RATING COMMUNICATION

Cerved Rating Agency S.p.A. upgrades
E.S.TR.A. S.p.A. public rating
to **A3.1**

Prato (PO) – Via Ugo Panziera, 16

Cerved Rating Agency on 02/06/2022 confirmed the rating of E.S.TR.A. S.p.A. A3.1.

Date of first issuance of rating: 24 December 2013

E.S.TR.A. S.p.A. Energia Servizi Territorio Ambiente (hereinafter ESTRA, the Group) was founded in 2010 following the aggregation process of three public energy service companies operating for years in the gas distribution industry in Tuscany: Consiag S.p.A. of Prato, Intesa S.p.A. of Siena and Coingas S.p.A. of Arezzo. In December 2017, Viva Servizi S.p.A. (formerly Multiservizi S.p.A.) took a 10% stake in the capital of E.S.TR.A., then during 2021 conferring its share to the newly formed Viva Energia S.p.A. (current shareholder of ESTRA).

RATING FACTORS

The confirmation of the A3.1 rating reflects the consolidation of business volumes reached in FY21 and the Company's financial equilibrium, despite a reduction in EBITDA margin. In the light of the uncertain of the current macroeconomic situation due to the high inflation and the Russian-Ukrainian conflict, nevertheless, thanks to income results and proper support provided by banks, the Group's risk profile is expected to be substantially unchanged in FY22.

Significant growth in sales revenues in FY21, although a contraction in EBITDA margin - In FY21 ESTRA Group has grown considerably, recording revenues of 1.046 billion euros (+39.8% YoY), driven by the sustained rise in the price of energy commodities in the second half of the year and, thus, by a significant positive price effect. In addition to this, to a lesser extent, revenues benefited from higher power volumes sold to customers (+52.4 GWh), as a result of the slight increase in the number of users served at year-end (approx. +3,500 POD "Point Of Delivery" on December 2020) and the increase in average consumption. However, the contribution deriving from the "Energy Efficiency" BU has not been negligible, generating revenues for 41.4 mln (vs. 17.5 mln in FY20), favoured by tax incentives (i.e., Ecobonus, Superbonus). In contrast, in terms of business profitability, ESTRA suffered a natural decrease to 9.3 percent in adjusted EBITDA margin (compared to the exceptional FY20 margin of 12.2 percent), despite higher absorption of fixed costs. This trend was driven by the decline in the gross margin of the main SBU "Gas and Electric Sales," which was negatively affected by the extraordinary trend of energy commodity prices, in terms of: (i) dilutive effect of the variable-price portfolio, although the fixed spreads applied on these contracts have helped to preserve margins in absolute terms, (ii) contractual default of a secondary supplier, that forced the Group to purchase some volumes on the Electric Power Exchange at higher prices, (iii) considerable increase in sales activities to the Virtual Trading Point (PSV), as a result of the optimization of the procurement process, also in this case resulting in diluted margins. However, the Group's marginality remains above the industry average, thanks to increasing business diversification and especially to the contribution of the "Regulated Market" SBU (gas distribution), which generates stable and robust margins.

Net Financial Position (NFP) declining in December 2021, thanks to strong operating cash flows - in FY21 ESTRA continued to fully self-financing its business operations, deriving from robust operating margins and efficient management of the working capital, which benefited from a good cash flow cycle. Consequently, Net Operating Cash Flow (NOCF) increased to 134.3 mln (vs 81.2 mln in FY20), fully funding capex of the period and, moreover, reducing the adjusted Net Financial Position (NFP) as at 12/31/2021 (262.8 mln vs 301.9 mln as at December 2020). Thus, consolidated financial structure is further improved, as shown by the NFP adj/EQUITY and NFP adj/EBITDA adj ratios of 0.6x and 2.7x respectively (vs 0.8x and 3.2x as of 12/31/2020).

Envisaged increase in NFP during FY22, without, however, affecting the current risk profile - In the light of the current macroeconomic scenario, characterized by the issues mainly arising from the Russian-Ukrainian conflict and the spiral of high inflation, for the current fiscal year, Cerved Rating Agency foresees a further significant growth in operating revenues, which will once again be fueled by high energy commodities market prices. This, together with the commercial activities carried out by the Group, especially in order to drive a marked development of the Gas and Power customer portfolio, will boost the economic performance in FY22. Although still dimensionally not relevant, the "Environmental" line of business is expected to growth (both organically and through external lines), letting ESTRA become more and more a multi-utility that offers a wide range of services to the market. Additionally, in a context of exceptionally high energy prices during most of the year, the Agency foresees a further erosion of the marginality of Sales SBU, although the initiatives carried out by management (i.e., maintaining an effective coverage of the fixed-price portfolio) and the solid contribution deriving from the "Regulated Market" and minor segments (primarily "Energy Efficiency") will allow to achieve adequate margins. From a financial point of view, given the likely expansion of working capital, it can be expected operating cash flows to decrease and, ultimately, NFP to improve at the end of the year, which, however, will not imply significant changes in the financial structure. In fact, even in the above mentioned scenario, ESTRA will maintain a sustainable level of financial leverage , being able to still reach positive income performance, as along with a balanced financial situation at the end of FY21.

RATING SENSITIVITY

- Based on the elements assessed and the agency's opinion regarding the economic and financial outlook, in the short term, it is not expected an updgrade of the assigned rating class.
- The rating of E.S.TR.A. S.p.A. could incur in a downgrade in case of: (i) significant worsening of economic results in FY22; (ii) negative NOCF in FY22; (iii) considerable increase in NFP, resulting in a deterioration of the capital and financial structure (NFP adj/EBITDA adj > 4.0x, NFP adj/EQUITY > 1.0x).