BBB-

ISSUER RATING

Long-term Rating

Outlook: Observation

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Rating Action and Rationale

- EthiFinance Ratings reaffirms Grupo Audax 's rating at "BBB-", maintaining an 'under-observation' outlook.
- The rating is mainly supported by a positive assessment of the company's business profile, which is based on the favorable situation of the *utilities* sector associated with renewable energies, especially in the generation segment. It has high levels of profitability (EBIT margin ~12.5%), low volatility, and high barriers to entry (initial investment, *know-how*, demanding regulation, etc.). These factors offset the less favorable characteristics of the energy marketing industry, especially its more limited profitability (EBIT margin between 3% and 5%). Also on the rating supportive side is the high diversification of the customer portfolio (top-10 customers account for <5% of sales), growing geographic diversification (the Iberian market accounts for 47% of sales), consolidated competitive advantages (particularly the recent *market access* agreement with Shell), and a positive assessment of the group's shareholder base in terms of financial capacity and stability.
- On the other hand, despite the company's projected adequate debt coverage ratio (NFD/EBITDA <3x), the limited level of interest coverage (EBITDA/interest coverage ~2.0x), derived from the high gross leverage and high financial costs, as well as the group's weak solvency level (equity/TFD ratio <30%) remain as limiting factors affecting our rating.
- The outlook remains 'under observation' as the current rating assumes that Audax will achieve the favorable forecasts provided by the company for 2023-24 in terms of leverage and coverage ratios (NFD/EBITDA <3x; FFO/NFD>20% and EBITDA/interest >2.5x), based mainly on the reduction of debt in line with the entry into operation of the *market access agreement*. We will continue to monitor the evolution of this transaction and the group's credit metrics in the coming months.
- In line with our methodology, we consider the company to operate in both the *utilities* sector on the marketing side (heatmap sector between 3 and 3.5) and the renewables sector on the generation side (heatmap sector between 1 and 1.9). While the ESG assessment of the trading industry is neutral, it is worth noting that the renewable sector has a positive impact on the sector profile. The group's ESG policies are considered favorable (ESG score between 0 and 1), improving the financial profile by one *notch*.

Issuer Description

Audax is active in the energy sector, in the business of energy trading (electricity and gas) from 100% renewable sources and oriented mainly to the industrial segment (SMEs and large companies). Additionally, it is an independent energy producer with a project portfolio (solar and to a lesser extent wind) in 2022 of 1,415MW with 245MW in operation located in Spain, Panama, France, and Poland. As a marketer, apart from its home market Spain, the company operates in Portugal, Hungary, Holland, and Italy and to a lesser extent in Germany and Poland. Audax recorded turnover of €2,625m (+56.4% YoY) and EBITDA of €54.1m (EBITDA margin of 2.1%) in 2022. Under our methodology, the group's NFD/EBITDA ratio was 8.5x (NFD/EBITDA ratio taking into account the intra-group loan assignment operation would be 5.9x). Audax's capitalization reached €504m (21/04/23).

In assigning the rating, the financial projections provided by Audax Renovables for the period 2023-25 have been taken into account. The company considers this information to be internal and confidential and therefore it has not been reflected in the report.

Fundamentals

Business Profile

Industry Risk Assesment

- **The energy sector is mature, one of prime necessity and fundamental to the economic development of society, and therefore highly regulated. Despite the international challenges it faces it has a positive long-term outlook.** The sector enjoys a high and generally stable level of profitability (especially in the generation segment), with controlled volatility excluding turbulent periods such as 2022. Barriers to entry are considered high, based on the *know-how* required, the significant investment necessary, as well as the high level of regulation to be complied with. The industry as a whole offers positive growth prospects in the context of the transition to a model based on renewable energies.
- **In line with our new methodology, the subsector linked to the development of renewable energies (generation through photovoltaic technology) is adequately aligned with ESG factors (sector heatmap between 1 and 1.9).** In this sense, the industry in which the company operates is considered one that is already benefiting from ESG trends, or is structurally positioned to benefit from them. These trends are providing significant business opportunities and offer long-term visibility for the entire sector. This assessment results in a rating upgrade of one category in the sector analysis.
- **The trading segment has a neutral ESG exposure (sector heatmap between 3 and 3.5).** ESG trends are structural and business opportunities exist, but further adaptation is needed to achieve positive financial or social benefits. On the other hand, no major dependencies or negative impacts of ESG factors on stakeholders are foreseen.

Company's competitive positioning

- **Adequate position in the energy trading market, which compensates for a more limited position in the power generation industry.** The company is among the 10 market leaders in Spain with a market share of 1.3%. This low market share is tempered by the high concentration of the main players in the sector (top 4: ~80%). In addition, Audax has a limited position in terms of power generation with a portfolio of 1,415MW, 245MW of which is operational. It is considered that Audax's competitive positioning will improve as it develops its generation pipeline, which will give it greater independence. The main recent development is the *market access* agreement signed with Shell Energy Europe, which in the short term allows Audax to improve its working capital financing needs (from paying in ~7 days and billing in 30 days to paying in ~40 days), release guarantees, focus efforts on commercial growth, and gain access to a broader portfolio of products with higher profitability margins. On the other hand, such agreements could limit the company's degree of independence.
- **Activity mainly focused on energy trading with a growing international scope.** Besides its home market, Spain, the group has increased its position in foreign markets through corporate acquisitions, as is the case in Holland, Italy and more recently in Hungary, allowing it to increase its geographical diversification. To date, Iberia & Hungary's market turnover stands at 78.8%. Energy commercialization represents 99% of turnover. The activity has tight margins which, despite the strong energy price volatility in 2022, the group has managed favorably, among other means by prioritizing the commercialization of the indexed tariff, which increased from 43% to 57%, and with the execution of the *market access agreement* with Shell.

Governance

- **Shareholders committed to the growth, stability and diversification of the business.** Management characterized by the high level of involvement of its main shareholder, José Elías Navarro, who controls 65.8% of the company, along with one of the leading *family offices* in the Spanish market, the Domínguez family (Mayoral group) with a 7.2% stake. They are backed by a management team with proven experience in creating value, making the transition from a regional distributor-producer to an energy group with an international presence. As a limiting aspect, we note an aggressive financial policy until 2022, one relying on high levels of leverage to finance growth, trying to replicate its successful model (profitability margins above the sector average) in the Iberian Peninsula to other European regions.
- **Priority in ESG policies, positioning itself as a leading player in the process of energy transition in the European market.** The group has set as its main objective the distribution and generation of electricity from 100% renewable sources. In addition, the group is implementing active policies on equality and governance issues which, under our ESG methodology, generate positive results with a favorable impact on its credit rating.

Financial Profile

Cash-flow and leverage

- **Profit improvement in a complex macroeconomic environment**. 2022 was marked by the high volatility of energy prices. On the one hand turnover increased by 56.4% YoY, and on the other operating margin contracted by 1.8pps to 5.2%. This, however, is not reflected in EBT due to the positive effect of financial income (+€2.9m) from, among others, the company's stake in a wind farm in Panama. EBITDA amounted to €54.1m (+2.2% YoY) due to the increase in revenues, although the EBITDA margin contracted by 1.1pps as a result of the increase in energy prices.
- **Improved operating cash flow.** Improvement in working capital management enabled Audax to increase operating cash flow to €151.2m (-€74.0m in 2021). However, even this good figure was not enough to cover investment and financial needs, with a negative cash flow variation of €38.2m. Nevertheless, we would highlight the company's ability to increase EBITDA in a complex environment and within an industry already working with narrow margins.
- **Financial structure marked by high indebtedness.** The group has relied on bond issues and a promissory note programme to meet its investment and working capital needs. These provisions have raised its leverage to high levels, with a 2022 ratio of 8.5x (+0.2pps) despite the fact that the company maintains very significant cash levels. This ratio is considered high. It should be noted that for the calculation of leverage we have not considered as liquid the transfer of receivables to Excelsior Times valued at €138.6m, as we consider that this operation it is made for credit hedging purposes, with no effect on the liquidity of the company. However, in terms of adjusted TFD, an effort was made to reduce debt, which contracted by 6.2% YoY. With the formalization of the *market access agreement* with Shell, the group expects to reduce its short-term financial needs and achieve a leverage level of < 3.0x. Despite this, we note that the group currently has very significant financial costs (an average financial cost of 3.3%, guarantees and non-recourse factoring expenses, among others) which have led to a deteriorated interest coverage ratio (EBITDA/interest of 1.7x). This is expected to improve in the short-to-medium term based on the projections presented. Additionally, the fact that most of the group`s debt (91%) is at fixed rates is a positive factor given the increase in the cost of debt.

Solvency

- **The group has a weakened level of equity**, which stood at €135.7m (10.3% of the balance sheet) at end-2022 as a result of a particularly aggressive dividend policy in 2021, a year in which it posted a loss of €3.3m with a *pay-out of* €10.3m. The group has limited financial autonomy (equity/TFD ratio of 19.6%) in line with the previous year. Despite these modest parameters, the potential support of the majority shareholder, as well as the favorable valuation of the project generation portfolio and the positive outlook for profit generation are considered as future drivers to increase solvency levels.

Liquidity (in normal situation)

- **Liquidity affected by a turbulent 2022, but sufficient to meet commitments.** The group had a liquidity position at the end of 2022 of €205.9m (-15.7% compared with end-2021). This, together with the liquid financial instruments of €29.6m, gives it a very favorable overall liquidity position, even under a scenario of partial non-renewal of the MARF promissory note programme. In addition, the group has open financing channels (mainly non-recourse factoring) to add flexibility if required.

Modifiers

ESG Factors

- **The group has no ESG controversies.** Our assessment of controversies determines that there are no events that constitute a real issue about Audax's operations and require special monitoring.

Liquidity

- **Adequate liquidity position.** The company has decent liquidity when comparing its available sources of funds (cash, liquid financial instruments, financing facilities and FFO) with the expected use of funds (short-term debt maturities and expected capex), as well as an appropriate refinancing profile.

Country Risk

- Given the countries in which the group operates, including Spain, Hungary, the Netherlands and Portugal, it is determined that there is no country risk to affect the rating.

Main Financial and Extra Financial Figures

Main financial aggregates. Thousands of euros.	2020	2021	2022	22vs21
Turnover	967,438	1,678,564	2,625,893	56.4%
EBITDA	66,440	52,937	54,100	2.2%
EBITDA margin	6.9%	3.2%	2.1%	-1.1pp
EBT	34,049	-1,621	12,574	875.7%
Total Assets	1,146,616	1,344,556	1,316,810	-2.1%
Equity	143,007	144,366	135,773	-6.0%
Adjusted TFD[(1)]	583,790	739,131	693,355	-6.2%
NFD Adjusted	191,656	439,715	457,773	4.1%
Equity/TFD Adjusted	24.5%	19.5%	19.6%	0.1pp
Adjusted NFD/EBITDA	2.9x	8.3x	8.5x	0.2x
FFO	39,746	26,867	41,293	53.7%
Adjusted FFO/NFD	20.7%	6.1%	9.0%	2.9pp
EBITDA/Interest	3.7x	1.8x	1.7x	-0.2x

[(1)] Adjusted TFD = debt with credit institutions + bonds and other marketable securities (excludes derivatives, intra-group debt and the secured part convertibility of the bond) + adjustment of non-recourse factoring lines

Rating Sensitivity

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

- **Positive factors (↑).**

  According to our methodology, we do not foresee a rating upgrade in the short term as the current rating already assumes an improvement in credit metrics over the next 12 months.

- **Negative factors (↓).**

  Regulatory change affecting the execution of planned investments in photovoltaic farms and/or delays in the execution and commissioning of the same. Variation in the conditions of the *market access agreement* formalized with Shell that causes an increase in financial needs and/or significant loss in business margins. Failure to reach the projected figures for 2023 in terms of leverage (maintenance of NFD/EBITDA >3x: EBITDA/interest <2x).

Credit Rating

Credit Rating	
Business Profile	**BBB**
Sectoral Analysis	*BBB+*
Competitive Positioning	*BBB*
Governance	*BBB*
ESG Company	**Positive**
Financial Profile	**BB**
Cash flow and debt	*BB*
Solvency	*CCC+*
Anchor Rating	**BBB-**
Modifiers	Neutral
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 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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