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 A3.1 rating of Renco Group SpA

First rating issue: 28/06/2015

Renco Group S.p.A.(formerly EIDA SpA) established in 2000, is the holding of the eponymous Renco Group operating through various business lines comprising Industrial Plants, Infrastructures, Asset Management and Services divisions, with over 40 subsidiaries located mainly in Italy, Middle East, Asia and Africa.

Key rating factors

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

The Group carries out multiple activities in various countries: business diversification is an essential element in Renco's strategy, with the objective of mitigating any slowdown in WIP (work in progress) for Industrial Plants (particularly in the O&G sector) and infrastructures, and coping with bigger competitors. The Group's strong commitment with local specific clients in areas of Asia, Middle East and Africa also constitute an effective barrier to the entry of other operators. The Group has a geographical diversification such as to mitigate any country risk potentially arising for any problems in individual countries. Asset Management represents an important liquidity buffer due to the important investments regularly made by Renco and the high margins guaranteed by this b.u.

- ***Key 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).

- ***Liquidity***

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.

Key risk factors

- ***Market risk***

Diversification of its business and the supply of services with high added value enable the Group to cope with the high competitive pressure. The Group is exposed to the country risk; this is mitigated by the ongoing presence of management personnel who constantly monitor the local reference firms.

- ***Operational risk***

The main operating risk is connected with possible delays in projects, i.e. passive claims that may arise during or at the end of the project. Backlog is sufficiently diversified and guarantees production for the next three FYs (backlog/VoP at 3.0x). Specific controllers monitor the main projects, whereas the others are supervised by the central structure.

- ***Financial risk***

The Group can count on the constant support of the banking and financial system in general in addition to its self-financing capacity. The interest and exchange risks are managed by the adoption of hedging instruments. No particular credit risk problems are identified.

Rating assumptions

- Trend impacted by adequate level of debt sustainability, with economic results in line with forecasts
- Further positive cash flows generation in the period
- Delays in starting work on TAP Italia site and in the Armpower project

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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