EthiFinance Ratings

ANDRITZ AG

50935F

CORPORATE

A

ISSUER RATING
Long term

OUTLOOK
Stable

Initiation date	29/11/2022
Rating date	25/09/2023

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RATING ACTION AND RATIONALE

- EthiFinance Ratings has upgraded its long-term corporate rating for ANDRITZ AG ("ANDRITZ") from A- to A, with a Stable outlook.
- This rating upgrade is driven by ANDRITZ's exceptional operating performance in 2022 followed by solid 1H23 results. Revenues and adj. EBITDA increased by 16.7% and 14.7% in 2022, respectively. EthiFinance Ratings-adjusted net debt position decreased from €24m at YE21 to a net cash position of €430m at YE22. We have also upgraded our assessment of ANDRITZ's ESG policy to 'advanced', stemming from a higher ESG company score. The group is well on track to achieve its 2025 sustainability targets, thereby positively impacting its financial profile. Therefore, the improvement in ANDRITZ's current and projected credit metrics further reinforced its strong financial profile. This, coupled with its solid business profile, led us to upgrade the group's long-term rating.
- The rating is mainly supported by: i) ANDRITZ's position as one of the leading suppliers in its four business areas; (ii) its excellent geographical diversification with a broad product mix; and iii) a strong financial profile, solid cash flow generation, and an EthiFinance Ratings-adjusted net cash position of €430m at YE22, resulting in a negative adjusted net leverage ratio. However, the rating is constrained by the group's considerable exposure to the overall macroeconomic environment. This is mainly due to the industrial nature of ANDRITZ's products, leading to the group's revenues being correlated to the amount of CapEx allocated by its clients. Thus, in the event of an economic downturn the group's order intake will be negatively impacted thereby affecting revenues.
- In line with our methodology, the capital goods industry has medium-to-high ESG risks (heatmap score between 3.5 and 4) given its impact on the environment, which slightly constrains our industry assessment. Our assessment of the company's ESG policy is advanced (company ESG score between 0 and 1), which weighs positively on our financial assessment and more than offsets the impact from our industry assessment.

ISSUER DESCRIPTION

Based in Austria, ANDRITZ is a major supplier of equipment, plant and systems for the Hydropower, Pulp & Paper, Metals, and Separation industries. The company also provides aftermarket services ranging from maintenance and repair to advisory, inspections, and audits. ANDRITZ is listed on the Vienna Stock Exchange since 2001, with a market cap of around €5.0bn (at market close on September 20th, 2023). At end-2022, the group had around 29k employees and operated in more than 280 locations in over 40 countries worldwide. The group is present in Europe (29.5% of 2022 revenues), the Americas (38.5%, of which 23.5% from North America) and Asia (28.3%, including 11.6% from China). ANDRITZ's order backlog increased significantly across all its business areas, reaching a record €10.0bn at end-2022 (vs €8.2bn at end-2021), of which 42.6% from Pulp & Paper and 31.7% from Hydropower.

Over 2022, ANDRITZ generated revenues of €7.5bn (16.7% increase yoy), with adj. EBITDA of €826m (10.9% margin) and an EthiFinance Ratings-adjusted net cash position of €430m.

FUNDAMENTALS

BUSINESS RISK PROFILE

INDUSTRY RISK ASSESSMENT

- **Growth drivers for ANDRITZ's main segments are solid, despite demand being somewhat correlated to GDP growth. Limited risk of product substitution.**

Pulp & Paper, the group's largest and most profitable area (47.6% of sales and 57.1% of EBITDA in FY22), currently benefits from optimal business conditions for both new projects, and modernization. It is also starting to receive significant orders for more energy efficient and sustainable production equipment. In addition, the outlook for the Hydropower segment is quite solid, since it will undoubtedly benefit from global efforts to increase green energy generation. Hydropower plants will continue to play an important role in this, providing grid stability and storing large amounts of energy. The separation division may benefit from the fruit of long-term drivers such as e-mobility, biofuels, healthy nutrition, and waste valorization.

Nonetheless, due to the industrial nature of ANDRITZ's products (plants, systems, equipment…), the group's revenues are correlated to its clients' level of CapEx. As such, during periods of economic downturn the group's order intake and backlog are, to a certain extent, negatively impacted. Also, in the event of a sustained decrease in the prices of pulp and/or steel, customers from these industries may lower their investment activity in PPE, which would negatively affect order intake.

- **Significant amount of capital and know-how needed are effective barriers to entry**

Supplying plants and equipment is capital-intensive, while also requiring considerable research and development (R&D) expenditure. Such expenditure is essential to a company's competitiveness in the long term, but also constitutes a high barrier to entry.

COMPANY'S COMPETITIVE POSITIONING

- **Leading player in several markets**

The group is one of the leading global suppliers in its four business areas, operating in highly competitive markets where only a few large suppliers bid for a small number of large orders. In order to counter this, the group relies considerably on its technical know-how, as well as in the development of new products and technologies. Also, as a full-range player, the group offers a wide range of services covering the entire lifecycle of a plant.

- **Excellent geographic diversification coupled with a broad product mix; no client concentration risk**

As one of the market leaders, the group has a global reach, being active in over 40 countries. ANDRITZ enjoys a balanced geographic portfolio, with the Americas being its largest market (38.5% of 2022 revenues, 23.5% from North America), followed closely by Europe (29.5%) and Asia (28.3%, including 11.6% from China). Through its different business areas, the group has a large range of products that service various non-correlated industries. This grants it a certain resilience against a downturn in a specific industry or sector. In addition, the group continues to grow its services business (40% of 2022 revenues), which is more profitable and less volatile compared to the business of selling new machinery.

The company's client concentration risk is currently low, with no single customer accounting for more than 10% of the group's revenue. However, concentration risks may arise in the future as consolidation is occurring in some industries, such as steel and pulp & paper.

GOVERNANCE

- **Shareholder profile**

The group's largest shareholder is Custos Vermögensverwaltungs GmbH with a 30.7% stake. Together with Cerberus Vermögensverwaltung, around 31.5% of the group is controlled directly or indirectly by the investment vehicle Custos Privatstiftung (co-founded by Wolfgang Leitner), and by Wolfgang Leitner. He served as CEO for 28 years before stepping down in early April 2022 while remaining member of the Supervisory Board. ANDRITZ is listed on the Vienna Stock Exchange, with a market cap of around €5.0bn (at market close on September 20th, 2023) and around 69% of outstanding shares are free float.

- **Conservative financial policy coupled with a good management track-record**

The management has a very solid track record, with a revenue CAGR of c. 5% over the last five years (from €5.9bn in FY17 to €7.5bn in FY22) that was made possible through both organic growth (approximately half) and acquisitions. Despite numerous acquisitions over the years, we consider ANDRITZ's financial policy as conservative. This is since the group has managed to preserve a sound financial structure, with solid free cash flow generation and very low leverage (EthiFinance Ratings-adjusted net cash position of €430m at end-2022). The group's profitability has been improving. This is because cost-cutting measures, including large staff reductions, continue to show positive results, with an adj. EBITDA margin at 10.9% in FY22 (compared to 11.1% in FY21, 8.5% in FY20 and 8.1% in FY19). We consider ANDRITZ's dividend policy, with a pay-out ratio target of 50-60%, as reasonable and in line with the group's solid financial profile. We also note the significant changes to the executive board made in 2022, with Wolfgang Leitner being replaced by Joachim Schönbeck as CEO. This hasn't had an impact on the company's business strategy and its successful execution.

- **Strong ESG policy**

We assess ANDRITZ's ESG policy as advanced, supported by the group's comprehensive and ambitious sustainability program presented in 2021. ANDRITZ is well on track to achieve its targets of: i) reducing its scope 1 and 2 GHG emissions (Tons CO2e/Million EUR revenue) by 50% by 2025, compared to the base year 2019 (-38.5% in 2022 vs 2019); ii) reducing water consumption by 10% (-3.0% in 2022 vs 2019); and iii) reduce waste volume by 10%, which was already achieved in 2022 (-34.6% vs 2019). In the social area, the group is focusing on reducing the annual accident frequency rate by 30% per year until 2025, as well as the voluntary turnover rate to below 4.5% (vs 6.0% in 2022). additional goals include increasing the proportion of female employees to over 20% (vs 16.4% in 2022). Finally, on the governance side, ANDRITZ is well on track to achieve its main goal of ensuring that 85% of its supply volume comes from audited suppliers by 2025 (82% in 2022 vs 78% in 2019).

FINANCIAL RISK PROFILE

CASHFLOW AND LEVERAGE

- **Strong operating performance in FY22 and 1H23 despite a challenging macroeconomic environment**

Despite a challenging macroeconomic environment in 2022, the group delivered record figures in terms of order intake, sales and EBITDA. Order intake was up by 17.6% to €9.3bn in 2022, increasing across all business areas, particularly in Hydro (+25.0% yoy). The group secured large orders to supply equipment for new hydropower plants as well as to modernize existing ones, leading to a record order backlog of €10.0bn at end-2022 (vs €8.2bn at end-2021). ANDRITZ reported sales of €7.5bn for FY22, representing a 16.7% increase versus FY21, with all business areas increasing their revenue, particularly Metals (+18.7% yoy) and Pulp & Paper (+17.0% yoy). Taking into account the strong performance in 2022 followed by solid 1H23 results, we estimate a 9.5% yoy sales increase for FY23, with the record high order backlog at YE22 supporting growth in 2023. After that, we have assumed revenue growth of around 3% yoy for FY24 and FY25.

In terms of profitability, adjusted EBITDA for FY22 increased by 25.8% yoy to €826m in FY22 (vs €718m in FY21), representing a relatively stable EBITDA margin of 10.9% (vs 11.1% in FY21). The higher profitability in the Metals and Separation business areas was offset by cost increases, and supply chain disruptions affecting the Pulp & Paper division. For FY23, we expect the adjusted EBITDA margin to drop slightly to 10.6%, on the back of higher raw material prices. This particularly impacts the Pulp & Paper division, as already observed in the first half of the year. After that, we expect the group's EBITDA margin to rebound to 10.9% in 2024 and 2025, as raw materials prices normalize. In addition, cost-cutting measures implemented at the onset of the pandemic continue to have a positive effect.

All in all, ANDRITZ generated an adjusted free cash flow (after dividends) of €333m in FY22 (vs €270m in FY21). This was driven by strong operating performance, and a working capital cash inflow of €151m (vs €16m in FY21). However, it was partially offset by a higher dividend payment (€163m vs €99m in FY21). For 2023, we project the group's adjusted free cash flow (after dividends) to decrease to around €62m, despite a strong operating performance. This is driven by our expectations of a working capital cash outflow of around €349m in FY23 (€364m already observed in 1H23). This is mainly due to the increase in contract assets and inventories stemming from the execution of its massive order backlog, as well as a higher dividend payment (€208m vs €163m in FY22). For the remainder of our forecast period, we expect the group's adjusted free cash flow (after dividends) to rebound to around €360m in FY24 and FY25, respectively. This should be supported by solid cash generation from operations, and the normalization of working capital. We note that ANDRITZ's dividend policy remains unchanged, and we expect the group 's dividend pay-out ratio to remain at around 52% in our forecast period.

At YE22, ANDRITZ's adjusted liquidity position remained very solid at around €2bn, including €1.3bn of cash in hand and €729m of current financial investments (maturing within one year). These are included in our adjusted net debt calculation. We calculate the group's EthiFinance Ratings-adjusted net cash position at €430m at end-2022 (vs an EthiFinance Ratings-adjusted net debt position of €24m at end-2021), confirming the group's strong financial profile.

SOLVENCY AND LIQUIDITY PROFILE

- **Solid solvency ratio at end-2022**

Total adjusted debt amounted to €1.3bn at end-2022, which includes a €312m adjustment related to employee benefits. Most of the group's debt comes from IFRS 16 lease liabilities (€207m) and several Schuldschein notes (€894m), with €213m and €200m maturing in 2023 and 2024, respectively. The rest is mostly related to €300m of credit lines, of which €170m had been drawn at end-2022.

The group's solvency ratio stood at 114.6% at end-2022, and we expect this ratio to further improve through our forecast period.

- **Excellent liquidity profile with strong refinancing capacities**

We assess the liquidity profile of ANDRITZ as "Adequate" (the best of the three profiles according to our long-term methodology), reflecting the company's strong refinancing profile and high liquidity level.

MODIFIERS

Controversy

• Not applicable

Liquidity

• Not applicable

Country Risk

• Not applicable

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. Millions of €.	2021	2022	2023E	2024E	2025E	22vs21
Revenues	6 463	7 543	8 259	8 507	8 762	16.7%
EBITDA	718	826	878	925	953	14.9%
EBITDA Margin	11.11%	10.94%	10.6%	10.9%	10.9%	-0.2pp
EBIT	480	573	630	670	690	19.4%
EBIT Margin	7.4%	7.6%	7.6%	7.9%	7.9%	0.2pp
EBT	440	540	585	621	637	22.9%
Total Assets	7 673	8 492	8 717	8 913	9 183	10.7%
Equity	1 567	1 835	2 126	2 383	2 638	17.1%
Total Financial Debt	1 782	1 601	1 590	1 497	1 479	-10.1%
Net Financial Debt	24	-430	-399	-692	-986	-1907.6%
Equity/TFD	88.0%	114.6%	133.7%	159.2%	178.4%	26.6pp
NFD/EBITDA (1)	0.0x	-0.5x	-0.5x	-0.7x	-1.0x	-0.6x
Funds From Operations	512	559	727	761	781	9.1%
FFO/NFD (1)	2152.9%	-130.0%	-182.3%	-110.0%	-79.2%	-2282.9pp
EBITDA/Interest	18.0x	25.6x	19.5x	18.7x	18.0x	7.6x

(1) The "NFD/EBITDA" and "FFO/NFD" ratios are negative due to the group's negative net adjusted debt position.

RATING SCORECARD

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

RATING SENSITIVITY

- **LT rating: A**

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

- **Long-term rating positive factors** (?)

ANDRITZ's rating already reflects what we consider to be a very strong financial profile. Consequently, a rating upgrade would most likely be entailed by a material improvement in ANDRITZ's competitive positioning.

- **Long-term rating negative factors** (?)

A rating downgrade could be entailed by a sustained deterioration in ANDRITZ's financial profile, which could be a consequence of a more aggressive financial policy, particularly in the event of a transformative debt-funded acquisition. For the same business risk profile, an increase in the group's EthiFinance Ratings-adjusted net leverage ratio to above 0.5x, for a sustained period of time, could entail a long-term rating downgrade to A-.

RATING DISCLOSURES

LEI: 549300VZKC61IR5U8G96

Initiation report: No

Rating initiation: A- for long-term rating on 29 November 2022.

Latest rating action: Initiation of long-term rating at A- on 29 November 2022.

Rating nature: Unsolicited (this report is paid by investors, not the issuer).

With rated entity or related third party participation: Yes, the report was published with having been reviewed by the issuer

With access to internal documents: No

With access to management: No

Ancillary services provided to the entity: 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.

Name of the rating committee chair: Thomas Dilasser, Head of Corporate Ratings France

Material sources used to support the rating decision:

- Annual report (2020, 2021, 2022)
- Quarterly reports, presentation slides and conference call
- Bloomberg

Limitation of the Rating action:

EthiFinance Ratings believes the quality and quantity of information available on the rated entity is sufficient to provide a rating.

EthiFinance Ratings has no obligation to audit or verify the accuracy of data provided.

Principal methodology used in this research available at:

https://files.qivalio.net/documents/methodologies/CRA_190_V3.CorporateRatingMethodology_Long_Term.pdf

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Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

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.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO