



ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 21/07/2020

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Executive Summary

Detailed below is the Executive Summary of the rating assigned by Axesor Rating to Sacyr, S.A.

Sacyr, S.A. and its subsidiaries (hereinafter Sacyr) operates as an infrastructure concessionaire and offers complementary services in the engineering, construction and environmental sectors. The company closed financial year 2019 with a total turnover of €4,169MM, an EBITDA of €680MM and a total debt of €6,131MM of which 74.2% consists of non-recourse debt related to their concessions.

Fundamentals

Business profile

► **Strong global competitive position within its sector.**

Sacyr is a large-scale infrastructure group with an extensive track record of more than 30 years both in Spain as well as internationally, mostly focused on the design, construction and operation of large infrastructure projects. The Group ended 2019 with total sales of €4,169MM, assets under management of almost €14,000MM and more than 43,460 employees. At the end of 1Q-2020 the group continues to display a high contracting capacity, accumulating a total backlog of €40,595MM, including concessions.

► **A relatively well-diversified business model.**

Sacyr maintains a wide international presence, albeit with a greater focus on Europe and Latam, with foreign markets representing 60% of total sales and 77% of its backlog. The company's business model is based on its concessional assets, representing 80% of total EBITDA, which includes construction, operation and other maintenance services that complete the infrastructure value chain. Besides, the Group complemented its activity through the construction and maintenance services for third parties.

This vertical integration gives Sacyr a competitive advantage during the tendering process of large infrastructure projects. In fact, during 2019, Sacyr was awarded 36% of total tendered projects which is a rate that we view positively. Additionally, its concessional portfolio gives it recurrence in its cash flow generation.

Financial profile

► **A relatively leveraged financial profile that will require a reduction in corporate debt (excluding non-recourse financing) and an increase in cash flow generation, especially after capex.**

Sacyr has a relatively leveraged financial profile which is mitigated by a recurrence in its profits, increasing operating cash flows and a debt term structure that is long-term in nature. Additionally, its solvency is constrained by low levels of capitalization and high investment requirements tied to their recently awarded concessions. Consequently, at year-end 2019 Equity only represented an 8.6% of total balance sheet and leverage was high even at the corporate level (excluding non-recourse debt).

► **Successful asset rotation strategy.**

Sacyr has successfully rotated its concessional assets in the 2009-2019 period with a total of 23 assets rotated of which 17 are partial divestments, generating €730MM of cash flow. This strategy based on minority stake divestments is optimal as it monetizes assets but allows them to retain control of the concession.

► **Concessional portfolio still in early stages but will be self-funding in the medium-term.**

Total equity commitments related to concessions as of the end of 2019 stood at €546MM. Going forward, these equity calls will constitute a head wind as the Company strives to reduce corporate debt, but starting 2021, equity investments will be over-funded by the portfolio's cash flows to the Holding Company, allowing corporate debt to decrease significantly.

► **Contingent liquidity levers that can lead to an improvement of its solvency.**

Cost over-runs that were incurred during the construction of the expansion of the Panama Canal (over €2,100MM ascribed to Sacyr), are under claim at the arbitration court of Miami and depending on final rulings may imply a cash inflow for Sacyr. Additionally, the group's solvency is underpinned by the value of their concessional portfolio which, at the end of June 2019, was valued at €1,800 MM.

Main financial figures

Main Consolidated Financial Figures				
(millions of €)	2017*	2018*	2019	19vs18*
Turnover	3,093	3,796	4,169	9.8%
EBITDA	406	532	680	27.8%
EBITDA Margin	13.1%	14.0%	16.3%	2.3pp
Adjusted EBITDA (1)	n.a.	260	204	-21.5%
EBIT	257	363	441	21.6%
EBIT Margin	8.3%	9.5%	10.6%	1.0pp
Total Balance	13,513	13,787	13,907	0.9%
Equity	2,001	1,504	1,190	-20.8%
Total Financial Debt (TFD) (2)	5,650	6,160	6,131	-0.5%
Total Financial Debt with Recourse (TFDR)	1,293	1,671	1,584	-56.5%
Net Financial Debt (NFD) (2)	3,542	4,047	4,444	9.8%
Net Financial Debt with Recourse (NFDR)	904	1,138	848	-25.5%
NFD/EBITDA	8.7x	7.6x	6.5x	-1.1x
NFD with Recourse/Adjusted EBITDA	n.a.	4.4x	4.2x	-0.2x
Interest Coverage (EBITDA/Financial expenses)	1.8x	1.5x	1.8x	0.3x
FFO	193	216	276	27.9%
FFO/NFD	5.4%	5.3%	6.2%	0.9pp

(*) Financial figures have been restated.
(1) Includes EBITDA with recourse + dividends and distributions of assets funding with non recourse debt. (2) Includes lease obligations.

Outlook

The outlook for this rating is “stable” based on the adequate business fundamentals, the improvement in its financial situation and the low Covid-19 impact in the Group’s activity during the first quarter of 2020 and going forward. The outlook considers that the company will continue to successfully manage its business and will maintain an adequate financial structure.

The reduction of its NFD/EBITDA ratio at the corporate level (excluding non-recourse debt) and the improvement of its capitalization levels are events that could lead to a rise of its rating. On the other hand, a deterioration of its financial situation or a significant loss in the value of its concessions would probably lead to a rating downgrade.

Sensitivity analysis

Detailed below are the factors which would impact in Sacyr’s rating in an individual or aggregate level:

- ▶ **Positive factors:** corporate debt reduction or backlog improvement in terms of lower level of demand risk would be indicative of a potential rating improvement.
- ▶ **Negative factors:** substantial changes in cash generation which do not allow the required level to cover its financial commitments or increments of corporate debt could be a potential indicator of a 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 provided ancillary services to the rated entity and 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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