BB

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 22/11/2013
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Analysts

Head of Infrastructure & Project Finance
Miguel Castillo Clavarana
mcclavarana@axesor-rating.es

Chief Rating Officer
Guillermo Cruz Martínez
gcmartinez@axesor-rating.es

Executive Summary

The following is an Executive Summary that summarizes the rationale of the public rating assigned to to **Sociedad Anónima de Obras y Servicios Copasa.** The company operates since its beginnings, in the construction and services sector. During 2019, the group achieved a consolidated turnover of €314.1M and an EBITDA of €43.1M, representing a margin of 13.7%.

Rating rationale

Business profile

- **Adequate competitive positioning with positive progress during the last period.**

  Copasa's strategic positioning in a diversified and profitable activity within the construction sector requires the group to operate internationally and in large concession projects. During 2019 the company initiated and contracted significant works in the international market (Uruguay, Brazil, Saudi Arabia, Peru and the US). Likewise, during the first half of 2020 it has incorporated new contracts in new markets such as Colombia and Sweden, which contribute to boosting and reinforcing Copasa's international positioning in the future while reducing its significant dependence on the domestic market. At the end of 2019, international EBITDA reached 48.5% of the total, with Saudi Arabia and Latin America being the main focuses of activity.

- **Specialization in civil works with adequate portfolio situation.**

  The company continues to show commercial strength in its strategic road, rail and water activities (ports and environment), an aspect favoured by the technical and financial capacity it demonstrates. Similarly, we highlight the concession activity as an element that contributes significant recurrent and profitable revenues (48% of EBITDA in 2019). At the end of 2019, annual contracting, in a year when there were no major contracts, was €253M, bringing the total portfolio (including revenues from concessions) to €1,874.6M. The portfolio corresponding to the productive activity (without revenues from concessions) reached a figure of €469.5M at the close of 2019, of which roads (38%), railways (33%) and water (14%) remain as outstanding activities.

Financial profile

- **Positive profitability at EBITDA level (13.7% margin) conditioned by the financial expenses.**

  As expected during 2019, Copasa's results improved with the beginning of the works in Uruguay and Brazil during the second semester. With this boost, EBITDA increased by 20.8%, allowing the margin to improve to 13.7% (11.7% in 2018) and the group's ability to obtain positive net results in its activity to continue. The increase in EBITDA is a positive and necessary factor in view of the financial cost borne, an aspect that continues to condition the generation of profits and an element for which management is studying measures aimed at reducing the cost. The EBITDA/financial expenses ratio stood at 2.19x at the end of last year, a slight improvement over the previous year (2.08x).

- **Adequate debt situation favored by 'non-recourse' financing and the current liquidity situation.**

  During 2019 Copasa generated a positive Free Cash-flow that allowed it to reduce the financial debt and maintain in positive terms its cash position with an amount of €92.8M (€104.7M in 2018). With this liquidity, the company is making progress in reducing its net financial debt, comfortably meeting its commitments and improving its ratios with respect to the EBITDA generated both in the consolidated perimeter as well as in the financial debt with recourse perimeter.

The financial structure continues to be favoured by the long-term approach to financing, debt control and the use of non-recourse debt in part of the concession activity. At the end of 2019 the ratio of Financial Debt with recourse/EBITDA stood at 1.43x (Bond covenant´s required of 3.4x), while Financial Debt with recourse/EBITDA with recourse stood at 2.55x (3.58x in 2018).

- **Strengthening liquidity in response to the situation of COVID-19.**

  The positive cash flow situation, a strategic aspect for being competitive and growing around large projects, is reinforced during 2020 by the measures undertaken in response to the extraordinary situation of COVID-19. Thus, the company has recently attracted additional funds of around €39M (ICO loan programme) and stabilised its credit lines in the medium term as measures expected to be sufficient in the face of the worsening impact on activity and liquidity.

  The financial projections have been updated on the basis of a reduction in EBITDA in 2020 and an increase in financial debt as a result of the new projects undertaken and the impact of the COVID-19, with recovery estimated from 2021 as normal activity resume.

Main financial figures

Main consolidated financial figures

€thousands	2017	2018	2019	2019-18
Turnover	328,576	303,284	314,127	3.58%
EBITDA	34,487	35,695	43,143	20.87%
% o/EBITDA	10.5%	11.8%	13.7%	1.96pp
EBITDA with recourse (1)	29,253	16,709	24,214	44.92%
EBT	7,602	13,845	14,812	6.98%
Net Equity	137,715	162,119	170,891	5.41%
% o/Financial debt	76.41%	49.61%	53.80%	4.20pp
Net financial debt (NFD)	102,327	222,092	224,750	1.20%
Nef financial debt with recourse (RNFD) (2)	66.644	59,819	61,720	3.18
NFD/EBITDA	2,97x	6.22x	5.21x	-1.01x
RNFD/EBITDA with recourse	2.28x	3.58x	2.55x	-1.03x
RNFD/EBITDA (2)	1.93x	1,.8x	1.43x	-0.25x
Funds from operations (FFO)	25,083	-13,254	2,750	120.75%
Cash	77,894	104,702	92,868	-11.30%

(1) Adds to consolidated EBITDA the % of EBITDA from unconsolidated participations.

(2) Excludes financial debt without recourse. Covenant required for Bonds: NFD/EBITDA <3.4x.

Outlook

The rating outlook is **stable**. At this moment, Copasa maintains the positive recurrence in the generation of profitable and diversified business in the international scope. The boost from the start of major works in the second half of the year, together with the positive performance in contracting in the first months of 2020, put the group on a positive footing for the current year. However, the negative impact of COVID-19 is a step backwards that is difficult to estimate at present. In this regard, the company has managed the measures aimed at strengthening liquidity in a favourable and preventive manner.

Rating sensitivity

- Positive factors: a positive and sustainable progress of the competitive positioning in the international market and/or the capacity of the group to reduce its indebtedness are factors that could lead to a potential increase in the rating.

- Negative factors: A negative impact on cash generation that exceeds estimates and is assessed as sufficient to reduce the group's capacity to meet its financial commitments could lead to a potential 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.

C/ Graham Bell. Edificio Axesor s/n de Armilla (Granada)

C/ Velázquez nº18, 3º derecha, 28001 - Madrid.

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