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, n. 51 – Italy

On 28/11/2024 Cerved Rating Agency confirmed the A3.1 public rating of Renco Group S.p.A.

First issuance of the rating: 28/06/2015

Renco Group S.p.A. (hereinafter "Renco" or "the Group") is the holding company of the homonymous Group, operating in the industrial plant engineering and general contracting industry. Activities are carried out in four business unit (BU): Energy, 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 split-off by Renco S.p.A., enabled the creation of two new companies: Renco Valore, which holds Group's real estate properties, and Renco Asset Management that is responsible for their management.

Key rating factors

The confirmation of the A3.1 rating reflects: (i) the diversification of orders mix, oriented to higher-margin initiatives (i.e., project financing/private-public partnership) in strategic segments (technology infrastructure and green energy); (ii) the production recovery of significant orders in 2H24, after their slippage in 1H24, with a financial structure projections at Dec24 substantially in line with the previous year; and (iii) backlog at Nov24 able to cover most of the expected VoP for FY25.

1H24 economic results affected by the new significant orders shift – In 1H24, the Group recorded a Value of Production (VoP) of 152.8 mn (273.4 mn in 1H23) and an EBITDA of 13.3 mn (24.4 mn in 1H23). These results, considering a stable overhead cost structure, were mainly affected by the completion of some significant contracts (including those related to 110% Surperbonus and to the Waterline in Kazakhstan) that had driven the boost in FY23, and also by the delayed startup of new significant projects acquired between 2023 and 2024, and whose production started only in 2H24. Specifically, the dynamics at BU level show: (i) an increase in the average marginality to 15% (vs. 8% in 1H23) on the Energy segment driven by a change in the mix orders, more focused on the assets construction and management developed in project-financing logics (i.e., EPC for the PV plants in Paese and Mogliano and for the Yerevan CCGT), compared to traditional works acquired through a competitive process (i.e. Port of Ravenna); (ii) downsizing of Buildings BU margin to 7.3 mln (vs. 23.0 mln in 1H23), penalized by the end of projects linked to Superbonus 110% and to Waterline, but also by some bureaucratic/authorization delays, not attributable to the Group, related to works of the UNIMI site (contract value 345.0 mln), for the renovation of the Buoncompagni building in Rome (89.0 mln) and for the redevelopment of the former railway station in Cortina (77.0 mln); (iii) the Services division development, with an EBITDA increased to 4.4 mln (2.1 mln in 1H23) especially thanks to Africa and the Middle East projects (i.e. Ammat, Baker Huges); (iv) a decrease to 3.4 mln (6.2 mln in 1H23) in the margin of the Asset Management BU, whose trend reflected the evolution of assets under management and development. Finally, with regard to financial items, the Group reports a negative result of 8.2 mln (-3.2 mln in 1H23) which, despite the positive impact from foreign exchange differences (3.2 mln), also reflected: (i) lower income from investment disposal (-4.6 mln YoY), (ii) higher financial expenses linked to the latest tranches of tax receivables disposal (+1.7 mln YoY) and withholdings tax on dividends received from foreign subsidiaries (+0.3 mln YoY).

As a result of the aforementioned dynamics, the Group closed the first half of FY24 with a negative net result of 3.8 mln (positive for 6.7 mln in 1H23).

Increase in leverage at Jun24 due to the production postponement – Despite lower operating margins related to the deferral of a large part of production, Net Operating Cash Flow (NOCF) remained positive in 1H24 due to working capital dynamics that benefited from: (i) advances received for orders only started in 2H24; (ii) normalization of DPO in line with the change in order mix, after their reduction from execution of Superbonus projects in FY22-23, along with more deferrals due to the available reverse factoring plafond (approx. 50.0 mln). Considering Capex occurred in 1H24 (more than 23.0 mln), mainly related to works in Pemba, Mozambique (expansion of the port area and construction of a 20MW photovoltaic plant), as well as the establishment of the SPV Renco Cortina Elite S.r.l. (0.7 mln) and the recapitalization (+0.5 mln) of the Albanian associate company Excelerate Renco FPB, at Jun24 the Adjusted Net Financial Position (adj NFP) rose to 272.7 mln (238.1 mln at Dec23), including 85.9 mln of non-recourse debt primarily related to the subsidiary Armpower.

FY24 forecast and medium-term strategies – In line with projections, in 2H24 Group's economic results will recover significantly thanks to the ultimate start of works that were delayed in 1H24, as reflected in the third quarter results (VoP of more than 150.0 mln in 3Q24 alone, and EBITDA higher than one achieved in 1H24). Despite the positive development in the second half of the year, FY24 Fct economic results are still expected lower than the previous year, with an estimated VoP of 458.0 mln (593.0 mln in FY23) and a EBITDA of approx. 45.0 mln (68.5 mln in FY23). Based on the backlog (2.9 bln as of Nov24), the Management estimates a VoP growth to approx. 700.0 mln in FY25 (of which over 400.0 mln from Buildings BU and approx. 165.0 mln from Energy BU) with margins in line with track record (EBITDA of approx. 77.0 mln). In line with 9M24 results, and the existing backlog, the Agency considers achievable the economic target for FY24-25. At equity and financial level, the Group is currently defining new finance raising (both in the form of debt and equity) to support the development of the significant works portfolio. From a short-term perspective, a gradual reabsorption of the adj NFP is expected, whose amount at Dec24 should be close to the one at Dec23 (at Sep24 the adj NFP has already declined to 250.0 mln). Moreover, it must be noted the Group's strategy of developing new partnerships to support existing projects. In this regard, at Oct24 the Group created "Renco Infra Logistic S.r.l.", a vehicle that now holds Capo Delgado Properties SA and, indirectly, Pemba Bulk Terminal LTD, and that led to the simultaneous entry of a new financial partner who contributed with a capital injection of 17.8 mln (with additional 10.0 mln to be paid-out, but already approved).

Rating sensitivities

- In the short term, it is expected a maintenance of the actual rating class assigned.
- The rating of Renco Group S.p.A. may register a downgrade in case of: (i) FY24 results significantly lower than targets estimates and/or failure to recover VoP and EBITDA in FY25 compared to budget; (ii) deterioration in the ability to generate operating cash flows, with a significant increase in leverage.

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

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