RATING COMMUNICATION

Cerved Rating Agency S.p.A. affirms at **B1.1**

E.S.TR.A. S.p.A. public rating

Prato (PO) – Via Ugo Panziera, n°16

Cerved Rating Agency on 07/06/2023 has confirmed the public rating B1.1 to E.S.TR.A. S.p.A.

Date of first issuance of the rating: 24/12/2013

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). In Feb23, through the merger by incorporation of Consiag S.p.A., Publiservizi S.p.A., and Acqua Toscana S.p.A. in Alia Servizi S.p.A., this latter acquired the 39,5% of the share capital of the Group.

Key rating factors

The confirmation of B1.1 rating reflects: (i) a financial structure at Dec22 aligned with the expectations (*adj* NFP / *adj* EBITDA < 4.5x and *adj* NFP / Equity < 1x), despite a decreasing consolidated *adj* EBITDA (especially in 2H22); (ii) a 2023 outlook assuming a recovery in operating profitability, thanks to the expected normalization in industry dynamics, along with the maintenance of leverage ratios in line with the current rating class.

Falling profitability despite increasing revenues - In FY22 the Group reported: (i) growing consolidated revenues equal to €1,8 bln (FY21 1.1 bln) as a result of rising market prices in gas and power (especially in 2H22); (ii) *adj* EBITDA (including bad debt accruals for €13.6 mln) of €90.7 mln (vs. €98.5 mln in FY21). Specifically, the gross margin in "Gas and Power Sales" BU declined due to: (i) a drop in volumes (-22% on gas and -12% on power YoY), resulting from a strategic downsizing of the "Business & Wholesale" cluster as well as from lower gas consumptions on the "Retail" segment due to mild temperatures in 4Q22; (ii) a significant reduction on power unit gross margins, especially in 2H22, due to higher imbalance charges caused by important infra-day market prices swings. Higher gas unit gross margins, thanks to a better customer mix and to spreads review according to new market conditions, could partially offset the downturn on power. In FY22, adj EBITDA of "Gas and Power Sales" BU reduced to €31.6m, (-€12.5m YoY) as a result of the aforementioned decrease in the gross margin as well as of higher bad debt accruals (+€1.1m YoY) and service, credit collection and billing costs. With regard to the other BUs: (i) "Regulated Market" BU maintained a stable profitability (Adj EBITDA ~ €39 mln); (ii) adj EBITDA of "Corporate and Other" BU grew (+€3.4 mln YoY) mainly thanks to ESCO activities.

Higher cash absorption from Net Working Capital (NWC) – In FY22, the Group generated a lower Net Operating Cash Flow (€2.6 mln vs €134.3 mln in FY21) mainly due to (i) a longer cash cycle for "Gas and Power Sale" BU (higher VTP purchases, increase in utility bill installments required by customers, rising financial need for gas storage); (ii) increased receivables related to ESCO activities (approx. €15-20 mln); (iii) higher receivables from the System (€76 mln at Dec22) due to settlement current regulations; (iv) higher UTIF advances paid (+€39 mln), expected to offset in FY23, and growing receivables from Arera and GSE (+€34 mln) due to both System charges suspension and rates reduction according to the latest Government measures. Such dynamics led to growing financial needs, especially in 2H22, that the Group covered by raising new financing for approx. €380 mln (€310 mln through three pool financing in Ago22 and Dec22 and €70 mln through a senior unsecured bond issued in Set22). As at Dec22, the Net Financial Position (NFP) adj (calculated according to Cerved Rating Agency methodology) was equal to €382 mln (€263 mln at Dec21 and €336 mln at Jun22) with leverage ratios adj NFP / adj EBITDA and adj NFP / Equity equal to 4.2x (3.5x at Jun22) and 0.9x (0.8x at Jun22) respectively. Additionally, in 1Q23 a new loan of €80 mln was underwritten in order to support higher financial needs during gas season.

FY23 outlook - For FY23, a normalization in gas and power prices is expected as well as a strategic downsizing of the "Business & Wholesale" segment. With regard to the "Retail" cluster, growing power volumes are expected, while gas volumes should remain flat. Concerning profitability: (i) an increase in gas unit margins is assumed thanks to a customer mix more focused on the household; (ii) a recovery in power unit margins is expected due to spread review according to new market conditions along with lower intra-day volatility. Therefore, the Agency estimates a consolidated adj EBITDA in the range of €90-105 mln in FY23. From a financial perspective, a lower financial need for gas storage as well as a recovery in the next two years of the receivables from the System and a market-oriented procurement strategy are expected. According to such assumptions, Cerved Rating Agency forecasts the maintenance of a risk profile aligned with the current rating class, with leverage ratios adj NFP / adj EBITDA and adj NFP / Equity expected at Dec23 in a range of 3.5x-4.5x and 0.8x-0.9x respectively.

Rating sensitivities

- In the short term, the maintenance of the current rating class is expected.
- The rating of E.S.TR.A S.p.A. may register a downgrade in the case of a worsening in the operating cash flows together with a significant increase in the financial leverage (adj PFN / adj EBITDA > 4.5x, adj PFN / Equity > 1.0x).

The applied methodology is published on Cerved Rating Agency's website: www.ratingagency.cerved.com

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