



ISSUER RATING

Long-term Rating

Outlook: Observation

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Rating Action

EthiFinance Ratings affirms Grupo Audax's "BBB-" rating, changing its outlook from Stable to Under Observation.

Executive Summary

Audax frames its activity within the energy sector, focusing its business on the energy commercialization (electricity and gas), mainly in the industrial segment (SMEs and large accounts). The group also operates as an energy generator (project portfolio of 2,536MW; 226MW in operation). The company has an international scope of action, operating in Spain, Portugal, Italy, Germany, Poland, France, Holland, Hungary and Panama. In 2021, Audax reported sales of €1,690MM (+74.4% YoY) and EBITDA of €52.9MM (EBITDA margin of 3.1%). The group's NFD/EBITDA ratio stood at 4.6x. Audax's market capitalization reached €498MM in May 2022 (09/05).

In assigning the rating, the financial projections provided by Audax for the period 2022-2024 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

- **Solid competitive positioning as an electricity trader, with significantly more limited advantages in the generation business.**

Audax presents a consolidated competitive position in the energy sector based on its solid position in the energy supply segment, both nationally and in the different markets where it operates. However, its competitive position in the generation business is assessed as modest, based on its current generation capacity and technology (226MW in operation, of which 157MW are wind and 69MW photovoltaic) and a sector context (delays in permitting process) that limits progress in the development of its renewable portfolio (2,536MW in portfolio).

- **Growing international vocation that mitigates the risk of concentration in the supply activity.**

The company generates revenues and EBITDA in the domestic market (Spain represents 53.6% of sales and 61.6% of EBITDA). However, the continued strategy of increasing its internationalization has been reducing the risk of dependence over the last few years. The company currently operates in Portugal, Italy, Germany, Poland, France, Holland and Hungary. This international vocation, together with the appropriate diversification of the customer portfolio, provides the group with greater resilience in the face of unfavorable scenarios. This adequate diversification also mitigates the risk of the group's business profile, which, although a move towards the generation activity is expected, in the near future, continues to be highly dependent on the energy supply activity (electricity and gas), which represents 99% of sales and 75.7% of EBITDA.

- **A mature and highly regulated sector that, despite the positive long-term outlook, is currently conditioned by a complex context.**

The energy industry is characterized as a sector of prime necessity, marked by stability and in which regulation plays an important role. The sector, especially in the trading segment, has a large number of competitors, although it is still dominated by large integrated players, and there is a clear trend towards concentration. The industry, as a whole, offers favorable long-term prospects, which will hinge on renewable energies. However, the sector is currently being affected by high energy prices (record highs) and significant delays in the execution of renewable projects (delays in obtaining permits from the administrations), factors whose future development will condition the evolution of the sector in the medium term.

- **Ownership structure committed to the business and with adequate financial capacity.**

Management characterized by the high involvement of the founder and main shareholder, José Elías Navarro, who controls 66.8% of the capital, and who also has a favorable financial capacity. In addition, the presence of one of the leading family offices in the Spanish market, the Domínguez family (Mayoral group), which holds a 6.8% stake, is favorably valued on the basis of a more diversified ownership structure.

Financial Profile

- **Results conditioned by a complex economic environment.**

Audax reported record sales at year-end, reaching €1,690MM. This increase (+74.4% YoY), which was mainly due to the increase in energy prices, was not reflected in operating results which, despite the improvement during the second half of the year, were lower than in 2020 due to an economic context that significantly affected the industry as a whole (EBITDA of €52.9MM; EBITDA margin of 3.1%). This, coupled with the high financial costs maintained by the group based on a high level of leverage, limited the final results, which, although positive, remained at adjusted levels (EBT of €4.5MM; -86.9% YoY). However, the company's ability to generate profits even in unfavorable macroeconomic scenarios is positively valued.

- **Leveraged financial structure and limited solvency levels.**

The company operates under a financing structure marked by a significant amount of debt (TFD of €739.1MM) and limited financial autonomy (Equity/TFD ratio of 20.1%). Despite the improvement in shareholders' equity during the year, the group continues to maintain solvency levels that are considered tight, although these are partially mitigated by the potential support of the majority shareholder, who has a strong commitment to the group and favorable financial capacity.

- **Adequate capacity to meet its payment commitments.**

Although Audax has been increasing its leverage levels in recent years, which has been reflected in deteriorated coverage ratios (NFD/EBITDA of 4.6x and EBITDA/Interest of 1.8x in 2021), it is considered that the group maintains an adequate capacity to meet its payment requirements. This valuation is supported by an operating result that is expected to improve under more normalized contexts and especially a solid liquidity position and a long-term debt maturity schedule.

- **Favorable liquidity situation, which suggests that the group will not have difficulties in the short term.**

The group shows a positive liquidity situation based on its ample cash position (cash of €244.1MM + liquid financial instruments for €250.3MM), sufficient to cover the debt requirements (even under the assumption of non-renewal of part of the different issues within the promissory notes program) and the business requirements. In addition, it is considered that, although the current market situation could continue to stress operating financing needs, the group is working on various financing instruments (mainly non-recourse factoring) that will favor the company's financial flexibility.

Main financial figures

Main financial figures. Thousands of €.				
	2019	2020	2021	21vs20
Turnover ⁽¹⁾	1,043,789	969,300	1,689,982	74.4%
EBITDA	73,250	66,440	52,937	-20.3%
EBITDA Margin	7.0%	6.9%	3.1%	-3.7pp
EBT	33,031	34,049	4,457	-86.9%
Total Assets	774,253	1,146,616	1,349,114	17.7%
Equity	155,714	143,007	148,924	4.1%
Total Financial Debt ⁽²⁾	357,738	583,791	739,132	26.6%
Net Financial Debt	185,839	191,657	244,716	27.7%
Equity/TFD ⁽²⁾	43.5%	24.5%	20.1%	-4.3pp
NFD/EBITDA	2.5x	2.9x	4.6x	1.7x
Funds From Operations	55,370	39,746	32,945	-17.1%
FFO/NFD	29.8%	20.7%	13.5%	-727.6%
EBITDA/Interest	3.8x	3.7x	1.8x	-1.9x

⁽¹⁾Sales + other operating income. ⁽²⁾Excludes derivative debt, intra-group debt and the convertible secured portion of the convertible bond.

Rating and Outlook

EthiFinance Ratings affirms Grupo Audax's "BBB-" rating, changing its outlook from **Stable** to **Observation**. The group has a favorable business profile based on its consolidated competitive positioning in a mature industry and a shareholder and management with solid fundamentals. However, the deterioration in margins due to adverse sector conditions and high indebtedness (DFN/EBITDA >3x) both at the end of 2021 and estimated for future years, based on the development of the generation portfolio, will affect the group's financial situation. EthiFinance Ratings maintains the rating under observation at the expense of Audax formalizing the proposed divestment operations, as well as closing the signing of the contracts with the market access service suppliers for the commercialization segment in Iberia, Italy and Holland. Likewise, the rating remains subject to the adequate future development of the investments in the photovoltaic plants. These transactions, which are currently under negotiation, could deteriorate the company's rating if they do not occur or if they occur on terms or at times different from those proposed.

Rating sensitivities

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

- **Positive factors (↑).** Improved operating margins based on a more normalised sector and, in particular, progress in the execution of the investment plan that will bring the photovoltaic parks into operation. Less dependence on the trading sector. Substantial capitalisation optimisation (Equity/TFD). Improved coverage ratios (lower NFD/EBITDA and higher EBITDA/Interest).
- **Negative factors (↓).** Prolongation of the war in Eastern Europe, which continues to stress the economic and capital markets. Deterioration of operating margins. Deterioration in the company's capitalisation (Equity/TFD). Increase in indebtedness (NFD/EBITDA). Reduction of the company's liquidity levers and/or inoperability of the short-term capital markets resulting in an inability to renew the promissory note issues.

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 www.EthiFinanceRatings-rating.com/en-US/about-EthiFinanceRatings/methodology and according to the Long-term Corporate Rating scale available at www.EthiFinanceRatings-rating.com/en-US/about-EthiFinanceRatings/rating-scale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CERP, 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 it has been modified as the result of the review made during the appeal process.

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