RATING COMMUNICATION

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

the public rating assigned to **Renco Group SpA**

Pesaro (PU) – Viale Venezia, n°53

Cerved Rating Agency on 02/08/2019 confirmed the A3.1 rating of Renco Group SpA.

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

Renco Group Spa (also "Renco" or "the Group"), founded in 2000, is the main Company of Renco Group that operates in the industrial and general contracting sector. The activity is carried out through four business lines: Industrial Plants, Infrastructures, Services and Asset Management.

Key rating factors

- ***Business model and market positioning***

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 a reorganization project will be implemented, this will lead to the separation of the Asset Management division (showing a constant growth) from the Industrial Plants and Services division, with the aim of enhancing the various business lines in which the Group operates.

- ***Key financial results***

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).

- ***Liquidity***

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.

Key risk factors

- **Market risk**

The wide business diversification, in addition to the monitoring of local realities (through the continuous presence on site of management members) and the high quality level of services provided by the Group, helps reduce the market risk. Localization in specific geographical areas exposes Renco to country risk, however, mitigated through specific insurance coverage (MIGA, SACE).

- **Operational risk**

Delays and possible postponements of the projects could generate a negative impact due to the possible payment of penalties or the rise of extra costs. These factors have been reduced by the strengthening of management control, through the implementation of the Oracle JDE management system installed in 90% of the branches and through the monitoring carried out on the main orders from dedicated controllers.

- **Financial risk**

The Group can count on the support of the banking and financial system, the interest rate risk and the exchange rate risk are managed through the adoption of hedging instruments; Renco has also signed insurance policies to protect loans granted to other Group companies.

Rating assumptions

- Marginality improvement in FY18, despite a lower than expected VoP.
- FY19 will show an increase in VoP (+16%), an increase of EBITDA margin (+20%) and reduction of the GFD (-32%).
- Development of important investments planned in Mozambique during the period 2019-2020 and simultaneous continuation of the Yerevan Power plant and Tap Italy project.

Rating sensitivities

- Achievement of business plan targets could allow an upgrade of the rating class attributed.
- Significant deviations from the objectives set out in the business plan, 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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