



ISSUER RATING

Long-term Rating

Tendencia: Estable

Fecha de primer rating: 22/09/2022

Fecha de revisión: 16/08/2023

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Rating Action and rationale

- EthiFinance Ratings reaffirms Fenie Energía's rating at "BB", maintaining the Stable outlook.
- The rating is supported by our favorable assessment of prospects for the renewable energy sector, in which Fenie Energía has a decent competitive position. This position is backed by an extensive commercial network, with sales executives also shareholders. On the financial level, although the increase in turnover during 2021 and 2022 was largely due to higher energy prices, leverage is expected to be reduced, as shown by the figures recorded for the first months of the current year (NFD/EBITDA ~3x on average; EBITDA/interest ~7x on average).
- The rating is constrained by certain factors, including geographical concentration risk (Fenie operates entirely in its domestic market, Spain) and a customer base focused on the residential segment, which has smaller margins than other segments. Also, the ownership structure (>3,000 shareholders) could hinder agile decision-making. In financial terms, solvency levels are slightly tight (equity/TFD ratio < 50%).
- In line with our methodology, the *utilities* sector presents a high ESG risk (sector heatmap between 4 and 5) given its impact on the environment. However, we consider that the energy trading sub-sector, in Fenie's case largely focused on the supply of renewable energy, has a significantly lower impact than other industries within the sector. Consequently, we consider Fenie's main area of operations to have a medium ESG risk (score between 2 and 2.9). This assessment results in a sectoral rating that is not affected by this factor. The company's ESG policies are considered neutral at the rating level (company ESG score between 1 and 4), resulting in a rating that is not impacted by these factors.

Issuer description

Fenie Energía S.A. is an independent energy trader operating in the Spanish energy market. Its main activity is the supply of electricity to the residential sector. Additionally, to a lesser extent, it markets gas, as well as provides representation services and solutions that promote energy saving, mobility, and self-consumption. Founded by the Federación Nacional de Empresarios de Instalaciones de España (FENIE), it defines itself as "the installers' marketer", providing the added value of sector specialists. In addition to marketing, it has 2 wind farms with an installed capacity of 18.9MW and 11 photovoltaic projects with a combined capacity of 12.6MW. Fenie generated 2022 revenues of €820.0m (+35.2% YoY) and EBITDA of €12.1m (+62.5% YoY), resulting in an EBITDA margin of 1.2%. The adjusted NFD/EBITDA ratio was 4.3x.

Fundamentals

Business profile

Industry Risk Assessment

- Mature sector characterized by low levels of profitability and high regulation but with favorable prospects revolving around the promotion of renewable energy consumption.

The energy industry is the cornerstone of any functioning economy. The marketing sub-segment offers consumers access to energy under different tariff offers and services in a context of regulated competition. The marketing sub-segment in which Fenie operates is characterized by tight profit margins (1-3%), which can vary depending on the size of the company, the level of competition, and other factors. Russia's invasion of Ukraine meant that 2022 was marked by substantial increases in electricity and natural gas prices, which has had a knock-on effect on those marketers with weak financial structures, underlining the ever-present potential for volatility for the sector. The energy marketing industry we consider to have medium barriers to entry, identified in legal requirements, licenses, safety standards, necessary infrastructure, and access to wholesale markets. Its growth prospects are generally tied to macroeconomic trends and demographics, but with

the positive (for companies such as Fenie) underlying factor of the transition to an energy model based on renewable sources.

- **The sector has an average ESG exposure**

The energy sector overall has a high ESG exposure due to its impact on natural resources and biodiversity. Provision of energy is a key factor in the stability and economic development of communities, which motivates government intervention to guarantee the framework for access to energy. In the specific case of the sub-sector in which Fenie Energía operates, marketing, we consider that by its nature it has a significantly lower environmental impact than other segments within the sector, whose sources of supply are based on fossil energy. Consequently, we consider its exposure to ESG risks to be neutral.

Company's competitive positioning

- **Leading position by number of customers in the segment of independent retailers.**

Fenie Energía is the sixth-largest energy supplier in Spain by number of customers, behind the 5 large electricity companies, and the leading independent supplier. 2022 was a particularly challenging year due to the process of customer concentration around the large retailers, affecting Fenie's customer base, which was reduced by 13%. However, it is considered that the group has a solid competitive advantage from its commercial network, which is made up of installers (energy agents) who are shareholders in the company itself and provide expert advice on energy efficiency, which reinforces their retention rate. The commission collection scheme, settled on unpaid invoices, helps curb the company's default rate, which is lower than the sector average (<1%). However, even taking these factors into account, Fenie's competitive positioning is conditioned by the need for greater vertical integration and/or the formalization of PPAs to stabilize energy acquisition prices, which it does not currently have.

- **Concentration of business in the Spanish residential market.**

Electricity supply generated for 82.4% of Fenie's turnover in 2022, with the residential market accounting for 92% of the total in terms of universal supply point code (Cups) but only 50.8% of total demand. In other words, the remaining 8% of contracts (with SMEs and large consumers) accounted for 49.2% of the energy supplied, showing that there is room for improvement in the diversification of the customer portfolio, which would have a positive effect on the total volume of energy supplied. The market situation in 2022 has prompted the company to focus on the commercialization of the indexed tariff as a defensive measure against price volatility; the latest data show indexed contracts at 49.4% of total (28% in 2021) compared to 50.6% under fixed tariffs. Fenie's involvement in the mobility segment (recharging points) and the installation of solar panels for self-producers are areas that show high growth rates and increase the diversification of its product portfolio.

Governance

- **Shareholders committed to the business, as most of them are Fenie employees or federated associations.**

The board of directors is committed to maintaining the independence of the company, and to this end there are internal mechanisms to prevent any concentration of ownership, with shareholdings limited to a maximum of 5% in series A and/or B securities and up to 8% in the case of nominees. This results in a high fragmentation of ownership, with 3,162 shareholders at end-2022 (3,143 shareholders in 2021). Although this structure means greater commitment to the company and its long-term vision, there could be difficulties in decision-making as a result, while their financial capacity is considered limited in the event of stress situations.

The company is managed by specialists in the energy sector with a management committee that encompasses all areas of the company and which, together with the board of directors, defines Fenie's strategic plan and monitors its performance. Financial policy is considered to be conservative, focused on offering a value-added service to customers.

- **Neutral ESG policy**

Based on the ESG data analyzed and our updated methodology, EthiFinance Ratings assesses Fenie Energía's ESG policies as neutral (ESG score of the company between 1 and 4). As a result, the company's rating is not affected by this driver.

Financial profile

Cash flow and leverage.

- **Negative free cash flow affected by high working capital requirements due to the sectoral context.**

2022 was a tough year for Fenie in terms of cash generation. It reported a cash drain of €4.5m, mainly due to high working capital needs. The traditional mismatch of collections and payments at energy retailers in a context of record high prices generated a negative variation in working capital of €36.3m, which could not be offset by FFO (€11m), resulting in negative operating cash generation of €25.3m. This, coupled with investments in digitalization and despite the liquidation of open derivative positions and a lesser need for them in 2022, saw the group report negative free cash flow (-€17.9m) that had to be covered by new debt.

- **Stabilization of financial leverage in a demanding cash environment.**

Working capital management remains the focus of the company's financing activities, with a 24.1% increase in total financial debt to €78.1m, reflecting higher RCF drawdowns in a context of high energy prices that require higher working capital needs. Despite this, and due to the good year in terms of EBITDA, Fenie managed to maintain a debt/EBITDA ratio of 4.3x, in line with that for 2021 (4.4x). This did mean a continuation of the change in the net debt picture, which has traditionally been for a positive net cash position. In the future, and as the May figures already suggest, leverage levels are expected to decrease based on the stabilization of working capital requirements (due to the drop in energy prices), the completion of investments, and the expected improvement in profitability levels.

Solvency

- **Limited financial autonomy in the process of improvement.**

The calculation of the solvency ratio does not take into account the impact on equity of the change in value of the hedging transactions (it is understood that this is a real hedge that will be reflected in the P&L once the contract is settled). As a result, equity in 2022 will reach €35.3m (+15.9% YoY), giving a solvency ratio (net profit-to-total financial debt) of 45.1%, a contraction of 3.2pps compared to 2021 due to the increase in debt. The outlook on the deleveraging front is nevertheless positive, based on our expectation of rising EBITDA, while the company's policy is

to limit dividend distribution to 15-20% of net profit.

Liquidity

- Liquidity affected by working capital requirement, although it remains at a high level.

Fenie's activity is highly cash-consuming due to the timing differences between collections and payments. The increase in the price of energy has caused additional tension in this respect due to volume. Nevertheless, based on its liquidity position of €25.7m, together with the financial instruments it has (€9.1m) and forecasts for operational cash generation (€9.4m), we consider this an adequate liquidity position to meet expected commitments for the repayment of financial debt (€5.5m), capex (€7.6m), and dividends.

Modifiers

Controversies

- The group has no material controversies of which we are aware.

Country risk

- It has not been determined that there is a conditioning country risk as the company conducts all its operations in Spain.

Main financial and extra financial figures

Main financial figures. Thousands of €				
	2020	2021	2022	22vs21
Turnover	499.044	606.324	820.046	35,2%
EBITDA	17.529	7.475	12.145	62,5%
EBITDA Margin	3,5%	1,2%	1,5%	0.2pp
EBIT	12.213	4.668	7.960	70,5%
EBIT Margin	2,4%	0,8%	1,0%	0.2pp
EBT	11.732	3.920	6.728	71,6%
Total assets	145.189	303.319	217.129	-28,4%
Equity ⁽¹⁾	28.732	30.426	35.260	15,9%
Adjusted TFD ⁽²⁾	27.903	63.005	78.166	24,1%
NFD adjusted ⁽³⁾	-5.188	32.782	52.437	60,0%
PN/TFD ⁽²⁾	103,0%	48,3%	45,1%	-3.2pp
NFD ⁽³⁾ /EBITDA	n.a.	4,4x	4,3x	-0,1x
FFO	20.128	3.379	10.970	224,6%
FFO/NFD ⁽¹⁾	n.a.	10,3%	20,9%	10.6pp
EBITDA/interest	36,2x	10,0x	9,6x	-0,4x

⁽¹⁾ Does not include impact value of hedging derivatives

⁽²⁾ Adjusted DFT: Derivative instruments such as financial debt and intragroup debt are not included. Including non-recourse factoring balance drawn down.

⁽³⁾ Adjusted DFN: Adjusted DFT - available liquidity to CP

Rating Sensitivity

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

Positive factors (↑).

Favorable economic environment resulting in a positive evolution of the sector and higher group turnover. Improvement in debt levels (NFD/EBITDA < 2x, FFO/NFD > 50% and EBITDA/interest > 7.5x on average). Increased financial autonomy (PN/TFD > 75% on average).

Negative factors (↓).

Worsening economic environment. Deterioration of NFD/EBITDA ratios >6x FFO/NFD <15% and PN/TFD <35%. Deterioration of ESG metrics.

Credit Rating

Credit Rating	
Business Profile	BB
Sectoral Analysis	BB
ESG adjustment	No
Competitive Positioning	BB-
Governance	BB-
Financial Profile	BB
Cash flow and debt	BB
Solvency	BB-
ESG Company	Neutral
<u>Anchor Rating</u>	BB
Modifiers	-
<u>Rating</u>	BB

Regulatory information

Fuentes de información

La calificación de crédito emitida en este informe ha sido realizada de manera solicitada por parte del ente calificado, participando éste en el proceso. La misma se basa tanto en información privada como pública. Las principales fuentes utilizadas son:

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- Página web corporativa.
- Información publicada por los Boletines Oficiales.
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- EthiFinance Ratings publica los datos sobre las tasas históricas de incumplimiento de las categorías de calificación, que se alojan en el repositorio central de estadísticas CEREPE, del regulador European Securities and Markets Authority (ESMA).
- De acuerdo con lo estipulado en el Artículo 6, apartado 2, en relación con el anexo I, sección B, punto 4, del Reglamento (CE) N° 1060/2009 del Parlamento Europeo y del Consejo de 16 de septiembre de 2009, se informa que en el transcurso de los últimos 12 meses EthiFinance Ratings no ha prestado servicios auxiliares a la entidad calificada ni a terceros vinculados.
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