EthiFinance Ratings

GREENVOLT ENERGIAS RENOVAVEIS SA

PT506042715 CORPORATE

BB+ ISSUER RATING
Long term

OUTLOOK
Evolving

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Rating Action and Rationale

- EthiFinance Ratings downgrades Greenvolt Energias Renováveis S.A. from "BBB-" to "BB+", changing its outlook from "Stable" to "Evolving".
- The downgrade is explained by the lower positioning of the financial ratios. Last year, we expected for the NFD/EBITDA ratio to remain below 5.5x for the period 2021-2026. At the end of 2023, the NFD/EBITDA ratio reached 10.1x (8.3x considering the pro forma conversion of the convertible bond in 2023), which is explained by an important debt-financed expansion strategy. For 2024-2026, we still expect an expansion strategy with organic and inorganic growth, mainly financed by debt and equity contribution by KKR, resulting in an NFD/EBITDA ratio above 6x. Consequently, we do not expect the net leverage ratio to return to historical levels for the foreseeable future.
- The rating remains underpinned by: i) the renewable energy sector, which benefits from significant growth prospects and low profitability volatility; ii) diversified revenues sources across countries and operating segments; iii) the operating segment offering annuity business or revenues visibility.
- On the contrary, the rating is constrained by Greenvolt's financial profile, whose financial ratios particularly deteriorated between 2022 and 2023 as a result of its expansion strategy, which has mainly been funded by debt. Consequently, NFD/EBITDA increased from 5.6x to 10.1x ; EBITDA/interest decreased from 4.2x to 1.8x (respectively 8.3x and 2.2x considering the pro forma conversion of the convertible bond in 2023).
- We change our outlook to Evolving explained by the purchase of Greenvolt by KKR. KKR equity commitment up to today totaled €400m, €200m from the conversion of the convertible bond (1H24) and further €200m committed capital by KKR until the end of January 2025. Following the purchase, a new business plan is being designed by the company. The new development plan and the financial policy might be adjusted regarding inorganic growth or debt funding we have forecast. A deviation might occur and could trigger a rating change.
- To assess the company's financial profile, a mix of metrics has been applied according to the EBITDA contribution of the company's two main activities - the 'standard cyclicality' table for the EPC business, and, adjusting our appreciation of the risks regarding the volatility of prices on the 'generation activity', we have moved from a 'low volatility' table to the 'infrastructure' table, as this division (mainly Portugal biomass plants) benefits from regulated tariffs.
- In line with our methodology, the renewable energy industry has low ESG risks (heatmap score between 1 and 2), which positively impacts our industry rating by one category (three notches). Our assessment of the company's ESG policy is positive (company ESG score between 1 and 1.5). This leads to an upgrade of the financial risk profile by half a notch according to our methodology.

Issuer Description

Greenvolt Energias Renováveis S.A. (hereinafter "Greenvolt") is a Portuguese company active in the renewable energy sector with an installed capacity of 358MW at end-June 2024. It counts 3 operating segments: i) biomass generation; ii) utility-scale, consisting of either designing and building wind/solar and battery projects destined to be sold or directly operating solar power plants; and iii) distributed generation, consisting of studying and installing electricity self-consumption systems for B2B. Since 2021, the company has grown organically and through acquisitions. For 2023, the company reported revenues of €346m (+45% year-on-year), with EthiFinance Ratings-ajusted EBITDA of €93m. NFD/EBITDA was 10.1x at end-2023 (8.3x considering the pro forma conversion of the convertible bond in 2023). The company is listed on Euronext Lisbon with a capitalisation of €1.35bn (13/11/2024).

Fundamentals

Business Risk Profile

Industry Risk Assessment

- **The renewable energy sector is benefiting from a positive growth trend in the European Union and the UK, further supported by regulation.**

The European Commission and the UK have set a target of reducing dependence on fossil fuels. To this end, they have included biomass - which produces CO_2 through the combustion of plant-based feedstocks - within the scope of renewable energy and therefore within the policy of the net zero emissions scenario. They have developed a series of laws, taxes, incentives and regulatory frameworks to promote renewable energy and self-consumption of renewable energy in the energy matrix.

For these reasons, the three segments operated by Greenvolt benefit from a growing trend. To reach the net zero target, biomass generation will have to increase annually its supply by 8% between 2022 and 2030, while the share of wind and solar energy will have to double from 11.8% to 24.7%, leaving room for growth in the coming years.

Profitability and volatility vary by segment. Selling electricity from wind or solar plants is very profitable, as the main cost is the construction, and little volatile, as the selling price is regulated or fixed for a long period through a PPA (power purchase agreement). Selling electricity from biomass is more volatile because of the feedstock price to be taken into account. The design of a project to its construction or operation, is volatile with fluctuating. profitability depending on the macroeconomic conditions (electricity price, interest rate) that determine the viability and selling price of a project.

In the case of wind/solar energy, barriers to entry in terms of design or operation are low due to favourable policies and the number of small players. For biomass, barriers are high due to regulatory requirements, capital costs and the technical hurdle of ensuring a stable and sustainable feedstock supply.

- **A sector which benefits from positive EGS assessment.**

The renewable energy industry is well aligned with ESG factors (sector heatmap score between 1 and 2). This consideration results in a one category upgrade (three notches) on the industry risk assessment. The industry contributes to pollution reduction and biodiversity protection as a substitute for highly-polluting traditional energy sources. However, related construction emits GHG and uses significant resources. The impact on consumers and communities is positive as clean energy contributes to good health and economic development. The impact on suppliers is medium as China, where ESG issues may exist, is involved in much of the supply chain.

Competitive Positioning

- **A small player that has significantly grown since 2021.**

Historically operating biomass power plants in Portugal, the group started its diversification and internationalisation in 2021 through external growth. It reached €346m of revenues for 2023, compared with €141m in 2020.

We do not see the group's youth in the new segments it operates as a weakness. On the contrary, the acquired companies already had activities, knowledge and brand recognition, which is less risky than starting a business ex nihilo. However, we see size as an obstacle to benefiting from economies of scale, particularly in the distributed generation segment, which is still in the ramp-up phase and therefore not yet profitable. The expansion strategy will continue and EthiFinance Ratings expects Greenvolt to reach revenues of around €1bn by 2026.

As competitive advantages, we highlight: i) the annuity business in the biomass segment: the tariff period will be between 7 and 20 years for the existing plant with long-term supply agreement making the cash flow predictable and stable; ii) the annuity business in the utility-scale segment, when Greenvolt decides to operate a plant (between 20% and 30% of the project), the revenues are secured by PPAs; iii) a significant backlog of projects (9.3Gw), ensuring visibility of activity. The distributed generation segment is still underdeveloped, but the expected implementation of a pan-European platform will allow Greenvolt to achieve economies of scale.

- **Favourably diversified business model.**

In terms of diversification, we note the absence of customer concentration risk and the balance of revenues between countries and segments. However, we note the following limitations to the existing business model:

1. Supplier concentration risk. The biomass power plants in the UK and Portugal are supplied by a single supplier. In the case of Portugal, some of the power plants are located within a pulp mill complex owned by Altri - a forestry company. Geographical proximity reduces feedstock transportation costs, but creates a captive business that exposes Greenvolt to supply risk;
2. ESG transition in biomass. Regulations are becoming increasingly stringent. To benefit from government support, power plants must produce heat, which is not the case for all power plants. We believe that a carbon capture system will be required by 2035, even if there is no binding legislation today, and that this will require significant investment;
3. Capital cost: the series of acquisitions, as well as the construction and operation of the wind/solar power plant, were mainly financed by debt, which has affected Greenvolt's financial profile.

Shareholder Structure and Governance

- **A change of ownership in 2023.**

Until 2021, Greenvolt was a subsidiary of Altri, a forestry company, in order to complete its vertical integration: the wood waste generated by the forestry activity would be used to fuel a biomass power plant and then to sell electricity.

In 2021, the strategy changed and Greenvolt's goal was to become a European player in renewable energy, including other activities and countries of operation. This expansion plan was financed through debt and equity: an IPO in 2021 to raise €200m, a new capital increase of €100m in 2022 and the conversion into equity of a €200m convertible bond held by investment fund KKR in 1H24. Further €200m committed capital by KKR is expected by the end of January 2025.

KKR launched a takeover bid in December 2023 and owned 97.6% as of October 2024. A delisting was announced on

November 21st and future capital increases by KKR are expected to support the expansion plan. At EthiFinance Ratings, we view this shareholder positively as it provides additional financial support.

- **Strong governance and an experienced management team.**

As a listed company, Greenvolt has structured bodies to meet regulatory requirements and ensure better control of its operations. In terms of governance, we note an experienced CEO who previously worked in a C position at the Portuguese national electricity company and the presence of independent directors.

- **An aggressive financial policy.**

The exponential growth phase requir es significant funding for organic and inorganic investments, which are mainly financed by debt and equity contributions from the sole shareholder. The net leverage ratio has increased from 2.6x in 2020 to 10.1x in 2023 (8.3x considering the pro forma conversion of the convertible bond in 2023). The high level in 2023 is explained by the debt financing, the lower electricity price impacting EBITDA and the pro rata temporis recognition of EBITDA of the acquired companies. We expect NFD/EBITDA to decline to 7.6x in 2024 and then to around 6x in 2025-2026.

- **A positive ESG policy.**

Based on the disclosed ESG KPIs and according to our methodology, Greenvolt's ESG policy is rated positively (score between 1 and 1.5). This leads to a half-notch upgrade of the financial risk profile according to our methodology.

Financial Risk Profile

Sales and Profitability

- **2023 results impacted by the lower price of electricity.**

Revenues increased by 45%, reflecting the exponential growth of the group. The EBITDA margin decreased by 800 bps due to the lower electricity price in the UK, which is composed of a fixed part and a variable part depending on market conditions. We recall that 2022 was a year of high energy prices in Europe due to the conflict in Ukraine and the sanctions imposed on Russia.

For 2024, we expect revenues of around €600m, supported by i) new acquisitions (for example, Kent Renewable Energy, a biomass power plant whose acquisition occured in 2H24), ii) the full year revenues of the companies acquired in 2023 and iii) organic growth. In terms of EBITDA, the distributed generation segment is expected to reach breakeven, so we factor in an EBITDA margin improvement of 60bps.

Leverage and Coverage

- **A leveraged group with a weak interest coverage ratio.**

The NFD/EBITDA ratio jumped from 5.6x at end-2022 to 10.1x at end-2023 (8.3x considering the pro forma conversion of the convertible bond in 2023). We expect this ratio to improve to around 6x for the coming years. This level is considered high and composed of a diversified source of funding (bank loans, bonds, commercial paper and lease).

The interest coverage ratio (EBITDA/Interest) is weak, below 3x, due to high interest rates and higher debt levels. We do not expect this ratio to improve in the coming years, as the expected investments will mainly be financed by debt.

Cash Flow Analysis

- **Structural negative free cash flow to finance the expansion strategy.**

Biomass business generates stable operating cash flow, while the EPC part is more volatile depending on the closing dates. All in all, important capex are incurred every year, leading to negative free cash flow. This is financed by additional contribution of capital and indebtedness from diversified sources: bonds, commercial paper, project finance debt and banks.

We still expect important capex for the next 3 years, and therefore do not expect free cash flow to reach positive levels. Cash needs are expected to remain financed by both capital increases and debt.

Capitalisation

- **A satisfactory capitalisation ratio.**

The Equity/TFD ratio was 40.9% at the end of 2023 (62% considering the pro forma conversion of the convertible bond in 2023). This level is considered satisfactory. We expect this level to improve slightly to 50% in 2024 and 2025, explained by additional capital contributions.

Liquidity

- **Sufficient liquidity.**

Greenvolt benefits from an important level of cash (€464m in 2023) to cover its short-term debt calendar payment (€403m). As part of the short-term debt payment, we assumed that the €203m commercial paper would be rolled over. Finally, in October 2024 (post interim closing), Greenvolt secured a €400m 3-year RCF, providing the group with more cash reserves. We therefore do not expect Greenvolt to face any near-term treasury strain, which is neutral to our rating assessment.

Modifiers

Controversies

- **No controversy was found during the course of our review.**

Country Risk

- **No country risk has been identified.** The majority of revenues comes from the United Kingdom and the European Union, which are excluded from country risk in the CESCE (Spanish Export Credit Agency) classification.

Main Financial Figures

Main financial figures. Millions of €	2021	2022	2023	23vs22
Turnover	141	238	346	45.4%
EBITDA[1]	56	83	93	12.0%
EBITDA Margin	39.7%	34.9%	26.9%	-8.0pp
EBIT	30	46	35	-23.9%
EBIT Margin	21.3%	19.3%	10.1%	-9.2pp
EBT	22	34	-5	-114.7%
Total Assets	1,004	1,530	2,286	49.4%
Equity	350	466	572	22.7%
Total Financial Debt[1]	498	848	1,400	65.1%
Net Financial Debt[1]	239	467	936	100.4%
Equity/TFD[1]	70.3%	55.0%	40.9%	-14.1pp
NFD/EBITDA[1]	4.3x	5.6x	10.1x	4.4x
Funds From Operations	47	46	130	182.6%
FFO/NFD[1]	19.7%	9.9%	13.9%	4.0pp
EBITDA/Interest[1]	8.0x	4.2x	1.8x	2.2x

[1] EBITDA, TFD and NFD adjusted by EthiFinance Ratings.

Credit Rating

Credit Rating	
Business Risk Profile	**BBB+**
Industry risk assessment	*A+*
Industry's ESG	*Positive*
Competitive Positioning	*BB+*
Governance	*BBB-*
Financial Risk Profile	**BB-**
Cash flow and leverage	*BB-*
*Capitalisation**	*BB-*
Company's ESG	*Positive*
Anchor Rating	**BB+**
Modifiers	*No*
Rating	**BB+**

*Restated following the recalculation of Total Financial Debt from the last report, with no impact on the final rating.

Rating Sensitivity

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

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

The rating could be upgraded if: Greenvolt generates a turnover above €1bn; reduces its economic dependence to Altri; reaches and maintains the following ratios NFD/EBITDA below 6x; FFO/NFD above 20%; Equity/TFD>80% and an EBITDA/Interest>3x.

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

The rating could be downgraded if NFD/EBITDA ratio remains above 8x; FFO/NFD below 8%, Equity/TFD below 30%, and EBITDA/Interest below 1.8x.

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:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. 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. Principal methodology used in this research are :
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- The rating scale used in this report is 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.