

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**”

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

Cerved Rating Agency on 23/07/2020 has 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 confirmation reflects the Issuer's rating, updated by the Cerved Rating Agency on 23/07/2020.

Key rating factors

The confirmation of Renco's rating derives from the Group ability to adapt to changing market conditions, thanks to the deeply rooted know-how and the business diversification strategy which over the years helped managing competitive pressure as well as any delay related to the order backlog. The corporate structure reorganization (carried out by the end of December 2019 but effective from January 1st, 2020 for accounting purposes) allowed the separation of industrial activities from those of asset management (different in terms of risk, financing needs and operational management) which will permit: i) the reduction of the financial structure of Renco S.p.A; ii) to finance new investments with the resources generated from Renco Valore's activities, without drawing cash from the industrial division; iii) better conditions in order to obtain the bonds required for a tender; iv) to support any extraordinary market transaction that may arise.

Significant level of backlog and business diversification strategy – As at 31/03/2020 Renco accounted for an order backlog amounting to euro 1.195 million of which 660 million are pipeline orders that will be completed in the upcoming years. Thanks to the historical presence in Armenia, Kazakhstan and Mozambique, the Group benefitted of an important competitive advantage which aided Renco to seize new business initiatives with significant expected short-term returns. In recent years the Group has focused its activity on the gas and power generation market as important growth opportunities are expected. In this regard we point out the Yerevan power plant project (in Armenia) with a contractual value of euro 175 million and the agreements signed in Mozambique (following the discovery of natural gas fields) referring to the construction of: i) a 9500-persons men camp in the Afungi Peninsula worth euro 70.3 million; ii) a multifunctional building for a contractual value of euro 45 million. Renco, by the end of 2020, will also start building a gas compressor plant in Denmark (contract value: euro 72 million).

Adequate level of margins – 2019 consolidated results show an increase in the Value of Production (VoP) which stands at euro 315.2 million (+ 29.6% YoY). This result was led by the Asset Management division which has been positively influenced by the disposal of the “Gemma Village” in Zanzibar (generating an extraordinary income of euro 32.8 million). Adjusted EBITDA (which includes bad debt accrual) in FY19 amounts to euro 45.5 million (37.0 million in FY18) accounting for a margin of 14.4%. During 2019 the Group re-purchased the Yerevan Hotel, due to the insolvency of the counterparty to which it had been disposed in 2018, recording an extraordinary loss of euro 11.3 million. The Covid-19 emergency

caused the temporary slowdown of some construction sites and the suspension of certain orders but, despite this, engineering and procurement activities continued without being interrupted. Therefore Cerved Rating Agency believes that FY20 budget expectations are achievable, as Management estimates to reach euro 320 million of VoP, considering a backlog that almost entirely covers such amount.

Balanced financial structure – Group's adjusted Net Financial Position (NFP) as at 31/12/2019 (including shareholders payables and excluding financial receivables) amounts to euro 26.8 million, showing a decrease compared to euro 73.4 million recorded at 31/12/2018. Ratios PFN *adj.* / PN and PFN *adj.* / EBITDA *adj.* are respectively 0.16x (0.46x in FY18) and 0.59x (1.98x in FY18). Such trend benefitted from the good result achieved in 2019 as well as the favourable working capital trend which generated cash for some euro 70 million and consequently a positive Free Cash Flow of euro 75.1 million. Net financial position is expected to increase in 2020 (as at 31/12/2020 Management expects to record an amount of euro 107.5 million) due to capex and other investments for more than euro 60 million; despite this Cerved Rating Agency believes that Renco's financial strength and profitability will still be preserved.

Rating sensitivities

- Due to the current economic situation, the confirmation of the same assigned rating class is to be considered the positive scenario.
- The rating of Renco Group S.p.A. could be downgraded in case of: i) significant Value of Production reduction compared to FY20 expected value; ii) Ebitda *adj.* lower than euro 25.5 million; iii) ratio PFN *adj.* / EBITDA *adj.* > 3,5x.

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

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Cerved Rating Agency has assigned the rating in compliance with Regulation CE1060/2009 and following modifications and integrations; it is an opinion on the creditworthiness of the rated entity and it summarizes the reliability or the insolvency probability of the entity.

The rating issued by Cerved Rating Agency is not an investment advice, nor a form of financial consultancy; it is not a recommendation for the purchase or sale of shares or for holding particular investments, nor gives it any advice to a particular investor to make a particular investment.

The issued rating is subject to an on-going monitoring until its withdrawal. The rating has been solicited by the rated entity, or a related third party, which has participated to the process providing the analytical team with the requested information. The information used for the analysis includes available public information and proprietary information obtained from sources deemed reliable by Cerved Rating Agency. As per applicable Regulation the rating was disclosed to the rated entity before being issued to review factual errors.