



ISSUER RATING

Long-term Rating

Outlook: Negative

First rating date: 31/05/2017

Review date: 20/03/2020

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 EKONDAKIN ENERGÍA Y MEDIOAMBIENTE, S.A. The rating granted reflects our assessment of the company's creditworthiness in the medium and long-term.

Ekondakin Energía y Medioambiente S.A. (hereafter "Concessionaire" or "Issuer") is the company set up for the execution of the concession contract related to the Gipuzkoa Environmental Complex (Phase 1) (hereafter "CMG-1" or "the project").

Rating rationale

Business profile

- **Project delayed in the formal commissioning period, being in the final phase of performance adjustments and obtaining the environmental permit.**

The delay in the formal commissioning of the CMG-1 (for reasons not attributable to Ekondakin) means that the expected completion date of 3rd of March will not be met. This date is itself an extension of the initial completion date originally planned for October 2019 and which was approved by the parties. The project management expects the formal completion of the construction to be before 15th of May 2020, being subject at this time to a corresponding penalty that will be transferred to the construction consortium.

In general terms, the project is built and in the commissioning phase under a positive terms of performance at this moment of starting operations (80% of the total), being the project concluding the automatism and adjustments, as well as, the commissioning and connection of the turbine. The achievement of the effectiveness of the Integral Environmental Act (IEA) before the 14th of April deadline is seen as a key milestone at this time, since its non-compliance will prevent the project from being put into operation. Management declares that they are putting all the means at their disposal to comply with this milestone, with the processing being very advanced at the moment.

- **Project with positive economic justification and solvency associated with the counterpart, partners, and agents involved in the construction and operation.**

CMG-1 responds to highly demanded needs in terms of urban waste management and has the Gipuzkoa Waste Consortium as the public body responsible and counterparty of the concession. The solvency associated with the partner and the contractual framework of the project (insurance, construction and operation) also favour the project's financial objectives. Both the construction consortium and the O&M of the project are composed of several project partners.

Ekondakin's management is led by the fund manager Meridiam, S.A.S (50% of the capital) and the company Urbaser, S.A. (46% of the capital), an aspect which provides it with an excellent record for attending to the development of operations. Management is established under a fully outsourced contractual framework and is formalised under conditions of full risk transfer to service providers. Project partners are involved in the consortia responsible for construction and operation.

Financial profile

- **Expected compliance with debt maturities under conditions of high uncertainty at the present time.**

The project is currently facing the completion of the construction and start-up phase under the estimated budget (€239M), with sufficient liquidity for the pending investment.

The project's capacity to service next June's debt (€2.1M) is estimated to be comfortable (DSCR:1.99x) under the prospect of maintaining a cash flow of €2.3M and obtaining income from commissioning (estimated for May), as well as, from the advance of pending claims to the construction consortium (€2M under negotiation). The obtaining of additional funds from shareholder's contributions, or from collections claimed for the management of the waste that has been carried out since October 2019, are considered to be sources of potential liquidity. However, the uncertainty as to whether the efficiency of the 'IEA' will be achieved by 14th of April limits in our view the ability of the project to avoid the event of default.

Main financial figures

The project remains within the construction period. The 2019 figures are not audited.

Main financial figures

€thousands	2017	2018	2019E	Var. 2019-18
Turnover	45,795	134,203	35,692	-73.4%
EBITDA	770	4,648	7,140	53.6%
Net result	(802)	(1,512)	(276)	81.7%
Adjusted Equity (1)	19,654	35,822	43,574	21.6%
% o/balance	32.0%	19.0%	19.1%	0.0pp
Net financial debt (NFD) (2)	18,428	139,684	166,969	19.5%
Cash (3)	14,603	7,658	9,968	30.2%

(1) Shareholders subordinated debt is included

(2) Neither subordinated debt nor derivatives are included

(3) Cash with restriction due to the payments derived from construction (€7MM in 2019)

Limitations to the analysis

The uncertainty associated with the achievement of the milestones required to meet the objectives that will enable the project to be put into operation determines the granting of a rating with limitations. In this respect, the need for continuous monitoring of the issuer is established.

Outlook

In axesor's opinion, this rating has a **negative** outlook.

Ekondakin's management is currently working on meeting the deadlines for completion and start-up, as well as generating the necessary ordinary and extraordinary income. The tight margin for meeting the necessary milestones determines the proposed outlook. The achievement of the effectiveness of the Integrated Environmental Authorisation before the term (April 14), followed by the extraordinary collection of claims (or similar funds) to ensure the ability to repay the debt, are elements for a potential positive review of our opinion.

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 Outlook Methodology and Project Finance 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 provided ancillary services to related third parties of the rated entity, but not to the rated entity. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

Conditions of Use for this document and its content:

For all types of Ratings that the AGENCY issues, the User may not, either by themselves or via third parties, transfer, sublease, sublicense, sell, extract, reuse, or dispose of in any other way the content of this Document to a third party, either for free or for consideration. Nor may they alter, transform or distort the information provided in any way. In addition, the User will also not be permitted to copy and/or duplicate the information, nor create files which contain the information of the Document, either in its entirety or partially. The Document and its source code, regardless of the type, will be considered as the elaboration, creation, or work of the AGENCY and subject to the protection of intellectual property right regulation.

For those uses of this Document which are permitted, the User is obliged to not allow the removal of the copyright of the AGENCY, the date of the Document's issuance, the business name as established by the AGENCY, as well as the logo, brands and any other distinctive symbol which is representative of the AGENCY and its rights over the Document.

The Document and its content may not be used for any illicit purpose or any purpose other than those authorised by the AGENCY. The User will inform the AGENCY about any unauthorised use of the Document and/or its content that may become apparent.

The User will be answerable to the AGENCY for itself and its employees and/or any other third party which has been given or has had access to the Document and/or its content in the case of damages which arise from the breach of obligations which the User declared to have read, accepted and understood upon receiving the Document, without prejudice to any other legal actions that the AGENCY may exercise in defence of its lawful rights and interests.

The Document is provided on the acceptance that the AGENCY is not responsible for the interpretation that the User may make of the information contained. Credit analyses included in the Document, as well as the ratings and statements, are to be deemed as opinions valid on the date of issuance of the reports and not as statements of fact or recommendations to purchase, hold or sell any securities or to make any investment decision. The credit ratings and credit rating prospects issued by the AGENCY are considered to be its own opinion, so it is recommended that the User take it as a limited basis for any purpose that it intends to use the information for. The analyses do not address the suitability of any value. The AGENCY does not act as a fiduciary or an investment advisor, so the content of the Document should not be used as a substitute for knowledge, criteria, judgement or experience of the User, its Management, employees, advisors and/or clients in order to make investment decisions.

The AGENCY will devote every effort to ensure that the information delivered is both accurate and reliable. Nonetheless, as the information is elaborated based on data supplied by sources which may be beyond the control of the AGENCY, and whose verification and comparison is not always possible, the AGENCY, its subsidiaries, and its directors, shareholders, employees, analysts and agents will not bear any responsibility whatsoever (including, without any limitations, loss of revenue or income and opportunity costs, loss of business or reputational damage or any other costs) for any inaccuracies, mistakes, noncorresponding information, incompleteness or omission of data and information used in the elaboration of the Document or in relation to any use of its content even should it have been warned of potential damages. The AGENCY does not make audits nor assume the obligation of verifying independent sources of information upon which the ratings are elaborated.

Therefore the User agrees that information provided by the AGENCY may be another element to consider when making business decisions, but decisions will not be made based solely on it; that being the case the AGENCY will not be held responsible for the lack of suitability. In addition, the use of the information before courts and/or tribunals, public administrations, or any other public body or private third party for any reason shall be solely the User's responsibility and the AGENCY shall not be held responsible for any liabilities on the grounds of inappropriateness of the information's contents.

Copyright © 2020 AXESOR RISK MANAGEMENT S.L.U. All Rights Reserved.

C/ Graham Bell. Edificio Axesor s/n de Armilla (Granada)

C/ Velázquez nº18, 3º derecha, 28001 - Madrid.