



ISSUER RATING
Long term

OUTLOOK
Stable

Initiation date 01/04/2020
Rating Date 07/05/2024

Contacts

Lead analyst

Aitor Sanjuan Sanz
aitor.sanjuan@ethifinance.com

Committee chair

Guillermo Cruz Martinez
guillermo.cruz@ethifinance.com

Rating Action and Rationale

- EthiFinance Ratings affirms Audax Renovables SA's rating at "BBB-", changing the outlook from Evolving to Stable.
- The change in outlook is based on the group's favourable recent performance, which during the monitoring period has seen projected targets being met, the non-achievement of which would have resulted in a rating downgrade (NFD/EBITDA <3x; FFO/NFD>20% and EBITDA/interest >2.5x). Going forward, the group is expected to maintain this dynamic, hence the stable outlook. However, any significant deviation from current forecasts for key indicators over the next 12-18 months could change the picture and affect the rating.
- The company's rating is supported by i) favourable and controlled leverage levels (NFD/EBITDA <3.5x and FFO/NFD > 30%), ii) strong competitive positioning in the energy trading segment, iii) the diversification of its business, iv) a committed shareholder base with adequate financial capacity, and v) the solid fundamentals of the energy generating sector.
- Factors limiting the rating include i) the trading sector being marked by modest margins and some volatility, ii) still tight interest coverage (EBITDA/interest <4x), iii) capitalisation with room for improvement (equity/TFD <50%), and iv) still limited competitive advantages and size in the energy generation business.
- To assess the company's financial profile, a *mix* of metrics has been applied according to the EBITDA contribution of the company's two main activities - the *'standard cyclicalities'* table for the trading business and the *'infrastructure'* table for the generation activity, as this benefits from contractual provisions that limit the volatility of cash flows.
- Under our methodology, we consider the company to operate in both the *utilities* sector on the trading side (*heatmap* sector between 2 and 2.5) and the renewables sector on the energy generation side (*heatmap* sector between 1 and 1.9). While the assessment of the trading industry is neutral, the renewable sector has a positive impact on Audax's overall sector profile. Likewise, the analysis of the ESG policy at company level yields a neutral result (ESG score of the company between 1.5 and 3.5), which has a neutral impact on the rating.

Company Description

Based in Barcelona, Audax is active in the energy sector, operating both as an energy trader (electricity and gas) oriented mainly towards industrials (SMEs and large accounts), and as an independent energy producer, with a project portfolio (solar and wind) in 2023 of 955MW with 263MW in operation located in Spain, Panama, France and Poland. This is the result of the merger in 2017 of Audax Renovables (formerly Fersa) and Audax Energia. As a marketer, in addition to its original market in Spain, the company operates in Portugal, Hungary, the Netherlands and Italy and to a lesser extent in Germany and Poland. Audax reported 2023 revenues of €2.29bn (-12.8% YoY) and EBITDA of €99.3m (EBITDA margin of 4.3%). The NFD/EBITDA ratio was 3x. Group market capitalisation has reached €808m (26/4).

Fundamentals

Business Profile

Industry Risk Assessment

- Company operating in two industries with different characteristics.

The *commodity* trading segment, by type of *commodity* trading business, is characterized by tight profitability (EBIT margin between 1% and 4%), price volatility, and demand linked to the economic environment. Despite this, it is considered that the barriers to entry are medium-to-high in order to be competitive based on the high *working capital* needs, significant regulation, the requirement for guarantees/guarantees from the regulator in order to operate, and the necessary *know-how* (price volatility management, hedging, supply/demand estimation, etc.).

The power generation activity is characterised by high returns (management EBIT margin >20%) which can be explained by high barriers to entry (high capital requirements, the relevant regulation and government component, and the necessary experience in project development), which allow high project leverage, and the intense investment necessary for growth to be sustained. The volatility of this segment within the energy industry is considered low as most of the operations are carried out at regulated prices or under PPAs for the sale of energy.

In the future, both industries are expected to continue to be linked to the evolution of the economic environment but underlying this to be favoured by population growth, government policies in favour of renewable energy, increased energy efficiency, and the electrification of economies.

- ESG impact.

The company operates two distinct activities, which are impacted differently by sectoral ESG factors. In the case of the electricity generation subsector linked to renewable energy, the sectoral risk map gives Audax a favourable ESG

A62338827

CORPORATE

impact (sector *heatmap* between 1 and 1.9). This assessment results in an improvement of one category in the sectoral rating. In the case of energy trading, an adjustment is applied to the standardised impact on the *utilities* sector, resulting in a neutral impact (sector *heatmap* between 2 and 2.5).

Competitive Positioning

- A benchmark company in the energy trading market, more limited positioning as a generator.

Audax has consolidated competitive advantages in the energy trading business, including its size and *know-how*, the recent *market access* agreement, and some vertical integration, which have seen it positioned as a benchmark company in the segment of SMEs and large accounts in the countries in which it operates. In the generation business, its competitive position is more modest due to its still limited operational capacity (263MW). The progressive development of the company's portfolio (955MW in the portfolio) will gradually strengthen its competitive position and improve its vertical integration.

- Business focused on trading activity with favourable geographic diversification.

The diversification of Audax remains one of the differentiating factors in comparison with other energy marketers. The company, while remaining a specialist in the SME segment in Spain, has increased its involvement in the industrial segment (large accounts) following its entry into the Hungarian and Dutch markets, where it has gained market share with new business from large customers. As a result, the Iberian market now represents only 32% of sales (68% international), which, together with the low concentration of customers and the EBITDA contribution of the generation business, marks an improvement in diversification.

Shareholding Structure and Governance

- Stable shareholder structure committed to the business and supported by a management team whose financial policy has focused on deleveraging.

Audax's major shareholder is José Elías Navarro, who controls 74.9% of the equity (directly and indirectly). One of the leading *family offices* in the Spanish market, the Domínguez family (Mayoral group), has a 7.1% stake. These shareholders, with proven financial capacity, together with the fact that the company is listed on the stock exchange (*free-float* 17.8%), provide a good basis for the injection of additional funds if necessary. This shareholder base is reinforced by a *management team* whose decisions have been fundamental to the company navigating a difficult market environment and which has made controlling leverage a key focus of policy.

- Neutral ESG policy at company level.

The company's ESG policies are assessed as neutral (score between 1.5 and 3.5), with no effect on the rating. The assessment at governance level is favourable, mainly supported by i) the presence of independent directors, ii) public disclosure of a code of conduct and anti-corruption policy level, and ii) prioritisation of ESG aspects. However, the ratings at social and environmental level are average, showing more room for improvement.

Financial Profile

Results and Profitability

- Favourable development in terms of profitability.

In a scenario of falling energy prices (electricity -53% YoY and gas -65% YoY), Audax for 2023 reported an increase in energy supplied (13.8TWh, +5% YoY) and generated (279GWh excluding Panama, +8% YoY), which helped to sustain revenues in a bearish environment. In addition, operating income showed a significant increase (EBITDA of €99.3m, EBITDA margin of 4.3%). The level of income is expected to be maintained over the medium term, assuming broadly stable energy prices.

Indebtedness and Leverage

- Controlled leverage compensating for still limited interest coverage.

The effort to reduce debt during the past year, together with the good operating performance of the business, resulted in a decline in the leverage ratio (NFD/EBITDA of 3x), to a more appropriate level after several years at excessively high levels. This has also resulted in an improvement in interest coverage (2.9x; +1.3x YoY), although it remains at a tight level given the current context of high interest rates.

Cash Flow Analysis

- Reinforcement of operational cash generation following the *market access* agreement.

Favourable operating *cash flow* (€140.5m) driven by the positive EBITDA performance which has been transferred to

A62338827

CORPORATE

cash and positive *working capital* variations (downward scenario in prices and *market access* agreement). This has been sufficient to meet the investment requirements and the target of reducing debt, resulting in positive final cash flow.

Capitalisation

- Adequate capitalisation which is expected to improve further in the future.

The company's lower indebtedness, together with the reinforcement of equity due to the capitalisation of results, is improving the capitalisation ratio, towards an appropriate level (PN/TFD of 32.2%). This trend is expected to continue on the basis of the convertible bond repurchase operation carried out at the beginning of 2024 and the expected continuity in the generation of positive operating results.

Liquidity

- Good liquidity situation.

The company is not expected to encounter liquidity problems over the medium term due to the current cash position of €241.5m, together with the expected CFO for the coming years (~€90-100m) and the current debt maturity schedule.

Modifiers

Controversies

- No significant controversies have been detected.

Country Risk

- There is no country risk based on the markets in which the group operates.

Main Financial Figures

	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	2,625,893	2,290,438	2,250,057	2,447,441	2,584,743	-12.8%
EBITDA	51,664	99,307	108,003	110,135	116,313	92.2%
EBITDA Margin	2.0%	4.3%	4.8%	4.5%	4.5%	2.4pp
EBIT	32,293	75,127	78,596	64,059	58,700	132.6%
EBIT Margin	1.2%	3.3%	3.5%	2.6%	2.3%	2.1pp
EBT	12,574	45,024	54,447	42,124	43,285	258.1%
Total Assets	1,316,810	1,295,173	1,362,916	1,313,445	1,296,614	-1.6%
Equity	135,773	173,252	239,618	265,293	292,644	27.6%
Total Financial Debt	658,355	539,030	546,701	450,464	390,991	-18.1%
Net Financial Debt	453,757	297,497	267,182	242,730	210,933	-34.4%
Equity/TFD	20.6%	32.1%	43.8%	58.9%	74.8%	11.5pp
NFD/EBITDA	8.8x	3.0x	2.5x	2.2x	1.8x	-5.8x
Funds From Operations	41,293	93,109	71,900	79,943	92,293	125.5%
FFO/NFD	9.1%	31.3%	26.9%	32.9%	43.8%	22.2pp
EBITDA/Interest	1.6x	2.9x	3.3x	3.6x	4.9x	1.3x

Credit Rating

Credit Rating	
Business Risk Profile	BBB
<i>Industry risk assessment</i>	<i>BBB-</i>
<i>Industry's ESG</i>	<i>Neutral/Positive</i>
<i>Competitive Positioning</i>	<i>BBB</i>
<i>Governance</i>	<i>BBB+</i>
Financial Risk Profile	BB
<i>Cash flow and leverage</i>	<i>BB+</i>
<i>Solvency</i>	<i>BB-</i>
<i>Company's ESG</i>	<i>Neutral</i>
Anchor Rating	BBB-
<i>Modifiers</i>	<i>n.a.</i>
Rating	BBB-

Rating Sensitivity

- Positive factors in the long term (↑)

A rating upgrade is not expected in the short to medium term.

- Negative factors in the long term (↓)

No longer focusing on maintaining a controlled leverage ratio (NFD/EBITDA ~2.5x on average). Failure to achieve an improvement in interest coverage (EBITDA/interest coverage <3x in coming years). Worsening of operating margins (EBITDA<3.5%), which would weigh on FFO generation and deteriorate the ratio with net financial debt (FFO/NFD<30%). Deterioration of capitalisation levels (PN/TFD<40% in future years).

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, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Conditions of Use for this document and its content:

For all types of Ratings that ETHIFINANCE RATINGS, S.L. (the "AGENCY") issues, the User may not, either by themselves or via third parties, transfer, sublease, sublicense, sell, extract, reuse, or dispose of in any other way the content of this Document to a third party, either for free or for consideration.

For the purpose of these Conditions of Use, any client who might have subscribed for a product and/or a service that allows him to be provided with the content of this Document as well as any privileged person who might access the content of this Document via www.ethifinance.com shall be considered as a User.

Nor may they alter, transform or distort the information provided in any way. In addition, the User will also not be permitted to copy and/or duplicate the information, nor create files which contain the information of the Document, either in its entirety or partially. The Document and its source code, regardless of the type, will be considered as the elaboration, creation, or work of the AGENCY and subject to the protection of intellectual property right regulation. For those uses of this Document which are permitted, the User is obliged to not allow the removal of the copyright of the AGENCY, the date of the Document's issuance, the business name as established by the AGENCY, as well as the logo, brands and any other distinctive symbol which is representative of the AGENCY and its rights over the Document. The User agrees to the conditions of Use of this Document and is subject to these provisions since the first time they are provided with this Document no matter how they are provided with the document. The Document and its content may not be used for any illicit purpose or any purpose other than those authorised by the AGENCY. The User will inform the AGENCY about any unauthorised use of the Document and/or its content that may become apparent. The User will be answerable to the AGENCY for itself and its employees and/or any other third party which has been given or has had access to the Document and/or its content in the case of damages which arise from the breach of obligations which the User declared to have read, accepted and understood upon receiving the Document, without prejudice to any other legal actions that the AGENCY may exercise in defence of its lawful rights and interests. The Document is provided on the acceptance that the AGENCY is not responsible for the interpretation that the User may make of the information contained. Credit analyses included in the Document, as well as the ratings and statements, are to be deemed as opinions valid on the date of issuance of the reports and not as statements of fact or recommendations to purchase, hold or sell any securities or to make any investment decision. The credit ratings and credit rating prospects issued by the AGENCY are consider to be its own opinion, so it is recommended that the User take it as a limited basis for any purpose that it intends to use the information for. The analyses do not address the suitability of any value. The AGENCY does not act as a fiduciary or an investment advisor, so the content of the Document should not be used as a substitute for knowledge, criteria, judgement or experience of the User, its Management, employees, advisors and/or clients in order to make investment decisions. The AGENCY will devote every effort to ensure that the information delivered is both accurate and reliable. Nonetheless, as the information is elaborated based on data supplied by sources which may be beyond the control of the AGENCY, and whose verification and comparison is not always possible, the AGENCY, its subsidiaries, and its directors, shareholders, employees, analysts and agents will not bare any responsibility whatsoever (including, without any limitations, loss of revenue or income and opportunity costs, loss of business or reputational damage or any other costs) for any inaccuracies, mistakes, noncorresponding information, incompleteness or omission of data and information used in the elaboration of the Document or in relation to any use of its content even should it have been warned of potential damages. The AGENCY does not make audits nor assume the obligation of verifying independent sources of information upon which the ratings are elaborated. Information on natural persons that may appear in this document is solely and exclusively relevant to their business or business activities without reference to the sphere of their private life and should thus be considered. We would like to inform that the personal data that may appear in this document is treated in accordance with Regulation (EU) 679/2016, on the protection of natural persons with regard to the processing of personal data and the free movement of such data and other applicable legislation. Those interested parties who wish to exercise the rights that assist them can find more information in the link: <https://www.ethifinance.com> in the Privacy Policy page or contact our Data Protection Officer in the mail dpo@ethifinance.com. Therefore the User agrees that information provided by the AGENCY may be another element to consider when making business decisions, but decisions will not be made based solely on it; that being the case the AGENCY will not be held responsible for the lack of suitability. In addition, the use of the information before courts and/or tribunals, public administrations, or any other public body or private third party for any reason shall be solely the User's responsibility and the AGENCY shall not be held responsible for any liabilities on the grounds of inappropriateness of the information's contents. Copyright © 2023 ETHIFINANCE RATINGS, S.L. All Rights Reserved. C/ Benjamín Franklin S/N, Edificio Camt, 1º Izquierda, 18100, Granada, España C/ Velázquez nº18, 3º derecha, 28001 - Madrid