BBB-

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 16/10/2019
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Rating Action & Rationale

- Ethifinance Ratings affirms Grenergy Renovables, S.A.'s rating at "BBB-", maintaining the outlook at Stable.
- This rating action reflects a positive business profile (BBB+), which is enhanced by the industry risk assessment and fundamentals of governance. This, along with an adequate assessment (BB-) of the financial risk profile, contributes to a rating that remains sufficient to be investment grade.
- In line with our updated methodology, Grenergy activity is partially part of the utility sector, adjusted to the renewable area of the construction & engineering of projects, which is favourable to the industry ESG assessment (heatmap score between 1 and 1.9). ESG policies of the company are considered neutral (ESG score between 1 and 4), thus not having any impact on the rating.

Issuer Description

Grenergy Renovables, S.A and its subsidiaries (hereinafter, Grenergy), stands as a renewable energy producer operating under a widely integrated business model. The company has been listed on the Continuous Market of the Spanish Stock Exchange since the end of 2019, where, at date of the previous report, has a capital of around €800M. During 2021, the company kept concentrating its results in Chile (91% of EBITDA) and started generating results from the sale of energy, holding a portfolio of 541MW at year-end. The company made progress in its results during 2021 within the expected increase in indebtedness in line with the development of its planned investments, which placed the total Net Financial Debt/EBITDA ratio at 5.75x (5.32x in 2020) and at 2.0x for the non-recourse perimeter (2.81x in 2020).

Fundamentals

Business Profile

Industry Risk Assessment

- **Industry with good competitive bases.**

Under our methodology, the industry risk assessment of Grenergy is reached according to its status of a utility company but adjusted to the own characteristics of a producer of energy 100% renewable, and that also use some characteristics of an 'EPC contractor' (construction & engineering) that constructs and sells photovoltaic projects to third-parties. Thus, some positive fundamentals are highlighted in this set of factors which led the industry grade at AA. The stability associated to some results with an adequate profitability and very positive demand growth perspectives for its products and services, are elements that enhance the assessment.

- **Industry adequately aligned with ESG factors.**

In line with our adjusted methodology, the industry of renewable energy production is well aligned with ESG factors (heatmap score between 1 and 1.9). Thus, it is considered as a sector that is benefiting 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 result in an improvement of three notches of the grade given to the sector.

Company's Competitive Positioning

- **Adequate competitive positioning. The competitive advantages compensate for the concentration of the activity as well as for the scale of the group.**

Grenergy is present in the sector since 2007, where is has known how to grow in an environment of constant changes. In its competitive positioning, the company integrates solar and wind technologies, and incipiently, batteries, realizing the whole construction and engineering of projects (EPC solar), as well as, services of financing, operation, maintenance and management. Its growth plans, under a mix model of sales of projects and production of energy and services, are positively backed up by a pipeline that under the latest statement amounts to 10 GW with 1.1 GW at an advanced stage.

- **Profile of a specialist company that is moving on a better diversification in terms of activity and markets, within a sector with positive dynamics to favour growth.**

The progress in growth plans allows to reach the expected turning point with the beginning of energy sales (€20M in 2021) and the growing activity in Spain which is part of an expected growth in Europe. Additionally, the company entered the US market with the acquisition of a participation (40%) in a local developer which manages 1.8GW, as well as published its activity in the stockage batteries industry. Nonetheless, the activity remains highly concentrated in Chile according to the deriving results (91% s/EBITDA in 2021). The individual generation capacity is currently of 541 MW (198 previously), coming from the sum of more projects in Chile and the first projects in Spain and Colombia.

Governance

- **Achievement of the last milestones of the strategic plan 2018-20, which bases serve as continuity for objectives of 2024 to reach an individual capacity up to 3.5 GW.**

The year 2021 allowed to end the objectives of the 2018-20 plan, within a period not exempted of difficulties and deviations currently under management. This is valued as a positive progress for the financial objectives and improvements in the competitive positioning. The strategic bases remain generally stable under ambitious goals of growth of its individual portfolio of 1.4 GW in 2022, 2.4 GW in 2023 and 3.5 GW for 2023.

The strategic plans are supported by a sustainable positive financial situation, the incorporation of new members in the governing and executive management bodies, as well as the increased value of the company and its assets, to address the remaining important objectives in terms of project development and funding.

- **Neutral ESG policy**. The ESG performance, measured through the analysis of our factors for its area, enable at this time a neutral impact on Grenergy financial profile.

Financial Profile

- **Positive profitability in operations, permitting continuity in profit.**

At the end of 2021, Grenergy remained able to generate profit in its activity, aspect backed by a good profitability of its operations regarding its financial and fiscal expenses. In the last year, the company substantially improved its revenues and almost doble the EBITDA, up to €41,4M (€23,7M in 2020), even if it was restricted by an increase in prices of supplies and financial expenses, as well as, extraordinary losses in financial instruments (Escuderos' PPA) which limited the improvement of the net result at €16.3M (€15.2M in 2020). In accordance with what was expected, the outbreak of energy sale, which also brought higher profitability, during 2021, contributed to the growth of results and the sustainability of margins.

- **Notable growth of the asset in accordance with the demanding funding plan and under continuity in a positive situation in its financial structure.**

The company is currently making important progress regarding its growth, with a balance that exceed €600M at the end of 2021. Following what was expected, the company increased its debt position with a progress in the previewed investments, aspect positively complemented by the strengthening of its equity, liquidity, and a greater referral on Project Finance. Thus, the long-term and non-recourse debt remains predominant in the company's financial structure, favouring the continuity of its plans. In 2021, the consolidated NFD/ EBITDA ratio was 5.75x (5.32 in 2020).

- **Cash flow subject to investment and which remains adequately managed**.

2021 was ended with an increase in liquidity as an answer of previewed investment plans and that keeps requiring substantial debt before confirming a continuity in the cash flow after negative investments. The improvement of the results, with FFO enhanced up to €36.5M, in comparison with €17.8M the previous year, and capital increase, partially compensate for the funding necessities. Cash at the end of the year, adjusted by Ethifinance, reached €73.5M (€27M in 2020).

Solvency

- **Adequate solvency.**

The equity situation is shown as adequate within an expected intensive investment. In its favour, its own resources are still growing under the policy of not distributing any dividends and the formalisation of the mentioned capital increase. Ethifinance adjusts the negative effect of financial instruments that come out of energy sale agreements (-€11.5M in 2021) to substitute the equity of €170.2M at the end of 2021, magnitude that requires a 59% on the total financial debt. While it is expected that the debt increase would be higher than the progress of the future financial results, the solvency is adequately valued in accordance with the financial support policy of shareholders and the asset value that Grenergy is managing.

Liquidity

- **Positive liquidity to face its investments and financial obligations, counting on diversified funding sources.**

The company is favourably progressing in the management of its liquidity with a continuity in projects sale, the greater portfolio of own assets in operation and development, and an increase in working capital. Accordingly, we highlight the registration, in the previous month of September, of a green bonds program in the Spanish Alternative Bond Market (MARF) for an amount of €100M (€41.6M available at the end of 2021). Thus, the debt market is still favourably supporting the group, both in the corporate financing and funding of projects.

The additional support exposed by the shareholders and the value generation in its projects are still, according to our vision, strengthening an intensive investment strategy.

Modifiers

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

Summary of Financial Information

Main Financial Figures			
€thousands	2020	2021	21vs20
Adjusted turnover (1)	113,432	220,154	94.08%
EBITDA	23,69	41,437	74.92%
EBITDA Margin	20.88%	18.82%	-9.88%
Financial Expenses (FE)	-2,628	-9,321	-130.15%
EBITDA / FE	9.02x	4.45x	-4.57x
Total Asset	258,198	604,808	134.24%
Equity	50,575	170,201	236.53%
Total Financial Debt (2)	153,065	312,018	103.85%
Net Financial Debt (DFN) (2)	126,036	238,446	89.19%
NFD / EBITDA	5.32x	5.75x	0.43x
Funds from Operations (FFO)	17,782	36,522	105.39%
Cash (4)	27,03	73,572	172.19%

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

(2) Excludes derivatives and debts with group.

(3) Funds from operations minus change in working capital.

(4) Including part of financial current investments and excluding not available cash (pledge).

Rating Sensitivity

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

- **Positive factors (↑).**

  At the moment, no upgrading is forecasted as the permanence of a capital-intensive strategy in an environment of lower development and implementation of projects make improvement of financial ratios more difficult, as well as the competitive positioning of the group.

- **Negative factors (↓).**

  The energy sale activity favours the stability and profitability. A decrease of this percentage under 45% of the average income over the same debt level, would be an indication of a downgrade of the rating. Thus, the preservation of debt level is a key milestone, meaning that a decrease in the interest coverage to an average level lower than 4.0x would be another indication, subject to the possibility of this not being able to be compensated by improvements in other financial or business profiles.

Credit Rating

Credit Rating	
Business Risk Profile	**BBB+**
Industry Risk Assessment	*AA-*
Competitive positioning	*BB*
Governance	*BBB-*
Financial Risk Profile	**BB-**
Cash flow and leverage	*BB-*
Solvency	*B-*
Company's ESG	*Neutral*
Anchor Rating	**BBB-**
Modifiers	No
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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