EthiFinance Ratings

ORTIZ CONSTRUCCIONES Y PROYECTOS SA
A19001205
CORPORATE RATING

BB+

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 26/05/2014
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Rating Action and Rationale

- EthiFinance Ratings reaffirms Grupo Ortiz's rating at "BB+", maintaining the Stable outlook.
- The rating is supported by the positive fundamentals of the industries in which the group operates (the infrastructure and renewable energy construction sector and the concession industry), with a particularly favourable assessment of the characteristics of the concession industry given its high levels of profitability, low volatility, and significant barriers to entry. In addition, the rating is based on Grupo Ortiz's high solvency (SE/TFD ratio ~115% on average) and its solid project portfolio backlog (€8,364MM, of which €1,428MM to be executed in the next two years), which will allow the group to continue growing in terms of sales and EBITDA.
- On the other hand, the group's limitations include the fact that Grupo Ortiz operates in a highly competitive global sector (construction and infrastructure), with low financial expense coverage (EBITDA/financial expenses <5x on average). Operating cash flow generation is still limited in relation to the group's debt (adjusted FFO/NFD <20% on average).
- In line with our new methodology, the construction and infrastructure sector has a medium ESG risk (sector heatmap score between 3 and 3.5) given its impact on the environment. This assessment results in a sectoral analysis that does not affect the rating. The group's ESG policies are considered neutral (group ESG score between 1 and 4), resulting in a rating that is not affected by these factors.

Description

Incorporated in 1961 and with its registered office in Madrid, Ortiz Construcciones y Proyectos, S.A. and subsidiaries (hereafter Grupo Ortiz or the group) operate through the following lines of business: concessions (transport, hospital and energy infrastructure, etc.), energy (construction of photovoltaic, wind and solar thermal power generation facilities, substations, and energy transport and distribution), construction and infrastructure services (civil engineering, railroad, water, environmental, etc.), and property. It currently offers its services in thirteen countries and is established in Colombia, the US, Mexico, Panama and Japan, in addition to Spain. For 2022, the group reported revenues of €610.4MM (+27.7%) with adjusted EBITDA of €50.5MM (margin 8.3%), recording an adjusted NFD/group EBITDA ratio of 2.5x (recourse NFD/group EBITDA according to covenant 1.7x).

Fundamentals

Business profile

Sector analysis

- **Grupo Ortiz operates in the construction and infrastructure sector, which is highly competitive, has significant barriers to entry, and is highly dependent on the economic cycle.** It is a medium-sized group in a highly competitive market in terms of price, with little differentiation of products/services, with high entry barriers for access to tenders (high capital requirements, know-how, certificates, etc.) The construction sector, which has limited profitability (unlike the concession industry) due to high competitiveness, is being hit particularly hard by rising materials prices, supply delays, and labour shortages. However, the creation of the Spanish government's Recovery, Transformation and Resilience Plan to channel NextGenerationEU funds offers an opportunity for recovery and growth for the industry. In addition, a large part of Grupo Ortiz's activity is focused on renewable energy, mainly the construction of photovoltaic plants, a segment that has experienced strong growth in recent years supported by the signing of the Paris Agreement by 194 parties, including the EU, and the establishment of sustainable development objectives of the 2030 Agenda.

- **In line with our new methodology, the construction and infrastructure sector has a medium ESG risk** (sector heatmap score between 3 and 3.5) given its impact on the environment. The potential risk of ESG factors for companies in the sector over the medium term implies that a transition to new practices is required. Failure to take action could have a material impact on the overall stability and/or profitability levels of the sector in the short to medium term. Nevertheless, this assessment results in a sectoral analysis that is not affected by this factor.

Competitive positioning

- **Group with an extensive track record in the construction and infrastructure sector, with more than 60 years of experience.** From its beginnings in construction, Ortiz has evolved to become a global infrastructure and energy construction and concession group. Given its long history in Spain, Grupo Ortiz is a benchmark group in the domestic infrastructure construction market, while its international position is more limited. In the concession sector, it has a relevant position as a global infrastructure and energy concessionaire, mainly in Colombia, and is a recognised worldwide specialist in the demanding (but small) market for photovoltaic plants and energy transmission and distribution. It is worth mentioning the digital transformation that the group is carrying out, based on virtual construction and the use of digital tools, with a training and education plan for all its employees. Thanks to technological advances, the group is optimising its processes and shortening project execution times.
- **Business diversified both by activity and geography.** Activities include infrastructure (26.7% of adjusted EBITDA), energy projects (41.7%), and concessions (26.3%). However, most of the concession business is consolidated by the equity method, and its importance is not reflected in turnover and consolidated EBITDA but rather in adjusted EBITDA. Grupo Ortiz's internationalisation strategy began in 2010 with the main focus on Latin America, and it is now a global group, present in 13 countries and established in Spain, Colombia, the US, Mexico, Panama, and Japan. Despite this, Spain still accounts for 55% of turnover (in 2022).
- **Significant growth in the works portfolio.** In 2022, the project pipeline increased by 33% to a total of €8,364MM thanks to new projects closed in Colombia and a new power project in Spain (478MWp PV park in Badajoz). 81% is international, mainly in Colombia.

Corporate governance

- **Shareholding structure has a high family component.** The Carpintero family is directly involved in the management of the group, with members of the family being part of the management team and the board of directors. Grupo Ortiz's financial policy is conservative, with a strategy of sustained growth, diversifying both geographically and in terms of activity, seeking projects with higher returns. In addition, one of the group's main objectives is to continue to reduce its financial leverage.
- **Neutral ESG policy.** Based on the ESG data analysed and once the new methodology has been applied, EthiFinance Ratings assesses Grupo Ortiz's ESG policies as neutral (ESG score of the group between 1 and 4). As a result, the group's rating is not affected by this driver.

Financial profile

Cash flow and indebtedness.

- **Significant increase in turnover after the crisis caused by Covid-19.** In 2022, the recovery in the volume of activity was confirmed, with Grupo Ortiz's consolidated turnover reaching €610.4MM, representing an increase of 27.7% compared to 2021. Grupo Ortiz signed major projects in 2022 in the areas of concessions, energy, and infrastructure, affirming its recovery after the paralysis of the sector during the pandemic. This last financial year has been marked by a steady increase in the prices of materials, energy, labour and logistics. However, this has not affected the group's profitability thanks to the passing on of these increases to the customer. Excluding the impact of the sale of assets in 2021, adjusted EBITDA increased by 43.1% to €50.6MM (adjusted EBITDA margin of 8.3%). In this context, management can be said to have handled well the group's cost structure and profitability, having been able to generate positive EBT over the last few years despite the challenging environment.

- **Decreasing financial leverage.** Grupo Ortiz has set the reduction of its consolidated financial debt as one of the objectives in its strategic plan. Despite an economic environment marked by uncertainty and inflation, the group has been able to reduce its financial debt thanks to the generation of funds and management of its working capital. Adjusted financial debt under EthiFinance methodology (balance sheet debt and non-recourse factoring balance) was reduced by 13.5% to €180.0MM in 2022, leading to an adjusted NFD/EBITDA ratio of 2.5x (3.1x in 2021). This ratio indicates that the group maintains adequate capacity to meet its financial requirements with its operating income. However, the group's weak financial expense coverage ratio (adjusted EBITDA/financial expenses of 3.2x in 2022) should be highlighted. It stems from the high financial costs of its debt as well as other financial charges (mainly guarantees and non-recourse factoring). It is worth mentioning that gross on-balance sheet debt was reduced by 14% with a recourse NFD/EBITDA ratio according to covenants of 1.7x. On the other hand, the recourse EBITDA/net recourse financial expenses ratio was 56.7x. In April 2023 the group successfully completed the renewal of its syndicated debt, reducing the total amount from €134MM to €100MM.

- **Positive operating cash flow generation.** Although its FFO/NFD ratio is still limited, its positive evolution during 2022 is noteworthy, rising from 1.9% in 2021 to 18.1%. Although the group has recourse to external financing, it allocates most of the cash generated to investments and debt reduction.

Solvency

- **Favourable own funds structure that gives solidity to its solvency.** The group operates a financial structure with high levels of financial autonomy (SE/adjusted TFD ratio of 114.8% in 2022). However, it should be taken into consideration that the group's activity requires guarantees and collateral for tenders, entailing additional financial commitments that limit its financial flexibility to some extent. It should also be noted that, given the group's policy, its concession business is accounted for by the equity method. Given its characteristics, this includes a significant amount of debt that is not reflected in the group's balance sheet.

Liquidity

- **Adequate liquidity and diversified sources of financing.** Grupo Ortiz has sufficient levers in order not to encounter liquidity tensions in the short term, maintaining available limits of €202.6MM between available balance in credit lines (€75MM), factoring (€36.1MM), MARF promissory notes (75MM), and bonds (available balance €16.5MM). It is worth noting the high concentration of maturities in 2023, including the syndicated loan (€20.8MM drawn down) and the bond issue (€33.8MM). As a result, the group negotiated a new syndicated financing agreement in April 2023 and has sufficient liquidity to meet the bond maturity (€33.5MM).

Modifiers

ESG factors

- **The group does not have any disputes.** Our assessment of disputes determines that there are no news or events that constitute a real issue, such that they might point to a weakness in Grupo Ortiz's operations or organisation and require follow-up measures.

Liquidity

- **There is no liquidity risk.** The group has adequate liquidity when comparing available sources of funds (cash and FFO) with the expected use of funds (short-term debt maturities and committed capex).

Country risk

- **It has not been determined that there is a conditioning country risk that would have a negative impact on the rating.** However, the company concentrates a significant proportion of its operations in Colombia, with a proportion of 74.4% of the portfolio in 2022, mainly in concessions, as it has five concession assets under execution and two in operation. Although there are security risks, Colombia has a secure and stable legal framework and Grupo Ortiz analyses all tenders in detail before participating. This confidence in both the country and the company has been demonstrated by the broad support received by the financing entities.

Summary of Financial Information

Main financial figures. Thousands of €	2020	2021	2022	22vs21
Turnover	450,252	478,094	610,387	27.7%
EBITDA	20,085	47,452	37,562	-20.8%
EBITDA Mg	4.5%	9.9%	6.2%	-3.8pp
Adjusted EBITDA (1)	26,890	56,172	50,546	-10.0%
Adjusted EBITDA Mg (1)	6.0%	11.7%	8.3%	-3.5pp
EBIT	24,162	42,046	30,174	-28.2%
Mg EBIT	5.4%	8.8%	4.9%	-3.9pp
EBT	9,488	38,653	22,522	-41.7%
Total assets	703,078	765,040	864,271	13.0%
Shareholders' equity	209,754	203,224	206,592	1.7%
Adjusted total financial debt (2)	246,465	208,094	180,032	-13.5%
Adjusted net financial debt2	216,316	172,086	128,770	-25.2%
TFD/Adjusted EBITDA (1) (2)	8.0x	3.1x	2.5x	-0.5x
FFO/NFD(2)	0.9%	1.9%	18.1%	16.2pp
Adjusted EBITDA/Financial Expenses (1)	1.7x	3.6x	3.2x	-0.3x
FFO	2,000	3,290	23,286	607.8%
TFD with resource (3)	175,705	166,669	143,187	-14.1%
NFD with recourse/Adjusted EBITDA (3)	4.9x	2.1x	1.7x	-0.4x
Adjusted EBITDA/Interest (4)	6.0x	11.4x	56.7x	45.3x

(1) Calculated for compliance with covenants: Consolidated EBITDA plus dividends, interest and amortisation from non-consolidated non-recourse projects minus EBITDA from non-recourse projects. (2) Total financial debt adjusted under EthiFinance methodology: On-balance sheet debt plus balance drawn on non-recourse factoring. (3) Calculated for compliance with covenants: financial debt minus financial debt of non-recourse projects minus cash (excludes reserve accounts in non-recourse projects). (4) Calculated for covenant compliance as 'net interest expense with recourse': Interest expense on recourse debt less income from cash balances and other financial investments.

Sensitivity Analysis

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

Positive factors (↑).

Although EthiFinance Ratings does not foresee a rating upgrade in the short term, the continued achievement of the following aspects in the coming years could help to improve the rating over the medium term. Improvement in profitability (EBITDA margin above 12%), reduction of the adjusted NFD/EBITDA ratio (to below 2x), increase in financial expense coverage (adjusted EBITDA/financial expenses above 6.0x), FFO/NFD above 30%, greater geographical diversification (implying less dependence on Spain and Colombia).

Negative factors (↓).

Non-achievement of provided projections, deterioration of margins (adjusted EBITDA margin below 7%), non-compliance with financial covenants, significant increase of financial debt compared to group capitalisation (SE/TFD ratio <100%), maintenance of a sustained adjusted NFD/EBITDA ratio above 3x, or reduction of operating cash flow generation capacity (FFO/NFD below 15%).

Credit Rating

Credit Rating	
Business Risk Profile	**BB+**
Industry Risk Assessment	*BBB-*
Competitive Positioning	*BB-*
Governance	*BB+*
Company's ESG	**Neutro**
Financial Risk Profile	**BB+**
Cash flow and leverage	*BB*
Solvency	*A-*
Anchor Rating	**BB+**
Modifiers	-
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 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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