



ISSUER RATING

Long-term Rating

Outlook: Stable

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Rating Action & Rationale

- Ethifinance Ratings affirms GreenVolt Energias Renováveis, S.A.'s rating at "BBB-", maintaining the outlook at Stable.
- This rating action reflects an improved sector rating (under our new methodology) which is offset by a slightly weaker assessment of GreenVolt's competitive positioning, stemming from its limited diversification and small scale, as well as lower shareholder support, mainly on the back of a decrease of Altri's stake (currently 16.6% vs 58.7% post-IPO), which also reduced its capacity to support the company's capital structure.
- Since the company operates in two distinct segments (renewable energy production and development of wind/solar PV projects) our rating takes into account the specificities of each in our rating grid. As such, we have retained a weighted average of each activity based on their projected EBITDA.
- In line with our updated methodology, the renewable energy industry has low ESG risks (heatmap score between 0 and 2), which weighs positively on our industry assessment. Meanwhile, our assessment of the company's ESG policy is neutral (company ESG score between 1 and 4), resulting in our rating being positively impacted by industry-related ESG considerations.

Issuer Description

GreenVolt Energias Renováveis, S.A. (hereafter "GreenVolt" or "the company") is a Portuguese company, listed on Euronext Lisbon, which operates in the renewable energy sector. It is the leader in Portugal (Sovereign rating of 'BBB' with a Positive outlook by EthiFinance Ratings) in terms of installed capacity related to residual biomass for energy production. It operates with three divisions: residual biomass (c. 93% of FY21 revenues), wind and solar PV utility-scale projects (c. 1%), and distributed generation based on solar sources (c. 6%). At end-2021, GreenVolt operated five biomass production plants in Portugal and one in the UK, with a total installed injection capacity of c.142 MW (100.5 MW in Portugal and 41.6 MW in the UK) and annual power production of c. 875 GWh. In the segment of utility-scale wind and solar PV development, GreenVolt is a medium-sized player operating in nine European markets, with a pipeline of 5.8 GW (of which 4 GW in an advanced stage of development) at YE21.

For 2021, GreenVolt reported revenues of €141.5M (+57.1% yoy), and EBITDA of €56.5M (+71.2%), equivalent to a 40% EBITDA margin. The consolidated NFD/EBITDA ratio was 3.7x at end-2021.

Fundamentals

Business Profile

Industry Risk Assessment

- **Industry growth is supported by sustainable long-term drivers.**

The renewable energy industry has experienced a boost during the last decade, evolving from a state-subsidized sector to a market-driven one, as a result of sharp reductions of installation costs, together with efficiency increases and favourable regulation. The growth rate is expected to accelerate once more soon, driven by fresh favourable regulation change, further cost efficiency improvements, and steadily growing global demand for low CO2 electricity.

- **Strong visibility of cash flows and high barriers to entry lead to sustainable and high profitability levels.**

The company currently operates its biomass power plants under a guaranteed remuneration scheme, intending to contract all the electricity generated in each of its geographies and projects under development through either stable long-term power purchase agreements (PPAs) or contracts for differences (CFDs) with low credit risk institutions. In addition, barriers to entry are high, in terms of

projects approval, CapEx requirements, proximity to supply, and extensive know-how required.

These factors allow GreenVolt's high profitability levels to be sustained over time, with an EBITDA margin around 37% expected to be reached over the medium term. We note that profitability margins of biomass power plants are lower when compared to wind/solar PV power plants, for the main reason that the former require raw materials (residual forest or urban biomass) to operate while the latter have very low operational costs as they rely solely on wind/solar conditions. However, this also comes with higher volatility as wind/solar resources fluctuate considerably throughout the year and have an impact on electricity production.

Company's Competitive Positioning

- **Leading position in the forest biomass sector in Portugal and medium-sized player in the development of wind and solar energy projects in Europe.**

GreenVolt pursues a strategic approach with the decarbonization of economies at its core, standing as the current leader in the Portuguese sector for electricity production from forestry biomass. With an accumulated experience in this segment of close to 20 years, GreenVolt has proven technical skills in the design, engineering, operation, and maintenance of biomass power stations. Besides biomass, GreenVolt is a medium-sized player in the development of utility-scale solar and wind projects, with a pipeline of 5.8 GW (of which 4 GW in an advanced stage of development) across 9 European markets at YE21.

The company's aim is to add value through the implementation of its recognized technical skills, while developing renewable projects to retain 20-30% of its pipeline and sell the remaining percentage either at the ready-to-build (RtB) stage or at commercial operation date (COD).

We also note that GreenVolt has limited exposure to regulatory risk, considering the feed-in tariffs granted both in Portugal and the UK. Thus, we consider that GreenVolt's main activity is carried out under regulatory regimes which protect its levels of remuneration.

- **Limited diversification and small competitive scale mitigated by ambitious growth strategy.**

Our rating is constrained by GreenVolt's current low diversification in terms of revenue generation both by geography (energy production is mainly concentrated in Portugal) and business line (as 93% of FY21 revenues came from the biomass segment which also generated 100% of its EBITDA, as the other two business lines have a high-cost structure due to their ramp-up stage). Hence, the company's revenues are mainly derived from the sale of electricity to the national public grid, amounting to €130.7M (+50.4% yoy) in FY21, boosted by the acquisition of the Tilbury plant. In addition, despite considering that GreenVolt operates in a local sector, the record revenues generated in FY21 (€141.5m) still place the company in the lower range in terms of size.

Nonetheless, GreenVolt is currently developing an ambitious growth strategy based on two areas besides biomass: solar PV and wind energy and distributed energy generation, the latter being a clear bet for the future. At YE21, its projected pipeline until 2026 reached 5.8 GW, divided into solar photovoltaic, onshore wind, and energy storage projects spread across several European countries. According to the company's business plan, from 2023 onward, the development of wind/solar PV projects together with distributed energy will represent over 30% of GreenVolt's total EBITDA.

Governance

- **Recently modified shareholder structure, with the former main shareholder remaining committed to the project, and a specialised management team.**

The company was established in 2002 with a firm commitment to sustainability and the circular economy. In July 2018, Altri SGPS, S.A., which is listed on the Euronext Lisbon stock market, acquired the stake held by the EDP Group. However, Altri's

board of directors proposed, at the 2022 annual general meeting, the distribution to Altri's shareholders of a maximum number of shares corresponding to 52,523,229 shares of GreenVolt, which corresponded to the shareholding that Altri held directly. Hence, Altri currently holds 16.6% of GreenVolt shares (13.5% controlled through its subsidiary CELBI S.A.), with six other shareholders (including V-Ridium) holding 53.3%, besides the freefloat. In view of the company's external financing-asset rotation approach, EthiFinance's assessment of the company's capital structure and its financing strategy will continue to be positive in the event that successive capital increases - such as those that have already taken place in 2021 and 2022 - are successfully concluded.

Regarding the management team, the company counts professionals with extensive experience in the renewable energy sector, such as its CEO Joao Manso Neto. He was previously with EDP for almost 20 years, serving as CEO and chairman of the board of directors. Regarding its board of directors, the presence of independent members is sufficient, but it could be improved.

Financial Profile

- **Sustained increase in sales and EBITDA, boosted by considerable revenue growth in 2021 derived from acquisitions.**

GreenVolt's reported considerably stronger results for FY21 than for FY20, reaching a turnover of €141.5M and consolidated EBITDA of €56.5M, representing increases of 57.1% and 71.1%, respectively. Both increases were mainly supported by the acquisition of the Tilbury plant performed during the year. The headline numbers will continue to increase as the company develops its business plan, which involves additional project acquisitions. Between 2021 and 2026, the company forecasts a 6x EBITDA and a 12x net profit increase, representing CAGRs of 43% and 64%, respectively.

For 2021, the company reported funds from operations (FFO) of €33.9M, 96.8% higher than the €17.2M in 2020. This was mainly driven by the rise in EBITDA (again, +71.2%), which offset the increase in both interest and taxes paid. However, this FFO was not sufficient to counterbalance all the new debt raised by the company. As a consequence, the FFO to NFD ratio decreased by 21.4pps between 2020 and 2021.

GreenVolt's cash flow reflects the expansionary phase in which the company is currently immersed. It is characterised by considerably higher cash outflows for investing activities than in previous years (from €3.7M in FY20 to €235.4M in FY21). As a consequence, free cash flow turned highly negative in 2021. To fund its expansion plan, the company successfully executed its IPO during the year, enabling it to raise the money for its high level of investment. GreenVolt raised around €200M in equity in addition to the c.€41M of the non-controlling equity holding based on the share capital increase performed by Equitix on Lakeside Topco, subsidiary that holds 100% of Lakeside Bidco.

- **Moderate level of indebtedness (mainly recourse debt) current and expected, with a positive financial autonomy.**

The company's corporate strategy entailed in 2021 - and will continue to do so over the medium term - an increase in its financial leverage. The NFD/EBITDA ratio stood at 3.7x (+1.2x compared to 2020), with the recourse perimeter ratio rising to 4.4x (+1.9x yoy). Our rating and outlook factor in the company's expectation that the consolidated ratio will not exceed 4.7x over the medium term. The only non-recourse debt that GreenVolt held in 2021 was the £120M (c.€135M) project finance loan from Santander's London branch contracted to finance the Tilbury acquisition (29% of the company's total financial debt). Hence, 71% of its debt is recourse debt, split between bonds (37%), financial leaseings (15%), commercial paper (13%), and recourse loans (6%).

GreenVolt's goal is to be able to implement its business plan with the funds obtained from the sale of significant minority stakes in assets (biomass, solar and wind), thanks to growing investor appetite for renewable energy assets. The company also intends to keep a specific percentage of these assets on its balance sheet to remain an independent power producer. As such, we estimate that NFD/EBITDA ratio levels will remain fairly stable until 2026, between 2.9x and 4.7x, despite the expected increasing level of debt.

Solvency

- **Solid financial autonomy.**

GreenVolt's financing structure shows solid financial autonomy. At end-2021 its equity (€350M) represented 74.9% of its total financial debt, improving with respect to end-2020 (+4.9pps), despite a 386% increase in debt yoy. This can be explained by the fact that 2021 was an important turning point for the company, with the completion of its listing on the Portuguese stock market and the consequent capital increase described above, along with further indebtedness to help the company to deploy its expansion plan.

This situation with respect to the company's equity has been reinforced with the capital increase of €100M in June 2022, reflecting the shareholders' commitment to GreenVolt's development and their strategy of not relying on high levels of leverage for growth.

Liquidity

- **Sufficient liquidity in the short term through a business model based on asset rotation, access to external financing, and capital increases.**

GreenVolt has a positive liquidity position, supported by its cash balance of €259M (at end-2021), as well as the renewable commercial paper programs (64% with and 36% without placement guarantee), of which only €60.5M had been used at end-2021. The company's target over the medium term is to retain high cash balances to face its demanding CapEx requirements. In the current context of significant investor appetite for renewable energy, the company expects that the acceleration and increasing maturity of its portfolio will allow it to implement its growth strategy and maximize funding through asset rotation.

That said, we will remain attentive as to how well GreenVolt is able to implement its asset rotation strategy, aiming to keep between 20% and 30% of the assets currently under development on its balance sheet.

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)	65,135	90,100	141,507	57.1%
EBITDA (2)	22,701	33,021	56,541	71.2%
EBITDA Margin	34.9%	36.6%	40.0%	3.3pp
EBIT	12,078	27,208	30,561	12.3%
EBIT Margin	18.5%	30.2%	21.6%	-8.6pp
EBT	10,206	25,417	22,214	-12.6%
Total Assets	204,184	196,420	1,004,957	411.6%
Equity	39,792	67,311	350,366	420.5%
Total Financial Debt (3)	106,331	96,137	467,486	386.3%
Net Financial Debt	90,224	82,037	208,729	154.4%
Equity/TFD	37.4%	70.0%	74.9%	4.9pp
NFD/EBITDA	4.0x	2.5x	3.7x	1.2x
Funds From Operations	18,516	17,224	33,897	96.8%
FFO/NFD	20.5%	21.0%	16.2%	-4.8pp
EBITDA/Interest	12.1x	18.4x	6.2x	-12.2x

(1) Including annual sales, investment grants and other income

(2) EBITDA on a consolidated level

(3) Excluding derivatives and group debt but including financial leaseings

Rating Sensitivity

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

- **Positive factors (↑).**

The effective fulfilment of its targeted sales of renewable assets set for the short and medium term, under an increase in profitability ratios and/or a reduction of debt ratios, would be a potential factor for a long-term rating improvement to BBB. For the same business risk profile, a decrease in the consolidated NFD/EBITDA ratio below 3.0x for a sustained period of time could entail a long-term rating upgrade to BBB. We view this as unlikely at the moment.

- **Negative factors (↓).**

A material deviation from earnings expectations that would result in lower cash generation, or a delay in asset sales, that would prevent the company from reducing its leverage substantially to levels more compatible with a 'BBB-' rating could entail a downgrade to BB+. For the same business risk profile, an increase in the consolidated NFD/EBITDA ratio above 5.5x for a sustained period of time could entail a long-term rating downgrade to BB+.

Credit Rating

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

(1) All scores are the result of a weighted average based on the projected EBITDA for GreenVolt's two main activities (renewable energy production and development of wind/solar PV projects).

(2) Positive impact of industry ESG assessment on business risk profile

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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