

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 04/08/2018 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 04/08/2018. 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 Value of Production (VoP) of the Group in 2017 stood at 248.2 million euro, with an increase of 33.3% compared to 2016, attributable to a growth in all the business lines. The Industrial Plants Division shows the highest growth rate, with an increase of 30.6 million euro (+50.0% YoY), although lower than forecast due to postponed starting of work on TAP Italia, now scheduled by the management for the second half of 2018. The Infrastructures Division, a segment subject to greater variability from year to year, achieved an increase of 33.6% YoY in 2017, higher than forecast, due to the award of new contracts during the year and completed before year-end. Despite lower growth rates, the Services and Asset Management business units achieved significant results, confirming a positive trend over the years. The Group EBITDA was 32.6 million euro (+25.0% YoY), while the EBITDA margin dropped from 14.0% to 13.1% in relation to the lesser importance of the Asset Management division, characterized by a margin of 44.7%. The profit for the year was 1.5 million euro (10.5 million in 2016), mainly due to losses of 6.9 million euro on unrealized exchange gains. The financial exposure remains sustainable, given the Net Debt/EBITDA, EBITDA Interest Coverage and Net Debt/Equity ratios of 1.7x, 7.2x and 0.4x respectively. At 31/12/2017 all the loan covenants had been fulfilled. For 2018 the Group predicts a VoP of 253.8 million euro, mainly due to the development of the TAP WIP (Italy, Greece and Albania) and the start-up of Power Plant in Armenia. Margins are forecast to increase due to improvements in some of the main projects, in addition to a mix effect due to growth of the Services and Asset Management divisions, characterized by the highest margins among the b.u. We believe that the biggest risks are represented by possible postponements of TAP Italia and Armpower, for which impacts are predicted from the beginning of 2018 (with production expected as from the second half of the year). The Group confirms its capacity to cope with its liquidity needs through the generation of cash flows resulting from the operating activity. In the FY 2017 the net operating cash flow was 53.2 million euro, as a consequence of positive management of the working capital in the amount of 28.6 million euro mainly due to the use of factoring without recourse, in particular at the end of the year in the amount of 8.3 million, by the collection of credits with Velofirma and by the increase in trade payables. The Free Cash Flow (FCF) stood at 12.5 million euro net of the operating CAPEX amounting to approximately 29 million euro. For 2018 we believe that the company's Net Debt will increase due to development of

the new projects in the Industrial Plants and Infrastructures areas, but that it will be sustainable and supported by the positive flows of the Services and Asset Management divisions.

Risk factors

- **Issuer risk**

Given the nature of the Issuer as a holding company, the economic results and profitability depend on the economic trend, investment policies and dividends distribution of Group companies. Furthermore, the issue in question adds to an existing bond loan of 10 million euro issued in 2015 with expiry in 2020, with repayment in one single instalment.

- **Issuer financial risk**

The debt re-financing risks are managed by monitoring expiry of the credit lines and coordinating the debt with the types of investment. Any deterioration in terms of conditions of the new loans or future worsening of credit worthiness from the banking system could have negative effects on the economic and financial situation of the Issuer and of the other Group companies, limiting their growth.

- **Issue risk**

The financial investment involves a credit risk connected with the possibility of the Issuer to become insolvent, a market risk connected with the possibility of sustaining losses due to price variations and a liquidity risk if the investor would not be able to rapidly liquidate the security 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 methodology used can be consulted on the Cerved Rating Agency 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.