ISSUER RATING

BBB-

Long-term Rating

Outlook: Stable

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Rating Action and Rationale

- EthiFinance Ratings upgrades Sacyr's rating from BB+ to BBB-, changing its outlook from Positive to Stable.
- The rating is supported by the favourable fundamentals of the infrastructure sector (including the outstanding levels of profitability with an average EBIT margin > 20%, low volatility due to long-term contracts and high barriers to entry), Sacyr's strong global competitive position within its sector (4^{th} largest transport infrastructure concessionaire worldwide), and our positive assessment of the company's governance (listed group with a diversified shareholder base reinforced by an experienced management team).
- The group's rating is constrained by its high financial leverage (NFD/EBITDA ratio above 5.0x and especially an equity/TFD ratio below 15%) and modest interest coverage ratio with EBITDA/interest <3x).
- This uprgrade reflects the company's positive performance in 2022, with major concessions put into operation as well as the reduction of recourse debt, which is expected to intensify after the sale of 100% of Valoriza Servicios Medioambientales, 100% of Sacyr Facilities y Social and 49% of Sacyr Aguas, and the growing role of the concessions division.
- In line with our new methodology, the construction and infrastructure sectors both have a medium ESG risk (sector heatmap score between 3 and 3.5) given their impact on the environment. This assessment results in a sectoral analysis that does not affect the rating. Group ESG score between 1 and 2, which is a high score but not sufficient to affect Sacyr´s rating.

Issuer Description

Sacyr S.A. and its subsidiaries, hereinafter referred to as Sacyr, operates as an infrastructure concessionaire and offers complementary services in the engineering, construction, and environmental services sectors. For FY22, the company generated turnover of €5,852m (+25.2% YoY) with EBITDA of €1,500m (+62.9% YoY) resulting in an EBITDA margin of 25.6%. Its NFD/EBITDA ratio stood at 5.2x (1.7x considering only net financial debt with recourse over EBITDA with recourse adding dividends and distribution of assets funded with non-recourse debt). As of June 22, 2023, the company had a total market capitalisation of €2,033.4m.

In assigning the rating, the financial projections provided by Sacyr for 2023 and 2024 have been taken into account. The company considers this information to be internal and confidential and therefore it has not been reflected in the report.

Fundamentals

Business Profile

Industry Risk Assesment

- **Mature sector, moderately cyclical in terms of the operation of concessions, with greater cyclicality in the construction (tendering) of new concession projects as they depend on public investment.**

Sector is characterised by high barriers to entry as it is a capital-intensive activity and requires a high level of know-how and experience to gain access to tenders. The concession business is considered important and has high margins once the concession is put into operation, although depending on the concession it may be impacted by demand risk (Sacyr has no demand risk or mitigation mechanisms for 96% of its concessional assets). The civil works concession activity is at the core of the group and involves in many cases products/services of basic necessity (hospitals, water treatment plants, highways, etc.). The construction sector, which has more limited profitability (than the concession industry) due to high competitiveness, is being hit particularly hard by rising materials prices, supply delays, and labour shortages.

- **Sector with medium ESG risk.**

In line with our new methodology, the construction and infrastructure sectors have a medium ESG risk (sector heatmap score between 3 and 3.5) given their impact on the environment. The potential risk of ESG factors for companies in these sectors 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 ESG factors.

Company's competitive positioning

- **Strong global competitive position within its sector.**

Sacyr is a large-scale infrastructure group with an extensive track record of more than 30 years both in Spain as well as internationally, mostly focused on operating infrastructure concessions as well as the design, construction and operation of large infrastructure projects. It is the world´s fourth-largest P3 (private-public partnerships) infrastructure developer. In FY22 it generated total sales of €5,852m, ending the year with 69 concession assets under management and more than 42,000 employees. As of the end of 1Q23 the group continues to display a high contract inflow, accumulating a total backlog including concessions of €58.9bn.

- **A solid business model focused on the concessions activity but supported by the construction business and complemented by multi-services.**

Sacyr maintains a wide international presence, albeit with a focus on Europe and Latam, with 72% of turnover and 85% of its backlog generated outside of Spain. The company´s business model is based on its concession assets, representing 88% of total EBITDA, which includes concessions revenues and the construction, operation and other maintenance services of those assets, thus covering the whole infrastructure value chain. The group complements this activity with engineering, procurement and construction (EPC) operations and maintenance services for third parties. This vertical integration gives Sacyr a competitive advantage during the tendering process for large infrastructure projects and its concessional portfolio gives it recurring cash flow generation. The multiservice activity provides diversification and relative revenues stability. The concessions portfolio was valued at €2.8bn in 2021. In 2022, Sacyr announced that it is exploring a number of options in order to give a boost to its 2021-25 strategic plan, among which are the sale of up to 100% of Valoriza Servicios Medioambientales and Sacyr Facilities in 2023, and 49% of Sacyr Aguas in 2024, as well as continuing with the rotation of non-strategic assets.

Governance

- **Listed company with a diversified shareholder structure.**

Sacyr is listed on the Madrid Stock Exchange, where it is already consolidated in the top 5 infrastructure groups. It was included in the Ibex 35 in June 2022. Its shareholding structure includes both a considerable number of free-float shares and a group of significant shareholders, one which has remained relatively stable in recent years (Disa Corporación Petrolifera S.A. with 14.6%, Prilou S.L 7.4%, José Manuel Loureda 7.4%, Grupo Empresarial Fuertes S.L. 6.4%, Grupo Corporativo Fuertes S.L. 6.3%, Prilomi S.L. 5.0%, Beta Asociados S.L. 5.0%).

- **Experienced management team.**

Manuel Manrique Cecilia, also a shareholder and founder of the group, has held the position of chairman since 2011. He was re-elected for a period of four years in 2019, which contributes to the stability of the management. The board of directors, made up of 13 directors (+2 secretaries), has up to 6 independent members. In 2023, Sacyr announced that the roles of CEO and chairman will be separated into two executive positions by 2025. The financial policy of the company has been slightly aggressive in recent years; however, a future deleveraging is expected given the divestments projected.

- **Neutral ESG policy.**

Based on the ESG data analysed and once our new methodology has been applied, EthiFinance Ratings assesses Sacyr'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 leverage

- **Growing operating cash flow generation which, however, does not cover the high investment needs.**

The group in FY22 achieved an operational cash flow of €267m. However, its activities continue to require high levels of capex, especially at the beginning of the projects (construction phase). This continues to constrain the company's capacity to generate positive free cash flow.

- **A leveraged financial profile with the mitigating factor that much of the debt is non-recourse and funds projects with stable cash flows.**

Sacyr enjoys recurrent operating profits (EBITDA reached €1,500m in FY22), increasing operating cash flows, and a debt term structure that is long-term in nature. Net financial debt reached a total of €7.7bn, resulting in a NFD/EBITDA ratio of 5.2x at year-end. This level of indebtedness is considered manageable, especially taking into account that only €546m is debt with recourse since most of the financing corresponds to debt linked to projects. Sacyr is committed to reducing its net recourse debt to below €100m by 2025. However, the interest coverage ratio remained modest (2.7x in FY22).

Solvency

- **Weak solvency.**

Solvency is constrained by low levels of capitalization and high investment requirements tied to awarded concessions. In recent years, equity has also been dragged down by the impact of the divestment of the company's stake in Repsol. However, it is expected to increase in the short term once the entire stake in Repsol was sold in 2022, with large concession projects put into operation and a divestment plan the proceeds of which will be raised to repay debt.

Liquidity

- **Adequate liquidity situation.**

Sacyr enjoys an adequate liquidity position, with confidence in the outlook supported by its demonstrated capacity to generate positive operating cash flow. The group has accumulated a strong cash position during the past few years, reaching €1.8bn in 2022 - although €136.8m out of the total is earmarked for the execution of the Pedemontana motorway (€221.1m in 2021). As part of the group's strategy, Sacyr carries out an asset rotation policy, which allows it to generate liquidity from divestment of mature assets. This is reinforced by a debt maturity schedule long-term in nature (63.9% of the company's debt matures in 2027 and beyond).

Modifiers

ESG Factors

- **Controversies:** In July 2022, the National Commission of Markets and Competition (CNMC) fined Sacyr and five other large construction companies for collusion in the competitive process in infrastructure construction tenders for more than 25 years. For Sacyr, the sanction involved a fine of €16.7M and being prohibited from working with public authorities (for an unspecified period of time). The ruling has been appealed, and in November 2022 the National High Court agreed to suspend it as a precautionary measure.

Country Risk

- **No country risk detected.**

It has not been determined that there is a conditioning country risk given the diversification of the group's business.

Main Financial and Extra-Financial Figures

Main financial figures. Millions of €.	2020	2021	2022	22vs21
Turnover	4,548	4,675	5,852	25.2%
EBITDA	722	921	1,500	62.9%
EBITDA Margin	15.9%	19.7%	25.6%	5.9pp
Adjusted EBITDA (1)	271	345	323	-6.4%
EBIT	467	731	1,303	78.3%
EBIT Margin	10.3%	15.6%	22.3%	6.6pp
EBT	236	34	515	1430.2%
Total Assets	14,392	14,977	17,555	17.2%
Equity	963	959	1,358	41.6%
Total Financial Debt (2)	6,718	7,968	9,557	19.9%
Net Financial Debt (2)	5,392	6,319	7,791	23.3%
Net Financial Debt with recourse	836	681	546	-19.8%
Equity/TFD	14.3%	12.0%	14.2%	2.2pp
NFD(2)/EBITDA	7.5x	6.9x	5.2x	-1.7x
NFD with recourse/EBITDA with recourse (1)	3.1x	2.0x	1.7x	-0.3x
Operational cash flow	235	209	267	28.0%
OCF/NFD (2)	4.4%	3.3%	3.4%	0.1pp
EBITDA/Interest	2.4x	2.2x	2.7x	0.5x

(1) Includes EBITDA with recourse + dividends and distribution of assets funding with non-recourse debt. (2) Includes lease obligations and balance drawn on non-recourse factoring, excludes derivatives.

Rating Sensitivity

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

- **Positive factors (↑).**

  Improvement in profitability (EBITDA margin above 30%), significant reduction of the group's leverage levels (NFD/EBITDA <4.5x), improvement of the interest coverage ratio (EBITDA/interest > 3.5x), reinforcement of the company's solvency (equity/TFD above 20%).

- **Negative factors (↓).**

  Solvency deterioration (equity/TFD below 10%), sustained NFD/EBITDA ratio above 6.5x, reduction of operating cash flow generation capacity (OCF/NFD below 3%), or lower EBITDA/interest ratio (<2x).

Credit Rating

Credit Rating	
Business Risk Profile	**BBB+**
Industry risk assessment	*A*
Competitive positioning	*BBB*
Governance	*BBB-*
ESG Company	**Neutral**
Financial Risk Profile	**BB-**
Cash flow and leverage	*BB*
Solvency	*CCC*
Anchor Rating	**BBB-**
Modifiers	-
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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