RATING COMMUNICATION

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

the public rating assigned to "Renco Group S.p.A. 4,75% 2017-2023"

Pesaro (PU) – Viale Venezia, n°53

On 02/08/2019 Cerved Rating Agency confirmed the rating A3.1 assigned to the debt security "Renco Group S.p.A. 4.75% 2017-2023", ISIN: IT0005305468, admitted to negotiations on the Professional Segment ExtraMOT PRO, organized and managed by Borsa Italiana S.p.A.

First rating issue: 23/11/2017

The rating reflects the rating assigned to the Issuer, updated by Cerved Rating Agency on 02/08/2019. The confirmation is motivated by the management's capacity to achieve the predefined targets, without altering the risk profile of the Issuer.

Main economic-financial results

The Group operates in various countries through numerous branches located in Asia, Africa and Italy; the customer portfolio is mainly composed of operators belonging to the O&G sector as well as international institutional entities. Renco continues to follow the business diversification strategy as well as maintaining high quality standards, this helps the Group to retain customers, as well as reduce competitive pressure. The historical territorial presence of Renco in Mozambique, Kazakhstan and Armenia is an advantage in terms of opportunities compared to its competitors and this will allow the Group to obtain significant returns in the coming years. During the second part of FY19 will be implemented a reorganization project which will lead to the separation of the Asset Management division (constantly growing) from the Industrial Plants and Services division, with the aim of enhancing the various business lines in which the Group operates. During FY16-FY18 Renco Group maintained a growth trend in terms of VoP of 14.3% CAGR. Although business plan expectations were not fully met in terms of VoP, since in FY18 amounted to 243.3 million euro (248.2 million euro in FY17), the EBITDA margin recorded resulted higher compared to the estimated values. The reduction of the VoP arises from the postponement of the TAP Italy and Yerevan Power Plant projects, both related to the Industrial Plants business unit. The Asset Management division shows the highest growth rate (+39% YoY) mainly due to the disposal of the Hotel Yerevan during December 2018 which resulted in a gain of 11.6 million euro. The Infrastructure business unit, on the other hand, shows a contraction attributable to the exceptional trend recorded in FY17, due to the "TCO Camp" project in Kazakhstan, in addition to more selective commercial policies applied by the Group in FY18. EBITDA and EBIT in FY18 amounted to 37 million euro and 25.2 million respectively, with the EBITDA margin and EBIT margin respectively 15.2% (13.1% in FY17) and 10.4% (9.4% in FY17). At year-end 2018, Renco respected all covenants on bonds. Management estimates that in FY19 the 282.4 million euro of VoP presented in the business plan will be reached, considering a backlog (FY19) of over 250 million euro mainly attributable to the Industrial Plants business unit (main projects: TAP Italy, Greece, Albania and Yerevan Power Plant). In 2018 the Net Operating Cash Flow of Renco Group amounts to 19.3 million euro, despite a penalizing working capital trend related to the missed collection of 15 million euro (expected by the end of 2019) arose from the disposal of Hotel Yerevan. The Group confirms the ability to meet its liquidity needs, through the generation of cash deriving from operating activities, which allowed Renco to realize a positive Free Cash Flow of 3.6 million euro net of Capex incurred of 15.6 million euro. The Group has so far supported the investment plan confirming their financial sustainability; Management for 2019 estimates a significant reduction of the Gross Financial Debt (GFD/Equity ≈0.51x) despite an investment plan amounting to over 30 million euro.

Risk factors

- ***Issuer risk***

Given the nature of the Issuer, which is an Holding Company, the economic results and profitability are strictly connected to the economic trend, the investments and dividend distribution policies of all Group Companies. This bond is on top of the pre-existing bond loan of 10 million euro issued in 2015, which will expire in 2020 and will have to be repaid bullet in 2020.

- ***Issuer financial risk***

The debt re-financing risks are managed by monitoring the expiry date of the credit lines and through the debt coordination with respect to other investment made. Any deterioration, in terms of conditions of the new loans or future worsening of credit worthiness from the banking system, could negatively effect the economic and financial position of both the Issuer and other Group Companies, limiting their growth.

- ***Issue risk***

The financial investment involves the credit risk connected to the possibility of the Issuer to become insolvent, the risk connected to the possible generation of losses (due to price variations) and the liquidity risk in case the investor could not be able to promptly liquidate the financial instrument acquired.

Rating sensitivities

- Achievement of business plan targets would allow the rating class attributed to be confirmed
- Significant deviations from the scheduled objectives with negative effects on the economic and financial structure could determine a rating downgrade

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

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