financing through bank financing and debt issuance in the capital market.

• **Neutral ESG analysis.**

Based on the analyzed ESG data and the application of the new methodology, EthiFinance Rating evaluates Elecnor's ESG policies as adequate. As a result, the company's rating is not affected by this factor.

Financial Profile

Cash-flow and leverage

Controlled level of leverage with potential for improvement.

As of the end of 2022, net financial debt amounted to €573M (+7.18% YoY), driven by an increase in total indebtedness (+3.4% YoY) and a decrease in cash and cash equivalents (-2.3% YoY). The net debt-to-EBITDA ratio stood at 1.9 times, which is similar to the previous year's ratio of 2.0 times, reflecting the mentioned increase in recurring EBITDA. It is worth noting that, given the industry in which the company operates, it extensively utilizes non-recourse debt through Project Finance. Excluding this type of debt, the net financial debt with recourse would be around €120M. On the other hand, the interest coverage ratio by EBITDA is not as comfortable, standing at 5.45 times in 2022 (compared to 6.8 times in 2020).

- **Positive and stable cash generation.**

  The company maintains a positive capacity for cash generation through its operations, closing the fiscal year with a positive FFO of €230M, which is very similar to the previous year. However, the company's cash generation is heavily influenced by significant capital expenditures, dividend distribution policy, and debt amortization, resulting in a decrease of €15.5M in the cash balance.

Solvency

- **Level of equity to total balance shows improvement.**

  The equity-to-total balance ratio of the company improved during 2022, reaching 23.4% compared to 19.3% in 2021 (19.7% in 2020), approaching the figure of 24.7% in 2019. The results of the fiscal year, along with an improvement in negative currency conversion differences due to fluctuations in foreign currencies used by the group's companies, resulted in a 31% increase in equity compared to 2021. Furthermore, the equity-to-total debt ratio of the company during the fiscal year reached 87.2%, improving from 68.6% in 2021.

Liquidity

- **The company maintains an adequate liquidity profile with a positive cash position, supported by the recurring cash generation from its operations. This favourable liquidity position allows the company to meet its financial obligations and fund its ongoing activities.**

  Elecnor shows an appropriate ability to meet its short-term financial commitments, primarily based on its strong cash position, available credit lines, and stable operating cash flow. The group has access to adequate financing and the presence of credit lines, which are key factors supporting its credit profile.

Modifiers

- **Controversies.**

  According to the information available, Elecnor does not currently have any major controversies or issues that pose a significant problem or weakness in its operations or organization.

- **Country risk.**

  Based on the information provided, it has not been determined that Elecnor faces a substantial country risk due to the diversification of its business.

Summary of financial information

Main financial figures. € thousands.	2020	2021	2022	22vs21
Revenue	2,455,952	3,122,421	3,613,672	15.73%
Recurring EBITDA (1)	245,802	271,769	302,052	11.14%
Recurring EBITDA margin	10.0%	8.7%	8.36%	-0.3pp
EBT (Earnings Before Taxes)	125,932	142,048	165,931	16.81%
Total Assets	3,046,631	3,285,901	3,557,915	8.28%
Net Equity	599,936	633,665	833,255	31.50%
Total Financial Debt (TFD)(2)	938,451	924,179	955,633	3.40%
Net Financial Debt (NFD) (2)	536,649	534,766	573,163	7.18%
Corporate Net Financial Debt (2)	129,940	119,392	120,791	1.17%
Equity/TFD	63,9%	67,8%	87,2%	19.4pp
NFD/Recurring EBITDA (1)	2.2x	2.0x	1.9X	-0.07X
Funds From Operations (FFO) (3)	208,436	228,719	230,691	0.86%
FFO (3)/NFD	38.8%	42.77%	40%	-2.5pp
Interest Coverage	6.8x	5.4x	5.5X	0.05X

(1) Net EBITDA excluding corporate operations. (2) Data published by the company excluding derivatives and financial leases. (3) FFO adjusted by EthiFinance Ratings: includes payment/receipt of interest and received dividends.

Rating Sensitivity

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

- **Positive factors (↑).**
  A favourable economic environment that results in a positive evolution. Improvement in achieving projections in the coming years, such as improved profitability, lower levels of indebtedness, increased coverage ratio of interest, and higher level of equity. Positive consequences from the sale of Enerfín.

- **Negative factors (↓).**
  Failure to meet projections, deterioration of margins, non-compliance with financial covenants, a significant increase in NFD/EBITDA, deterioration of interest coverage, reduction in the capacity to generate operational cash flow, and potential negative consequences from the sale of Enerfín.

Credit Rating

Credit Rating	
Business Profile	**BBB**
Sector Analysis	A-
Competitive Positioning	BBB-
Governance	BBB-
ESG Company	**Neutral**
Financial Profile	**BB+**
Cash Flow and Indebtedness	BB+
Solvency	BB+
Anchor Rating	**BBB-**
Modifiers	No
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 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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