RATING COMMUNICATION

Cerved Rating Agency S.p.A. affirms at **A3.1**

the public rating assigned to "**Renco Group S.p.A. 4,25% 2020-2027**"

Issued by **Renco Group S.p.A. (CF: 13250670158)** – Pesaro (PU) – Strada del Montefeltro 51 - Italia

Cerved Rating Agency on 01/10/2021 has confirmed the rating A3.1 assigned to the debt security "Renco Group S.p.A. 4.25% 2020-2027", ISIN: IT0005422511, issued in private placement.

Date of first issuance of the rating: 23/11/2017

The confirmation reflects the Issuer's rating, updated by the Cerved Rating Agency on 01/10/2020.

Key rating factors

The confirmation of Renco's A3.1 rating reflects the positive results reported in FY20, with the Group being able to adapt to the changing market conditions caused by Covid-19 issues and to the geopolitical conflicts, which have negatively affected the progression of certain orders. The Group results have been achieved through: (i) diversification of the business lines as well as geographical presence; (ii) adequate capital resources to support the growing financing needs; (iii) FY 2021 – FY 2022 Group expected economic performance covered by the backlog and the pipeline.

Overall positive results despite the pandemic and the complex geographical area served – Despite the Covid-19 emergency, which prevented technicians mobility and penalized the hotellerie sector, Renco in FY20 generated a consolidated Value of Production (VoP) of euro 324,6 million (euro 315.2 million in FY19) and an EBITDA margin of 10.3% (14.4% in FY19 - such higher percentage is attributable to the disposal of the Gemma dell'Est resort in Zanzibar which generated an extraordinary income of euro 35.1 million). Important projects were indeed completed during the year, such as: (i) "Trans Adriatic Pipeline" (TAP); (ii) industrial port of Pemba (which also allowed the acquisition of new orders for the transport of inert materials); (iii) progress of construction work on the Yerevan combined cycle power plant in Armenia (which recorded a percentage of work completion of 78% in FY2020 vs. 32% in FY2019). Lastly, worth mentioning is that Renco began the construction of an expatriate camp and temporary buildings commissioned by CCS following the discovery of natural gas fields in Mozambique.

Financial structure affected by the considerable investment plan – As at 31/12/2020 adjusted Net Financial Position (adj NFP) increased to euro 93.7 million (euro 26.8 million as at 31/12/2019) thanks to (i) higher cash absorption of Net Working Capital as a result of the orders progression (in particular TAP, Yerevan and CSS Mozambique); (ii) Group's significant CapEx (euro 44.9 million for tangible and intangible assets as well as euro 17.4 million of capital increase disposed for Armpower Cjsc). The rising financial requirements were financed with euro 51.6 million of new bank loans: (i) euro 43.6 million granted to Renco Valore S.p.A., aimed at developing the real estate BU; (ii) euro 5 million granted to Renco S.p.A., to support Working Capital requirements; (iii) euro 3 million in order to finance the development of the hotel project Villa Soligo. Furthermore, in August 2020, Renco reimbursed a bond of euro 10 million, placing a new one for the same amount in private placement (with maturity January 2027). Despite an increase of the adj NFP/adj EBITDA index (2.8x as at 31/12/2020 vs. 0.6x as at 31/12/2019), the Group confirms a solid Net Equity position, reporting a leverage ratio adj NFP/Net Equity equal to 0.6x as at 31/12/2020 (0.2x as at 31/12/2019).

FY21-22 outlook – Renco strategy is intended at reorganizing the core business of the Group in order to reduce the EPC activity risks, focusing on (i) the acquisition of complex projects characterized by higher marginality; (ii) taking part in private public partnership initiatives in project financing, which guarantee cash flows through asset management; (iii) investments in ancillary activities to support energy and gas portfolio orders. VoP and EBITDA margin in FY21 are expected to be in line with FY20; such results will be still influenced by the combined effect of both Covid and the interruption of some important projects in Mozambique (due to conflicts incurred in the Afungi peninsula). The completion of the investments, totaling euro 15.2 million (estimated value), will lead to a further increase in the adj NFP, which as at 31/12/2021 is expected to be equal to 112.2 million. However, Cerved Rating Agency believes that thanks to the high capitalization, the Group will be able to maintain a sustainable leverage with a debt-to-equity ratio lower than 1x (0.6x as at 31/12/2020). It should also be noted that in 2021 the repayment of the first tranche (11.5 million euros) of the bond loan expiring in 2023 is expected. In FY22 management assumes productivity to recover, with VoP growth to approx. 460 million euro and EBITDA margin that will be around 15%, benefiting from the existing backlog and the pipeline of over 845 million euro as at 31/12/2020. Cerved Rating Agency considers management's FY21-22 forecasts to be reliable, as confirmed by: (i) backlog/ VoP index equal to 89% in FY21 and 67% in FY22; (ii) start-up activities of Yerevan power plant, with expected VoP of over 90 million euro and EBITDA of approx. euro 25 million. Further upside may also derive from the activities linked to the tax incentives introduced by the "Decreto Rilancio" concerning the Italian energetic bonus (approx. euro 40 million orders recorded as at September 2021).

Rating sensitivities

- The fulfilment of all the objectives set in the FY21 business plan will result in the confirmation of the current rating class.
- The Rating of Renco Group S.p.A. may be downgraded in the event of: (i) failure to fulfil the achievements set out in the business plan, with a significant reduction of VoP amount compared to budget; (ii) FY21 adj EBITDA margin < 10.5%; (iii) adj NFP/EBITDA adj > 3x and adj NFP/Net Equity > 1x.

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

Lead analyst: Elena Pellegrini – elena.pellegrini@cerved.com

Rating Committee Chairperson: Mara Cassinari – mara.cassinari@cerved.com