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Executive Summary

This document details the executive summary of the rating for **Ortiz Construcciones y Proyectos, S.A.** awarded by **axesor rating.**

The rating awarded is focused on the evaluation of the associated solvency and credit risk in both the medium and long term.

The rated company has been notified of the rating which has been awarded and has not been modified since.

Credit rating axesor rating

Corporate Name
Ortiz Construcciones y Proyectos, S.A.
NIF A19001205

BB+ **Stable Outlook**

Company profile

Parent company of a Spanish multinational group belonging to the construction sector and whose activity, in addition to that which is purely related to construction, contemplates a business mix with activity in the energy, services, concession and commercial development sectors.

Rationale

Business Profile

- **Benchmark player on a national level with a global scope of action in its main lines of business and an adequate diversification of its business mix.**
  In recent years, Grupo Ortiz has developed a strategic process based on the internationalisation and diversification of its operations, due, among others, to the significant drop in public tenders in Spain. This process begins to show signs of consolidation, with 54% of the turnover in 2017 generated in foreign markets, a number which is forecasted to rise to 65% in 2018. Additionally, the company is positioned as an important player in Colombia in the Concessions segment, and it is gradually stabilising its market share in countries such as Panama, Peru and Mexico, and adding new markets, such as Japan, to its scope of activity outside of Spain. In this regard, we should highlight the positive trends of the Energy segment, which is one of the axes of the company's internationalisation strategy (93% of turnover being international for the segment) having grown in importance in terms of turnover (41% in 2017).

- **Extensive development of the contracting portfolio.**
  In recent years, the internationalisation process has been reflected in the performance of the Group's backlog, of which 69% corresponds to international projects (52% in 2016), as well as in the destination of investments in segments such as Concessions, of which 100% have gone to the international market in 2017. Noteworthy is the contribution to the global portfolio, both directly and indirectly, from concessional business, in which the long durations associated with their operations provide recurrence to cash flows. Despite being affected by delays in high-profile projects, due to issues which are not attributable to the company, the company´s backlog increased in 2017 (+2.5% vs. 2016), maintaining an adequate coverage ratio (2.75x in 2017) despite the decrease experienced in recent years (3.84x in 2015). If the global portfolio is taken into account (including concessions that cannot be consolidated), growth in 2017 stands at 45%, confirming the positive trends seen in the Group in terms of contract procurement.

- **Adequate business management.**
  Grupo Ortiz's strategy stands out for the positive decisions made in terms of internationalisation and business development, which have been yielding positive results in recent years. The measures aimed at strengthening the company's competitive position are joined by a process of divestments of non-strategic assets, all under a conservative financial policy that has allowed them to maintain a low level of dependence on external financial sources. Within the divestment policy, it is worth highlighting the listing in 2017 in the MAB (Spanish Alternative Investment Market) of the REIT 'Grupo Ortiz Properties', created in 2016 as a divestment vehicle within the Group´s reorganisation process of the Group's rented real estate assets.

Financial Profile

- **Improvement in turnover during the last year, supported by the positive evolution in its main lines of business.**
  The results of Grupo Ortiz in 2017 reflect a significant improvement in turnover (+24% vs. 2016), which represents a correction of the fall experienced in previous years, mainly motivated by the positive performance of its main areas of activity, Construction and Energy, in international markets. From an operational point of view, the margins of the company have been affected, among others, by the impact of delays in some contracts. Despite the slight contraction in the last three years, we consider that margins remain at adequate levels (8.2% in 2017).

- **Solid financial structure and maintenance of adequate levels of leveraging in relation to business generation.**
  The Group has solid financial autonomy, favoured by the positive results obtained in recent years and the continuity in the implemented of its deleveraging strategy. Therefore, the company maintains an adequate level of leverage in relation to its EBITDA generation (NFD/EBITDA ratio at 2.26x in 2017), whose slight deterioration compared to the previous year (1.66x) is explained by the reduction of its active liquid positions that, nevertheless, remain at high levels (€70MM at the end of 2017). Currently, Grupo Ortiz is immersed in a refinancing process, which is expected to result in the early amortisation of the corporate bond (currently Grupo Ortiz position: €17MM) as well as a syndicated financing (outstanding amount of €39.6MM), with maturities in 2019 and 2020, respectively. We believe that the achievement of this milestone, with an extension of its maturity schedule, will have a positive impact on the debt profile of the company.

- **High levels of solvency and ability to access liquid resources.**
  The company maintains a high capacity to meet its short-term payment commitments (€123MM working capital) despite the reduction in the cash position (-€41MM) in the last financial year. The reduction in cash is a result of delays in payments of certain projects and higher levels of investment, in an environment in which they continue to execute on their debt reduction policy. Currently, the company has a high capacity to access additional levers of liquidity (undrawn lines of credit for €84MM), highlighting the non-use, at the end of 2017, of a syndicated financing line (Revolving Line for €60MM).

Key financial indicators

Key financial indicators. € thousands.

Figure	2015	2016	2017	17vs15	17vs16
Revenue	376,252	347,159	429,202	14.07%	23.63%
Recurring accounting EBITDA	34,583	28,489	31,824	-7.98%	11.71%
EBITDA*	41,220	35,900	35,045	-14.98%	-2.38%
EBITDA margin	10.96%	10.34%	8.17%	-2.79pp	-2.18pp
Net profit	15,934	4,973	17,190	7.88%	245.67%
Net margin	4.23%	1.43%	4.01%	-0.23pp	2.57pp
Financial autonomy	51.08%	43.27%	43.57%	-7.51pp	0.30pp
Equity	219,473	211,573	227,384	3.60%	7.47%
Financial debt	174,310	160,320	149,337	-14.33%	-6.85%
Financial debt with recourse	157,810	149,310	138,327	-12.35%	-7.36%
Total cash	60,052	84,443	43,349	-27.81%	-48.66%
Total active liquid positions	66,900	100,660	70,076	4.75%	-30.38%
Net Financial Debt	107,410	59,660	79,261	-26.21%	32.85%
NFD/EBITDA	2.61x	1.66x	2.26x	-0.34x	0.60x
Interest coverage	2.42x	2.10x	1.87x	-0.55x	-0.23x
Total Assets	649,140	700,495	749,272	15.43%	6.96%
Working Capital	116,401	115,656	123,448	6.05%	6.74%
Operating cash flow	18,912	63,150	27,808	47.04%	-55.97%

** EBITDA with recurring recourse Does not include the income received from the sale of projects under non-recourse formulas (€11,072,000 in 2017)*

Outlook

In our opinion, the trend of this rating is **stable**. The Group's performance in 2017 shows signs of consolidation and stabilisation in its sphere of influence, together with favourable performance in terms of turnover and backlog in strategic markets and segments, thus laying the foundations for a greater recurrence in revenues and less dependence on isolated milestones in terms of contracting.

In turn, the company estimates that the process of financial restructuring in which it is immersed (completion scheduled for the second half of 2018) will provide continuity to its deleveraging strategy, that has had a favourable evolution in the last financial year.

Our credit opinion is based, on a quantitative analysis in financial terms between 2013 and 2017 (31.12), as well as on the financial projections provided by the company and on a qualitative analysis based on the data obtained directly from the company itself as well as from public sources.

In Madrid on 24 April 2018

Julián Villalba Checa
Chief Analytical Officer

Luis Mesa García
Senior Analyst

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