# RATING COMMUNICATION

Cerved Rating Agency S.p.A. affirms at

**A3.1**

the public rating assigned to **RENCO GROUP S.P.A.**

Pesaro (PU) – Strada del Montefeltro, no. 51

Cerved Rating Agency has confirmed on 29/09/2022 the public rating A3.1 to Renco Group S.p.A.

Date of first issuance of the rating: 28/06/2015

*Renco Group S.p.A. (hereinafter "Renco" or "the Group") is the parent company of the Group of the same name, operating in the industrial plant engineering and general contracting sector. Activities are carried out through four business lines: Industrial plants, Buildings, Services and Asset Management. In December 2019, but effective from 1 January 2020 for accounting purposes, a significant restructuring process was completed which, through a spin-off from Renco S.p.A., enabled the creation of two new companies: Renco Valore (holds and manages Group's real estate division) and Renco Asset Management (advisory firm that holds the know-how and assists the subsidiaries of the Group and third-party customers).*

## RATING FACTORS

The confirmation of the A3.1 rating reflects: (i) the good degree of diversification of the portfolio projects which enabled the achievement of positive economic results in FY21; (ii) the Group's ability to deal with changing market conditions; (iii) the overall balanced financial structure, despite the greater financial effort needed to support the business; (iii) the good level of coverage of the VoP forecast in FY22 with the backlog acquired; (iv) the high level of capitalisation that has historically been a hallmark of the Group.

**Positive economic results in FY21 that benefitted from the portfolio mix –** The consolidated results achieved in FY21 show a Value of Production (VoP) up to €329.9m (+1.6% YoY), mainly driven by the Buildings business line (BL) (+28.3% YoY). In 2021, significant activities related to "Superbonus 110%" were carried out for approx. €37.0m in terms of VoP. The positive trend recorded on the abovementioned BL allowed to offset the decrease in VoP of the following BLs: (i) Asset Management, impacted by the reduction in overnight stays related to fiduciary isolation (from which it had benefitted in FY20); (ii) Energy, reflecting the completion of the "Power Plant Yerevan" project (completed in 2021), only partially offset by the "Everdrupp" project related to the construction of a gas compression plant (contract value of more than €70m). The adjusted EBITDA margin, amounting to 10.3%, remains in line with FY20, thanks to the positive contribution from industrial activities, which balanced the reduction of profitability in the Asset Management BL. Despite the geopolitical conflicts which adversely impacted some projects, this result confirms Renco's ability to cope with variable market conditions.

**Overall balanced financial structure but impacted by the investment plan –** In FY21, the cash absorption by Net Working Capital (NWC) amounted to €20.3m, mainly due to: (i) the increase in trade receivables related to the "Superbonus 110%" initiatives, generally characterised by longer collection terms compared to EPC and Services projects; (ii) lower advance payments recorded due to the termination of the Power Plant Yerevan and Accademia GdF di Bergamo projects. The NWC cash absorption, combined with high CapEx amount of to €39.0m (primarily related to the purchase of land, buildings and industrial equipment used for construction activities) and equity investments for €15.2m (mainly attributable to the increase in share capital of Armpower Cjsc), required a greater use of new financing. Consequently, the adjusted consolidated Net Financial Position (adj. NFP) as at 31/12/2021 increased to €134.9m (€93.7m as at 31/12/2020) with an adj. NFP / Equity *ratio* and adj. NFP / adj. EBITDA ratio of 0.8x and 4.0x respectively (0.6x and 2.8x as at 31/12/2020), which despite the increase, show a generally balanced financial structure. Lastly, it should be noted that the first two tranches of the bond "*Renco Group S.p.A. 4.75% 2017-2023*" amounting to €11.6m have been reimbursed in 2021.

**Future outlook –** The backlog acquired highlights the Group's greater focus on green projects primarily regarding: (i) increasing building energy efficiency; (ii) wind farms and photovoltaic plants. Despite the unfavourable macro-sector dynamics, the Group's commitment in gas industry persists, since it's considered strategic in the global energy transition process. Also in this context, Renco managed to leverage its competitive advantage benefitting from a long-established presence in specific countries of the MENA area (Middle East, North Africa). Management estimates a VoP growth in FY22 up to €420.6m, relying on a backlog as of September 2022 amounting to €1,058m (backlog/VoP coverage of 70% in FY22 and 96% in FY23 respectively), while EBITDA margin is expected to decrease (approx. 9.0%). This result will mainly be influenced by: (i) the delay of some projects in Mozambique due to external factors, expected to recover from FY23; (ii) the acquisition of a project in the Services BL with an agreed lower profitability compared to track record but considered strategic for the business. The major focus on Buildings BL projects in 2022 will trigger a higher financial need (typical of such activities), with an increase in the expected NFP as at 31/12/2022. However, Cerved Rating Agency believes the high level of capitalisation that has historically characterized the Group will enable the maintenance of a fully sustainable leverage to equity ratio below 1.0x.

## RATING SENSITIVITY

- The achievement of the BP targets will lead to the maintenance of the current rating class assigned.
- Renco Group S.p.A.'s rating may be downgraded in the event of: (i) non-achievement of the targets set out in the BP with a substantial reduction of VoP amount compared to FY22 forecast; (ii) adj. EBITDA margin in FY22 < 9%; (iii) adj. NFP /adj. EBITDA *ratio* > 4x and adj. NFP / Equity > 1x.

The applied methodology is published on Cerved Rating Agency's website: www.ratingagency.cerved.com

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