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, n°16

Cerved Rating Agency on 05/06/2024 upgraded E.S.TR.A. rating from B1.1 to A3.1.

Date of first issuance of the rating: 24/12/2023

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 February 2023, 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. In June 2023 a shareholder agreement was signed between Alia and Coingas (collectively owners of 65% of the share capital), whereby Alia was assigned the governance of ESTRA; these agreements aim at an industrial strengthening strategy for the definition of a Tuscan Multiutility. Following the agreement, the Board of Directors (BoD) was renewed and N. Ciolini and A. Irace were appointed as CEO and General Manager respectively (both already Alia BoD members).

Key rating factors

The rating upgrade reflects: (i) the significant increase of operating profitability in FY23 along with better leverage ratios at Dec23, despite the increase in adj NFP; (ii) the normalization of industry dynamics and an expected consolidation of economics in FY24, still maintaining a balanced financial structure.

Rising profitability in FY23 thanks to "Gas and Power Sales" BU and ESCO activities growth - In FY23, the Group reported: (i) lower consolidated revenues equal to €1.2 bln, (FY22 1.8 bln) mainly due to gas and power prices reduction; (ii) adj EBITDA (including bad debt accruals for €11.1 mln) of €131.3 mln, strongly higher than FY22 (€90.7 mln). Specifically, the "Gas and Power Sales" BU recorded a significant rise in adj EBITDA (€59.6 mln vs €33.0 mln in FY22) due to: (i) a better customer mix, mainly focused on the "Retail" segment; (ii) greater market stability, with lower imbalance charges; (iii) growing power volumes, also thanks to the awarding of the Gradual Protection Service tender Lot 9; (iv) a market-oriented procurement strategy (PSV). With regard to the other BUs: (i) a substantially stable profitability for the "Regulated Market" BU (adj. EBITDA equals to €41.1 mln); (ii) an increase in adj EBITDA for the "Other Services" BU (€30.3 mln vs €17.7 mln in FY22) mainly thanks to ESCO activities related to the so-called Superbonus 110% (law applied till Dec23).

Improved financial leverage at Dec23 - In FY23, the Group reported a Net Operating Cash Flow of €35.6 mln, higher than FY22 (€2.6 mln) thanks to increased profitability as well as: (i) lower gas and power prices, with a positive impact on working capital; (ii) the gradual reduction of the receivables from the System (related to settlement regulations) and from the GSE. Such dynamics were partly offset by cash absorption resulting mainly from: (i) a more market-oriented procurement mix; (ii) an increase in 110% Superbonus receivables; (iii) higher gas and power volumes sold in 4Q23 compared to 4Q22. Such cash flows were able to partially finance the yearly Capex (€80 mln, half relating to the expansion of grids and replacement of meters), while dividends distribution and bank loans installment repayments were supported mainly by pre-existing cash. At Dec23, the adjusted Net Financial Position (adj NFP), calculated according to Cerved Rating Agency methodology, increased to €450.1 mln (€382.2 mln at Dec22); nevertheless, the adj NFP / adj EBITDA leverage ratio improved (3.4x vs 4.2x Dec22), while the adj NFP / E ratio remained stable (1.0x vs 0.9x Dec22).

FY24 outlook – In FY24, for the "Gas and Power Sales” BU, a customer mix oriented mainly to the “Retail” segment and the strategic downsizing of the “Business & Wholesale” cluster are expected. Additionally, the growth in power volumes should be confirmed for FY24 as well, while on gas segment a gradual shrinkage is assumed, accordingly to what already observed in FY23. Assuming energy prices substantially stable, average profitability levels are supposed to be aligned with the previous year. With reference to the other BUs, the Agency estimates (i) an increase in profitability of “Regulated Market” BU, thanks to the higher rate of return on invested capital following ARERA resolution (growth in WACC from 5.6% to 6.5 %); (ii) a reduction of “Other Services” BU profitability, mainly due to the lower contribution from Superbonus 110% activities. From a financial perspective, the leverage may benefit from the gradual reduction in 110% Superbonus receivables, though partially offset by the higher working capital requirements, resulting from higher volumes, a procurement strategy further market-oriented, and Capex plan. Considering the normalization of industry trends and the stress tests performed, Cerved Rating Agency estimates the maintenance of a risk profile aligned with the current rating class.

Rating sensitivities

- In the short term, the maintenance of the current rating class is expected.
- The rating of ESTRA may register a downgrade in the case of a worsening in the operating cash flows along with a significant increase in the financial leverage (adj NFP / adj EBITDA > 3.5x, adj NFP / Equity > 1.0x).

The applied methodology is published on Cerved Rating Agency’s website: https://ratingagency.cerved.com

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