



ISSUER RATING

Long-term Rating

Outlook: Negative

First rating date: 28/04/2015

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Executive Summary

Below is the Executive Summary with the main reasons for the public rating assigned to **Teknia Manufacturing Group, S.L.**, which is an international group that operates in the automotive components industry as a TIER 2 and 1 supplier, applying the technologies involving Plastic, Metal, Machining and Aluminium. Teknia reached a total turnover of €378M and EBITDA of €32M (margin of 8.45%) in 2019 (€35.1M; Margin: 9.28% without effect of one-offs), with a NFD/EBITDA of 2.76x.

Fundamentals

Business profile

- **Sectoral environment characterised by technological change and the current public health pandemic (COVID-19), with a significant contraction in demand estimated in the short term.**

Teknia is part of a sector that is currently characterised by a progressive decline in demand due to the uncertainty derived from the technological change that is occurring in the industry, an aspect that adds to the current health crisis, which has negatively impacted the economic environment of the main automotive markets, deteriorating the growth estimated for the players in the sector and estimating a significant decline in demand for 2020.

- **Adequate competitive positioning as a TIER 2 supplier in the automotive sector, with long-term relationships with the main players in the industry that favour recurrence in business generation.**

Satisfactory position as a supplier of automotive components, maintaining an extensive track record in the industry that favours commercial relations around the main players in the automotive industry. Its customers portfolio of OEMs and leading TIER 1 suppliers with high solvency provides the company with visibility and recurrence in the generation of funds. In 2019 it incorporated new long-term projects for €90M/year into its backlog, which is expected to remain stable in 2020 despite the negative outlook for the industry.

- **Positive operational and geographic diversification that favours Teknia's competitive fundamentals.**

Teknia maintains an adequate portfolio of products with multiple technologies that is determined as a differential element that favours its competitive capacity. The maintenance of an adequate diversification by turnover, representing the Metal segment, the main operating area, 40% of its total sales in 2019, together with the presence in the main automotive markets reinforces its position in this industry. The international focus of its activity, with international sales reaching 76% of sales in 2019, and the presence of production plants in its five markets (Europe, NAFTA, LATAM, Morocco and Turkey) reduces dependence by product and geographical area, mitigating its exposure to a sector whose evolution is estimated to be negative in the short and medium term.

- **Solid shareholder and management team support in a context of uncertainty in the sector, developing a strategic plan and conservative financial policy that we value as appropriate.**

The company maintains a stable shareholder and management team structure that favours the execution of a strategic plan focused on greater efficiency within the group, carrying out a reorganisation by segments and by part of the management team that favours its overall profitability and maintains leverage at controlled levels. The unfavourable environment and negative outlook for the sector could negatively impact the company's credit profile if the current situation of uncertainty in demand extends beyond 2020.

Financial Profile

- ▶ **Favourable evolution of the turnover that is not transferred to its results after the uneven growth of the sector during 2019 and reorganisation of the structure of the group carried out during the financial year, maintaining in any case an adequate profitability that is estimated to be reduced in 2020.**

Teknia maintained a favourable growth of its activity in 2019 favoured by its adequate competitive foundations that mitigated the uneven growth of the sector, reaching a turnover of €378.1M in 2019 (+2.01% YoY). However, the costs assumed by the organisational restructuring of the company during the year and the higher rate of amortisation due to the full impact of Grupo Bravo, acquired in 2018, penalised its results, reaching an EBITDA of €31.97M (€33.4M in 2018) which represented a margin of 8.45% (9% in 2018) and maintaining positive results in any case.

The impact of the health alert and the economic effect on the automobile industry has translated into a contraction in results during the first quarter of 2020 that is expected to continue in the coming months, penalising the projected results for the company in the current year that are expected to reach positive values nevertheless.

- ▶ **Progressive improvement of its equity structure and reduction of financial indebtedness that favours its financial structure, assessed as satisfactory in a negative sector context that will penalise its leverage in 2020.**

Its financial profile continues to be characterised by an equity structure that, although adequate, is considered somewhat limited in relation to its indebtedness. The progressive reduction of debt and the maintenance of ongoing results place its leverage at moderate values although controlled by the company, with a NFD/EBITDA ratio of 2.76x in 2019 (2.87x in 2018). The current scenario of uncertainty and the estimated contraction of its results are expected to raise this leverage ratio to values above 3x in 2020, which could have a negative impact on its credit profile if the negative situation extends beyond the current year.

- ▶ **Adequate liquidity profile with ongoing cash generation and liquidity levers that mitigate the maturity schedule focused on 2021.**

Teknia maintains a ongoing generation of cash with its activity that favours its capacity to meet its payment commitments. The absence of relevant investments in 2019 has allowed for an extraordinary reduction in its debt levels, slightly reducing its final cash position which does not affect its liquidity levels in any case.

Teknia thus maintains an adequate liquidity profile with an available cash flow of €10.3M and unavailable liquidity levers of €57.8M at May 2020, which reinforce its capacity to meet its financial commitments and nuance the current maturity structure focused on 2021, where the bond issue matures for €20M and whose adequate management and restructuring is required by the company at the present time.

Summary of financial information

Main financial figures. Thousands of €

	2017	2018	2019	19vs18
Turnover	325,054	370,670	378,116	2.01%
EBITDA*	30,818	33,361	31,968	-4.18%
EBITDA margin	9.48%	9.00%	8.45%	-0.55pp
EBT	14,922	11,053	9,780	-11.52%
Equity	73,536	74,351	78,440	5.50%
Equity/TFD	89.29%	68.02%	79.63%	11.61pp
Net financial debt	75,156	95,768	88,254	-7.85%
NFD/EBITDA*	2.44x	2.87x	2.76x	-0.11x
Total assets	219,789	265,374	258,516	-2.58%
EBITDA/Interests	10.35x	9.81x	10.51x	0.70x
FFO	22,185	24,750	18,110	-26.83%
FFO/NFD	29.52%	25.90%	20.54%	-5.36pp

*Operating income - Depreciation and amortisation - Non-financial subsidies - Excess provisions +/- Loss of control of consolidated holdings +/- Difference between business combinations +/- Impairment losses on fixed assets.
EBITDA not including effect of non-recurring items in 2019 of €35.1M (Margin of 9.28%). Recurring NFD/EBITDA of 2.51x in 2019.

Rating and Outlook

Axesor Rating has revised the rating granted to **Teknia Manufacturing Group** and **maintains its rating at BB, modifying its outlook from stable to negative**. In our opinion, the company maintains its competitive fundamentals and credit profile at this time. The negative outlook for the sector and for demand in the short term could have a negative impact on the company's credit quality. The negative evolution estimated for the current year and the maturity of its bond issue in 2021 raise the requirements for adequate management by the company so that it does not deteriorate its credit quality in the coming months in a negative sector scenario that may extend beyond 2020.

Sensitivity analysis

Factors that could (individually or collectively) impact the rating:

► Positive factors (↑).

New corporate acquisitions that significantly impact in terms of operational and/or geographic diversification. Improvement of profitability levels and results. Ability to maintain its results in positive values and not to incur significant deviations from the financial projections estimated for 2020.

► Negative factors (↓).

Negative deviations in the financial estimates for 2020. Unfavourable economic scenario for COVID-19 that extends beyond the second half of 2020. Significant decline in new project recruitment in 2020. Significant increase in financial leverage. Significant drop in liquidity levels to undertake the restructuring/redeeming of the bond issue in 2021.

The content of the financial estimates has been prepared by Teknia Manufacturing Group, S.L. (the "Company"). In this regard, it should be noted that neither the Company nor any of its subsidiaries, associated entities, shareholders, directors, officers, advisors or representatives make any representation, warranty or commitment, either expressly or tacitly, as to the accuracy, completeness or correctness of the information contained in the Financial Estimates or of the opinions or calculations reflected therein. Accordingly, none of the foregoing shall assume any liability (whether for negligence or otherwise) for any consequential loss or damage, direct or indirect, cost or damage of any kind whatsoever arising out of or in any way connected with the use or content of these financial projections.

Given that the information contained in the financial estimates has not been verified by an independent expert nor has it been audited or reviewed by the Company's auditor, its accuracy and integrity cannot be assured, although it is based on the Company's internal analysis and therefore involves certain assumptions and estimates based on the knowledge and experience of the management team, which are considered to be in good faith and reliable for the purposes of their use in this report.

Regulatory information

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on www.axesor-rating.com/en/about-axesor/methodology and according to the Long-term Corporate Rating scale available at www.axesor-rating.com/en/about-axesor/rating-scale.
- Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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