ISSUER RATING

BBB-

Long-term Rating

Outlook: Stable

First rating date: 10/11/2023

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Rating action and rationale

- EthiFinance Ratings assigns MaxamCorp Holding S.L. a rating of "BBB-" with a Stable outlook.
- The rating is based on the group's: i) solid competitive position with consolidated competitive advantages, adequate size, and favourable diversification both geographically and by client; and ii) ability to meet its financial commitments, reflected in controlled interest coverage and leverage ratios. Maxam has achieved the recovery of its profitability through good management of the unfavourable operating environment (Covid-19, inflation, etc.), through the incorporation of efficiency measures and control of costs, as well as a restructuring involving formalised divestments. As a result of these measures, Maxam has improved its financial profile, resulting in lower indebtedness, which in 2023 stood at NFD/EBITDA < 2x and EBITDA/interest > 6x (NFD/EBITDA and EBITDA/interest indicators, as defined in the covenants applied to Maxam: 1.6x and 8.7x, respectively). Nevertheless, if the group falls materially short of achieving the provisional forecasts it has for 2024 this could lead to a review and potential downgrade of the rating.
- As limiting factors, the assessment is mainly penalised by the low level of financial autonomy (equity/TFD < 50%)[1], as well as by Maxam operating within a sector, basic materials, that despite adequate fundamentals is assessed as having high ESG risk.
- The company's ESG policies are considered adequate (company ESG score between 1 and 2), which has a neutral effect on the rating. However, in line with our methodology, the basic materials sector presents a high ESG risk (sector heatmap score between 4 and 5), given its impact on the environment. This assessment results in a sector rating that is downgraded by one category.

Description

Maxam is a Spanish industrial group of recognised worldwide prestige which specialises in the design, development, manufacture and application of energetic materials. As a result of a restructuring and divestment process, Maxam has dispensed with some business lines (outdoors and defence)[2] to focus on the design, development, manufacture and marketing of explosives for civil industry. As a result, there has been a significant change that has led to an increase in EBITDA and a reduction in financial debt. For the financial year to end-August 2023, the company reported turnover of €1,094.8m (+10.2% yoy) with EBITDA of €239.3m (EBITDA margin of 21.9%), and recorded an adjusted NFD/EBITDA ratio of 1.7x. EBITDA for covenant purposes was €276.7m, and the NFD/EBITDA ratio was 1.6x.

Fundamentals

Business Profile

Sector analysis

- **Global sector characterised by a medium level of competition and high barriers to entry due to high know-how requirements, technical qualifications, regulations, and CapEx requirements.**

  Civil explosives are mainly used to break up rock, whether in mines, quarries or civil works. Therefore, the level of demand is directly related to the evolution of mining, construction and civil works. The regulations and norms regarding the transport of explosives present relevant restrictions, a characteristic that means that the operating companies have to comply with strict regulatory frameworks,

[1] The equity/TFD ratio as at FY 2023, excluding FX changes, was 25.3%. MaxamCorp Holding S.A.'s ratio was 54.8%.
[2] Defence and security industry, ammunition manufacturing and demilitarisation activities.

which is a barrier to entry for new competitors. On the other hand, it should be noted that the companies operating in the sector have on average level of profitability that is considered high.

- **Performance of the mining sector (highly linked to Maxam's core business) with positive outlook for the gold and copper market.**

  Civil explosives are used extensively in the mining sector, for which the main risks derive from commodity prices (in Maxam's case, mainly gold and copper), government regulations, and geopolitical factors. Gold was one of the best performing assets in a context of uncertainty and marked by inflation due to its safe-haven nature and counter-cyclical behaviour; the average price per ounce in 2023 is expected to remain at higher levels than the previous year. The outlook for the price of copper expects an increase with respect to 2022, also, in the long term, the extraction of copper has important drivers, with which an average annual growth in production of 3.2% is estimated until 2031.

- **In line with our new methodology, the basic materials sector presents a high ESG risk (heatmap score between 4 and 5) given its impact on the environment.**

  ESG-related risks for the companies in the sector and impacts on social, environmental and stakeholder factors are already material and affect the stability of fundamentals of the sector (write-offs, etc.) We consider that companies in the sector need to transform their operations or else face significant risks in the short to medium term. This assessment results in a sector rating that is downgraded by one category. On the other hand, Maxam applies ESG policies that partially mitigate the high risk of the sector.

Competitive positioning

- **Favourable competitive position within the industry.**

  Maxam is a benchmark player in its areas of operation, with a leadership position in certain market segments and niches. Its competitive position is based on a history of more than 150 years and a worldwide presence in a competitive sector with high know-how requirements and affected by stringent regulations, which favour its competitive fundamentals.

- **Broad diversification by market and product type that mitigates concentration in a single business segment.**

  Maxam distributes and provides services with Europe and Africa as its main markets. The high geographical diversification, together with the wide range of products and services, mitigates the concentration in the Civil Explosives segment.

Corporate governance

- **Rhône Capital, the main shareholder since 2020, has refocused Maxam's strategy with the objective of increasing profitability and improving efficiency within the group.**

  Rhône Capital, a private equity fund created in 1995, owns 74.8% of Maxam; the remaining 25.2% is held by a group of private shareholders called Grupo TDA, Técnicos Directivos y Asociados. EthiFinance Ratings assesses this shareholding structure as adequate, based on the financial capacity of the main shareholder. Management has focused on implementing efficiency measures within the group, reducing its cost structure and divesting operations in unprofitable markets and segments, thereby returning to a path of organic growth. As a result, Maxam's profitability and results have shown a significant improvement, which has improved the group’s credit quality.

- **ESG neutral analysis.**

  Based on the ESG data analysed and after applying our methodology, EthiFinance Ratings assesses Maxam's ESG policies as neutral (ESG score of the company between 1 and 2). Consequently, the company's rating is not affected by this factor.

Financial Profile

Cash-flow and indebtedness

- **Rising trend for turnover and profitability.**

  The civil explosives business line has seen a positive trend in the last two years, driven by the good performance of the mining markets. Higher revenues have come hand in hand with an improved EBITDA margin (FY23: 21.9%) as a consequence of the restructuring and efficiency measures implemented. For the coming years, a revenues CAGR23-27 of 9.3% is expected, while the EBITDA margin is expected to remain around 23% based on the economies of scale generated and high gold and copper prices.

- **Significant decrease in indebtedness which has resulted in a controlled level of debt for the company. Adequate interest coverage.**

  The group's financial structure has historically shown a high level of leverage. However, this has been on a downward trend in recent years via amortisations. Lower financial debt and the impact of the measures applied by Maxam to obtain greater operating efficiency have led to a moderate level of indebtedness (EthiFinance NFD/EBITDA ratio of 1.7x, according to the definition of the covenants applied to Maxam, it is 1.6x). On the other hand, interest coverage is considered adequate (EthiFinance ratio of 6.8x, according to the definition of the covenants applied to Maxam, the ratio is 8.7x).

Capitalisation

- **Limited own funds.**

  Maxam shows a leveraged financial structure with a weak level of financial autonomy, which is expected to remain at tight values (equity/TFD ~ 50%).

Liquidity

- **Adequate liquidity profile.**

  Maxam shows an appropriate capacity to meet its financial commitments in the short term based mainly on its adequate cash position and available credit lines. Additionally, Maxam has good access to funding and the presence of undrawn credit lines, key aspects supporting its credit profile.

Modifiers

- **Controversies.**

  In January 2022, a truck driven by a transporter not associated with Maxam but containing explosives manufactured by the company, exploded in Ghana. The event raised questions about compliance with relevant regulations. Maxam was fined €5.25m by Ghana’s Ministry of Lands and Mineral Resources. After analysing the situation, EthiFinance considers the impact on the rating to be nil, noting that the explosion was not caused by the chemical instability of the explosives being transported or the anchoring of the cargo, but because the truck was involved in an accident.

Summary of financial information

Key financial figures[1][2]. Thousands of euros	2022	2023	23vs22
Turnover	993,297	1,094,817	10.2%
EBITDA [3]	171,837	239,258	39.2%
EBITDA margin[3]	17.3%	21.9%	4.6pp
EBIT	106,492	109,157	2.5%
EBIT margin	10.7%	10.0%	-0.8pp
EBT	n.a.	92.874	n.a.
Total Assets	1,325,682	1,064,021	-19.7%
Equity	208,297	107,373	-48.5%
Total financial Debt	624,430	596,341	-4.5%
Net financial Debt	441,354	403,738	-8.5%
Adjusted equity /TFD[4]	43.3%	35.3%	8.0pp
NFD/EBITDA	2.6x	1.7x	-0.9x
Funds From Operations	n.a.	279.479	n.a.
FFO/NFD	n.a.	69.2%	n.a.
EBITDA/Interests	n.a.	6.8x	n.a.

Ratios Syndicated loan	Mar-22	Aug-22	Aug-23
Net financial debt	567,096	448,075	448,609
EBITDA	243,076	314,050	276,719
Financial expenses	21,170	20,896	31,855
Capex	-36,200	14,112	32,930
EBITDA/Net financial expenses	11.5x	15.0x	6.7x
NFD/EBITDA	2.3x	1.4x	1.6x

[1] Ratios calculated in accordance with EthiFinance Ratings methodology. [2] Fiscal year-end in August of each period. [3] Adjusted EBITDA does not take into account restructuring plan severance charges, gains on disposals and impairment of fixed assets, as well as non-recurring miscellaneous expenses. [4] It does not consider the impact of FX changes.

Sensitivity analysis

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

- **Positive factors (↑).**

  For the time being, we do not foresee a rating upgrade in the short term.

- **Negative factors (↓).**

  Non-achievement to a high degree of the projected figures for both debt and profitability for FY24. Deterioration of the NFD/EBITDA ratio (>3x) on a sustained basis. Deterioration of interest coverage ratio (<6x). Deterioration of ESG metrics, so that they are in an unfavourable position vis a vis the sector. Reduction of the capitalisation ratio (equity/TFD <20%) on a sustained basis.

Credit Rating

Credit Rating	
Business Profile	**BB+**
Sectoral Analysis	*BB-*
ESG Sector Adjustment	*Negative*
Competitive Positioning	*BBB*
Governance	*BB+*
Financial Profile	**BBB-**
Cash flow and debt	*BBB+*
Capitalisation	*B-*
ESG Adjustment Company	Neutral
Anchor Rating	**BBB-**
Modifiers	-
Rating	**BBB-**

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 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 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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