



ISSUER RATING

Long-term Rating

Outlook: Observation

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Analysts

Head of Infrastructure & Project Finance
Miguel Castillo Clavarana
mcclavarana@axesor-rating.es

Chief Rating Officer
Guillermo Cruz Martínez
gcmartinez@axesor-rating.es

Executive summary

Detailed below is the Executive Summary of the rating assigned by Axesor Rating to Empresa Naviera Elcano, S.A. The rating granted reflects our assessment of the company's creditworthiness in the medium and long-term.

Naviera Elcano, S.A. and its subsidiaries (hereinafter Naviera Elcano) is a Spanish group dedicated to the international maritime transport of raw materials in bulk. It has 77 years of experience in the sector and has subsidiaries in Brazil and Argentina. During 2019, it reached a turnover of \$1,036M (+26.3%), maintaining its growth trend based on the increase in fleet, the greater amount of cargo transported, and the positive performance of its activity. It is also performing well in terms of debt, with its NFD/EBITDA ratio falling to 3.54x.

Rationale

Qualitative profile

- ▶ **Medium-sized company with a long history in the sector with a specialised business model which is supported by the stability of the business generation.**

Naviera Elcano has more than 77 years of experience in the shipping business, positioning itself today as a medium-sized company, which is strongly consolidated around a business model that favours an adequate solvency. The operation of a diversified fleet, mainly based on medium and long term contracts with prestigious industrial clients, constitutes the basis of its business.

- ▶ **Progress in fleet renewal plans, with postponement on the last vessels.**

The fleet renewal plans advance with the expected reception of a new ship in 2019 to add a total of 22 assets. The strategic objective of 23 vessels (two new + sale of one unit) has been postponed to 2022 through mutual agreements with the client to delay delivery of the two outstanding vessels. The sale of non-strategic assets, especially the Brazilian shipyard, remains in the group's plans. The company is currently maintaining its strategic plans with no noticeable impact due to the situation of COVID-19 and with a normal development of its operations. The impact of COVID-19 on the market is expected to translate into the maintenance of negative margins for vessels operated in the Spot market.

Financial profile

- ▶ **Adequate performance of operations with positive impact on financial results.**

In the last financial year the company continued to improve its results, obtaining record figures in its turnover and cash flow, exceeding \$1,000M and \$100M, respectively. The greater amount of cargo transported and the positive operational performance allowed for the generation of positive cash and the reduction of its indebtedness, even in an environment of weakness in the maritime transport market.

- ▶ **Demonstrated stability in the generation of business and cash that allows for a controlled debt and visibility in the ability to meet their commitments.**

During 2019, Naviera Elcano maintained a positive debt situation, an aspect favoured by the long-term maturity of its financing and the security and stability generally associated with the cash generated in its activity. At the end of last year, the company's Net Financial Debt/EBITDA ratio stood at 3.5x (3.6x in 2019) with a financial expense coverage of 3.7x (3.9x in 2019), indicators that are valued as adequate in the context of its business model. At the end of the year, the company complies with its obligations arising from its financing.

Main figures

Main financial figures				
\$thousands	2017	2018	2019	2019-18
Turnover	670,262	820,010	1,036,004	26.34%
EBITDA (1)	89,442	98,520	90,730	-7.91%
% o/EBITDA	13.34%	12.01%	8.76%	-3.26pp
Pre-tax results	23,440	38,734	27,527	-28.93%
Financial debt	428,831	453,654	448,448	-1.15%
Net Financial debt (NFD)	363,157	358,137	321,535	-10.22%
NFD/EBITDA	4.06x	3.64x	3.54x	-0.09x
Funds from operations (FFO)	63,743	65,467	61,073	-6.71%
FFO/NFD	17.55%	18.28%	18.99%	0.71pp
Cash	65,674	95,517	126,913	32.87%

(1) 2018 EBITDA excluding extraordinary items totalled \$93,123 thousands

Outlook

The outlook of the present rating is 'under observation'.

The revision of the financial projections at this time, in accordance with the updated terms of investment in ships and the dry dockings foreseen, indicates that the company maintains a more than adequate financial solvency with respect to the repayment of its debt. However, the global uncertainty generated by the COVID-19 determines the change in the outlook pending further visibility of the year-end results.

Rating sensitivity

- Positive factors: the improvement in cash generation over the forecast, derived from a recovery of the Spot market or the sale of non-strategic assets could lead to a potential improvement in the rating.

- Negative factors: despite the fact that the Company currently maintains the financial solvency expected for the repayment of its debt., a deterioration in the ability to meet its payment commitments would be a reason for a potential downgrade in the rating.

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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