ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 01/04/2020
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Rating Action

Axesor Rating affirms Audax's credit rating in BBB- with a stable outlook.

Executive Summary

Audax frames its activity within the energy sector, focusing its business on energy commercialization (electricity and gas), mainly in the industrial segment (SMEs and large accounts). The group also operates as an energy generator (project portfolio of 2,798MW; 91MW in operation). The company has an international scope of action, maintaining activity in Spain, Portugal, Italy, Germany, Poland, the Netherlands and Hungary. In 2020, Audax recorded revenues of €969.3MM (-7.1% YoY) and EBITDA of €66.4MM (EBITDA margin of 6.9%). The company's NFD/EBITDA with recourse ratio stood at 2.5x. Audax's capitalisation reached €889.4MM in March 2021 (25/03).

Fundamentals

Business profile

- **Adequate competitive positioning within the energy industry with prospects for improvement in the medium term.**

  Audax has a consolidated competitive position in the energy sector based on its solid position in the energy commercialization segment, both nationally and in the different markets where it operates, as well as a generation business whose current position is considered average, but which has significant growth potential. The further development of the generation portfolio is expected to progressively strengthen the group's competitive advantages in the energy industry by further vertical integration that is intended to secure the supply of cost-effective renewable energy within the commercialization business.

- **Growing international vocation that mitigates the risk of concentration in commercialization business.**

  Although the company's revenue and EBITDA generation continues to be slightly concentrated in the domestic market (Spain accounts for 58.7% of sales and 51.7% of EBITDA), the continued strategy of increasing internationalisation has reduced the risk of dependence over the last few years. The company currently operates in Portugal, Italy, Germany, Poland, France, the Netherlands and Hungary. This adequate diversification mitigates the risk of the group's business profile, which, although expected to change in the near future, is still concentrated in the energy trading activity (electricity and gas), which accounts for 98.4% of sales. Nevertheless, the international vocation as well as the appropriate diversification of the customer portfolio provide the group with greater resilience in the face of unfavourable scenarios such as the one that occurred in 2020.

- **Atomised sector with positive future outlook.**

  Electricity is a commodity product that is difficult to differentiate and therefore the market is highly competitive. The high number of competitors and the dynamics observed in the industry suggest that the commercialization segment is likely to become increasingly concentrated, especially in the current complex economic context. This outlook coincides with a renewable energy generation business that is expected to develop favourably in the future.

- **Ownership structure committed to the business and adequate financial capacity.**

  The ownership structure is characterised by the high involvement of the founder and main shareholder José Elías Navarro, who controls 77.1% of the capital, and who also has an appropriate financial capacity. The entry of one of the leading family offices in the Spanish market, the Domínguez family (Mayoral Group), which holds a 5.9% stake, is favourably valued on the basis of a more diversified ownership structure.

- **Business Plan that projects a significant strategic shift.**

  Audax future strategic plan presents a relevant change of strategic focus that will progressively increase the generation business to overtake the current core business of commercialization. This, which will involve the development of more than 4,000MW of photovoltaic plants (2,798MW in the portfolio) and which will position Audax as a benchmark energy group in the renewable energy sector (generator-supplier), is based on the company's vision of a future pool price evolution towards €30/MW. Audax understands that this dynamic can only be addressed by maintaining full vertical integration as intended. In addition, Audax aims to maintain its role as a consolidator of the commercialization industry (organic and inorganic growth) and its international vocation.

Financial profile

- **Turnover conditioned by the COVID-19 crisis but offset by positive operating profitability levels.**

  The group's turnover fell by 7.1% to €969.3MM as a result of a crisis that has adversely affected the economy as a whole. This, together with the generalised fall in electricity prices and the lower generation business resulting from recent divestments, were partly offset by the group's acquisition in Hungary (this integrated company contributed €105MM in sales and €15.4MM in EBITDA). Despite the reduction, the flexible cost structure and the optimised profitability generated by the group's rate mix continue to support margins that are above the sector average (EBITDA margin of 6.9%; -0.1pp YoY).

- **Favourable capacity to generate positive results.**

  Proper cost management means that the company shows a resilient capacity to generate positive results, especially in scenarios of falling profitability and/or lower turnover (EBT of €34.1MM in 2020). It is therefore expected that the flexibility shown in the past in its cost structure will continue to be maintained in the future despite the complex macroeconomic context.

- **Financing structure with tight levels of financial autonomy but showing a controlled NFD/EBITDA ratio.**

  The various debt issues undertaken during the year (€200MM of green bonds, €125MM of convertible bonds and the extension and increased use of its commercial paper programme, €156.8MM drawn down) have deteriorated levels of financial autonomy that were already at tight levels (Equity/TFD of 27.5%). This ratio, which is assessed as weak, is projected to improve over the coming years (convertible bond and potential capital increases). Despite this, Audax has an adequate capacity to meet its financial commitments (NFD/EBITDA of 2.5x).

- **Strong liquidity position which is one of the main competitive strengths.**

  Audax maintains a comfortable liquidity position supported by an ample cash position (€368.2MM), adequate access to credit and financial flexibility (€300MM Euro-Commercial Paper Programme + €43.2MM of the undrawn promissory notes programme in MARF), and assumable maturities with principal repayments in 2025 and 2028. This current situation leads us to determine that the group is in a comfortable position to meet its future debt requirements and to undertake a Business Plan that will require significant investments.

Main financial figures

Main financial figures. Thousands of €.

	2018	2019	2020	20vs19
Turnover[1]	986,947	1,043,789	969,300	-7.1%
EBITDA	53,395	73,250	66,440	-9.3%
EBITDA Margin	5.4%	7.0%	6.9%	-0,2pp
EBT	11,176	33,031	34,049	3.1%
Total Assets	832,899	774,253	1,146,616	48.1%
Equity	139,566	155,714	151,042	-3.0%
Total Financial Debt[2]	423,069	357,738	575,756	60.9%
Net Financial Debt	299,289	185,839	183,622	-1.2%
TFD with recourse[3]	306,817	323,874	548,529	69.4%
NFD with recourse	183,037	151,975	156,395	2.9%
Equity/TFD[2]	33.0%	43.5%	26.2%	-17,3pp
Equity/TFD with recourse[3]	45.5%	48.1%	27.5%	-20,5pp
NFD/EBITDA	5,6x	2,5x	2,8x	0,3x
NFD/EBITDA with recourse[4]	9,3x	2,5x	2,5x	0,0x
Funds From Operations	32,520	55,370	39,746	-28.2%
FFO/NFD	10.6%	27.7%	15.9%	-11,8pp
EBITDA/Interests	2,6x	3,8x	3,7x	-0,1x

[1]Turnover + other operating income. [2]Does not include debt from derivatives and € 77.6MM of the convertible bond due to its assured convertibility. [3]Does not include project finance debt. [4]NFD with recourse / (Company EBITDA - Debt EBITDA without recourse).

Rating and outlook

Axesor Rating rates Audax with a BBB- rating with a stable trend. The group's strategic turnaround is viewed favourably as it has the appropriate business and financial fundamentals to position itself as a benchmark player in the renewable energy sector. However, this potential improvement is expected to materialise in the medium to long term.

Rating sensitivities

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

- **Positive factors (↑).** Achievement of the strategic plan. Optimisation of capitalisation levels. Significant reduction of the NFD/EBITDA ratio. Improvement in the interest coverage ratio. Increase in margins.
- **Negative factors (↓).** Confirmation of the risks associated with the implementation of the Business Plan. Negative final results that erode levels of financial autonomy. Increase in the NFD/EBITDA ratio. Reduced operating cash flow generation capacity.

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-US/about-axesor/methodology and according to the Long-term Corporate Rating scale available at www.axesor-rating.com/en-US/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 the rated entity, but not to its related third parties. 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.

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