



ISSUER RATING

Long-term Rating

Outlook: Stable

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Rating Action & Rationale

- Ethifinance Ratings affirms Greenalia S.A.'s rating at "BB", maintaining the outlook at Stable.
- This rating action reflects a positive business profile (BBB), improved by the industry risk assessment which compensate a lower rating of the company's competitive positioning and the fundamentals of governance, consistent with the progress in growth plans. This, along with an adequate rating of the financial risk profile (BB-) where cash flow and debt improve the solvency, lead to the final rating.
- In line with our updated methodology, the activity of the group is part of the 'Utility' sector adjusted to the renewables, an industry that plays in favour of its ESG rating of the sector (heatmap score between 0 and 2). Meanwhile, our assessment of the company's ESG policy is neutral (company ESG score between 1 and 4), therefore not affecting the rating.

Issuer Description

Greenalia S.A. and its subsidiaries (hereafter "Greenalia") is an independent power producer (IPP) in the field of renewable energy. Its involvement in different technologies, as well as the ownership of 100% in its projects, are currently shaping its competitive strategy, counting on its first biomass and wind energy projects on Galicia (124.5MW). In 2021, the positive progress of the group was reaffirmed in accordance with the higher production and prices of energy, allowing to increase the turnover up to €77.8M (+65%), as well as to triple the EBITDA, reaching €38.6M (margin of 49.6%). The consistency in a challenging growth plan (975MW in construction), mainly funding with non-recourse debt, still maintains our vision of an important leverage with regards to its profit generation (NFD/EBITDA of 7.0x in 2021) and its Equity.

Fundamentals

Business Profile

Industry Risk Assessment

- Industry with positive competitive foundations.

According to our methodology, the industry risk assessment of Greenalia is reached regarding its condition of a 'Utility' company adjusted to the own characteristics of a producer of energy 100% renewable, and also presenting characteristics of a company with forestry activity and non-logistic strategies. Thus, this positive bases along with some factors, are acknowledged and lead the industry risk assessment to A+. The stability associated with some results with adequate profitability and very favourable demand growth perspectives regarding its activity, are elements that enhance its rating.

- Renewable energy sector adequately aligned with ESG factors.

According to our adjusted methodology, the renewables sector is adequately aligned with ESG factors (heatmap score between 1 and 1.9). Thus, it is considered as a sector that benefits from ESG tendencies, or is at least well positioned to benefits from them. These tendencies provide important business opportunities and long-term visibility for the whole sector and have a positive impact in the industry rating of Greenalia.

Company's Competitive Positioning

- Moderated competitive positioning due to its scale and the lack of a greater diversification of its activity.

Greenalia launched in 2006 the development of its renewable energy activity,

initially focusing on biomass and wind energy in Galicia as key business areas, consistent with its historical positioning in forestry activity that has been developed since 1997. The company, of which first projects have started operating in 2020 and 2021, is listed in BME Growth since 2017 with a market capitalization, at the date of our previous review, of more than €380M. In its favour, the company is facing a positive dynamic in renewable energy demand, being a key element in the energy transition and in the decrease of energy prices. Also, it currently benefits from high prices of the electric 'pool'.

Greenalia is currently progressing on its transformation process as an 'IPP', being able to operate a quantity of 124.5MW (575 MW solar equivalent according to the company). In 2021, the sales of energy constituted the higher part of the turnover, with 68% (34% in 2020), mainly being from the national environment (91% of the turnover). The rest of the revenues are mainly constituted by the derivatives of its traditional activity in the forestry sector and logistic. The pipeline of projects in development, which includes projects up to five technologies, keeps growing to a total of 45GW. Within this pipeline, we highlight the progress in projects in initial situation of construction, both of 110MW in Galicia and projects in the US that includes 695 MW of solar panels and 170MW and 170MW of storage, and which financial closing is expected to be during 2022 (2024 for the US).

Governance

- **Moderated fundamentals in governance with major milestones regarding management and projects funding.**

During 2021, the company widely complied with its yearly strategic objectives, which supposed a review of its Plan 2019-23, and keeps waiting for the publication of its new Strategic Plan 2022-27. The early outbreak of projects acquired in the US and the high 'pool' prices enabled to compensate the delays in the initial plans and promote the greater diversification of the business, point that still need some progress at this time.

In 2021, Greenalia progressed in the formation of its executive direction and management board with some changes and new incorporations. We note the nomination of D. Jose María Castellano as president, who remains the second main shareholder while subscribing for the capital increase of €15M executed last November. The founder and first shareholder D. Manuel García became CEO of the group. At this time, the largest shareholders have submitted an exclusion takeover bid for the 13.59% of the capital they do not control at a premium of 8%, pending approval at the next shareholders' meeting in June.

In the previous financial year, we underline the management actions to refund debts and strengthen the liquidity, as well as the signing of a power purchase agreement (PPA) with the aluminium plant of Alcoa to keep boosting the development of projects in the regional area. According to our vision, the intensive recourse to funding that guide the actual funding strategy constraint the management practices.

- **Neutral ESG policy.**

The performance in ESG, measured through the analysis of some factors related to this area, has currently a neutral impact in the financial risk profile of the company.

Financial Profile

Cash flow and leverage

- **Positive progress in the operating profitability that is still tight due to the early phase of the execution of its investment strategy and its consistent financial charge.**

In 2021, the company significantly improved its results and profitability to get back to a positive turnover. The increase in its revenues, including an extraordinary recovery coming from the termination of the O&M contract regarding Curtis' plant (€8.2M), highly enhanced the EBITDA, up to €38.6M (+262%), allowing a net result of €12M in comparison with the loss of €0.5M in the previous year. The weight of the financial expenses of this start-up period of the activity as an 'IPP' is highlighted, benefiting from a very positive perspective in revenues generation subject to new productive capacity entering into service.

- **Situation of notable indebtedness in accordance with the current strategic plan.**

The progress of Greenalia as an IPP keeps being based on a significant dependency on external financing, both in funding related to projects and necessity of contribution of equity in the various projects. This is still nuanced by the acquisition of an important part of non-recourse funds in the medium and long term (71% of the total financial debt), the current capacity of the shares to allow a recurrent cash flow and superior to the one expected, and an adequate market value of the underlying assets in case they need to be sell.

The progress of the debt has been shown, since 2020, relatively stable, waiting for the completion of the financial closures of the new projects during 2022. Thus, the fundraising in the corporate environment in order to refund sin-recourse debt of corporate and projects, strengthen the commercial and construction activity, and continue to invest (equipment and lands), has been leading the previous year.

The improvement in the results allowed some progress of the NFD/EBITDA ratio up to a value of 7.0x (23.2x in 2020) which highlights the positive progress in the performance of the company, establishing a leverage ratio that will remain around this level according to the current estimates of the company. In its favour, we note that the perimeter of the debt with resource, according to the audited calculation for the securities of the bonds issued in 2020 (NFD/EBITDA 2021: 4,26x), remains in a low-risk situation and placed under compliance (maximum allowed: 5.0x).

- **Cash flow constrained by investment but well supported by debt raising and the beginning of higher cash flow in projects.**

The necessities of the business model to invest and the lack of better results force the company to rely on external financing and its own equity for the funding. In its favour, the company was able to attract important funds in the previous years, which enables to refinance the debt in better conditions, and improve the cash position. During 2021, the operating cash flow was able to improve in accordance with the better results, contributing to a lower financial dependency. Similarly, the capital increase of €15M contributed to this situation.

Solvency

- **Tight situation regarding the solvency.**

In 2021, the company ameliorate the negative equity of the previous year. Nonetheless, the figure of €22.6M of net equity at the end of 2021 on the total balance, which kept growing to €380M, and a debt figure of €328.8M (includes other liabilities), still reflecting, according to our opinion, a launching situation of a project along with a strategy of high leverage.

Liquidity

- **Liquidity conditioned by investment but well supported by debt raising and the start of increased cash flow generation in projects.**

In the short-term, it is expected that the formalisation of the Project Finance of the wind and solar projects that have started their construction would enable to regain a significant figure of investment already undertaken. The subscription of the capital increase and the registration in December of a note program of 100 million of euros in the MARF are milestones that are positively valued to reinforce the liquidity.

Modifiers

- **ESG Factors:** Not applicable
- **Liquidity:** Not applicable
- **Country Risk:** Not applicable

Summary of Financial Information

Main Financial Figures. Thousands of €.				
	2019	2020	2021	21vs20
Adjusted turnover (1)	42,349	47,152	77,806	65.01%
EBITDA (2)	2,965	10,673	38,588	261.54%
EBITDA Margin	7.00%	22.64%	49.59%	26.96pp
Financial expenses	-1,186	-7,072	-12,746	-80.25%
EBITDA/ FE	2.50x	1.51x	3.03x	1.52x
Total Assets	217,768	301,888	380,467	26.03%
Equity	326	-7,065	22,645	420.52%
Total Financial Debt (3)	204,282	290,080	328,826	13.36%
Net Financial Debt	187,565	248,516	270,216	8.73%
NFD/EBITDA	63.25x	23.28x	7.00x	-16.28x
Funds From Operations	-5,399	3,326	24,703	642.63%
Cash	16,717	41,564	58,610	41.01%

(1) Including income from work carried out for own fixed assets.

(2) Excludes derivatives and debts with group. Includes in 2021 'other liabilities' for regulatory adjustment in future energy sales revenues (€10.7m).

(3) Calculated as operating cash flow minus change in working capital.

(3) Excluding not available cash (pledge).

Rating Sensitivity

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

- **Positive factors (↑).**

At the moment, the company keeps progressing with a higher weight of the energy production activity in its results and under a strategy that includes the signing of PPA. An adequate progress for that matter, on the basis of no increase of the general indebtedness, is valued as a potential milestone to upgrade the rating.

- **Negative factors (↓).**

The restraint of the indebtedness and the management of the liquidity at this time of significant expectations of investment for the growth is currently a matter of special monitoring. Accordingly, a situation of interest coverage inferior to 5x on EBITDA would be an indication of a downgrade of the rating.

Credit Rating

Credit Rating	
Business Risk Profile	BBB
<i>Industry Risk Assessment</i>	<i>A+</i>
<i>Competitive positioning</i>	<i>B+</i>
<i>Governance</i>	<i>B+</i>
Financial Risk Profile	BB-
<i>Cash flow and leverage</i>	<i>BB</i>
<i>Solvency</i>	<i>B-</i>
<i>Company's ESG</i>	<i>Neutral</i>
<u>Anchor Rating</u>	BB
Modifiers	No
<u>Rating</u>	BB

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:

- Annual Audit Reports.
- Corporate Website.
- Information published in the Official Bulletins.
- Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings 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 <https://www.ethifinance.com/en/ratings/methodologies> and according to the Long-term Corporate Rating scale available at <https://www.ethifinance.com/en/ratings/ratingScale>.
- EthiFinance Ratings 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 EthiFinance Ratings 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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