BB+ ISSUER RATING

Long-term Rating

Outlook: Stable

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Rating Action

Axesor Rating maintains the rating of **Ortiz Construcciones y Proyectos, S.A.** at **BB+** and with a **stable outlook**.

Executive Summary

Incorporated in 1961 and with registered offices in Madrid, Ortiz Construcciones y Proyectos, S.A. and subsidiaries (hereinafter Ortiz or the Group) operates through the following lines of business: concessions (transport, hospital and energy infrastructures, etc.), energy (construction of photovoltaic, wind and solar thermal power generation facilities, substations and energy transport and distribution), construction and infrastructure services (civil engineering, railway, water, environmental, etc.) and property. The group, which began operating as a family-owned road infrastructure construction company in Spain, currently maintains an international presence, focusing on countries such as Mexico, Colombia, Panama, Peru and Japan. In turn, throughout its history it has diversified its activity towards investment, construction and operation through concessions of different infrastructures, such as hospitals, roads, railway lines and substations and photovoltaic plants, among others, as well as maintaining, in an increasingly residual form, the building and refurbishment activity. At year-end 2020, the company reported revenues of €450.2M with a group EBITDA of €26.9M, registering a DFN/EBITDA ratio of 4.9x.

Fundamentals

Business profile

- **The Group, which has been operating in the infrastructure construction sector for 60 years, currently maintains a business model that is increasingly focused on the investment and operation of concessions with low demand risk, although until now this activity has been consolidated by the equity method and its importance is not reflected in consolidated turnover and EBITDA but in the Group's EBITDA.**

  With 60 years of history, Ortiz is positioned in the market as a benchmark company in the national infrastructure construction market and a moderate position in the international arena, while in the concession sector it currently maintains a moderate position. Since 2010, its internationalisation strategy has focused mainly on Latin America, where it is currently established in Mexico, Colombia, Peru, Panama and Japan. International activity maintained its leading role in 2020 (56.65% of revenue), driven by the Energy segment and the construction of its concession assets.

- **The activity carried out by Ortiz maintains a certain cyclicality in terms of investment in public works (bidding and awarding of concessions) and the construction of private works, the latter being a more residual activity. In addition, the activity has been affected by the economic crisis caused by COVID-19.**

  The activity carried out by the group is partially affected by economic cycles, with public investment in infrastructure and the number of tenders being relevant aspects for the continuity of the business. In addition, the activity has been affected by the health crisis caused by COVID-19 as the mobility restrictions put in place by the Government have led to a delay in the implementation of the portfolio.

- **Slight deterioration in the backlog as a result of the health crisis. At the end of 2020, the group's backlog stood at €6,329M, 6.3% lower than in 2019. Of this portfolio, 80% is international.**

  During FY2020, the volume of public works contracting declined due to the reduction in the number of bids worldwide during the State of Alarm. Ortiz closed the last financial year with a works portfolio of €6,329M, representing a deterioration of 6.3%, which is expected to recover in the coming years in order to maintain the positive trend of recent years. It should be noted that 80% of this portfolio relates to international projects and that, according to the project execution plan, 86% of the 2021 turnover would be covered by this portfolio.

Financial profile

- **Fall in revenue and EBITDA in 2020 as a result of the delay in the execution of work during the State of Alarm due to the pandemic.**

  At 2020 year-end, the group's turnover fell by 29.7% from €640.2M to €450.2M as a result of the delay in the execution of the works portfolio following the restrictions on mobility imposed during the State of Alarm. In addition, the group's EBITDA fell by 50.9% to €26.9M (€54.8M in 2019) following the drop in turnover and the high percentage of fixed costs borne by the group in order to avoid carrying out ERTEs (furlough plans) and EREs (adjustment plans) for its employees. Group EBITDA margin stood at 6.0% (8.6% in 2019).

- **Asset rotation strategy following the sale of the La Africana thermosolar plant, generating a profit of €11.9M, with plans to continue with this strategy in 2021 and generate a profit of €7.3M.**

  During FY2020, the Group began with the asset rotation strategy, which had been halted in previous years due to the low sale price obtained. With the sale of the La Africana solar thermal plant, the group obtained a profit of €11.9M. The sale of other assets is expected to be completed in 2021, generating a profit of €7.3M.

- **Reduction of the net financial debt by 4.1% to €131.7M, carrying out, at the same time, a modification of the financing structure, which is currently more concentrated in the long term, which will allow a more flexible debt maturity schedule..**

  In 2020, the group's gross financial debt at consolidated level (which coincides with recourse debt as a large part of the project debt is not consolidated) reached €175.7M, a reduction of 7.2% (€189.2M in 2019). Net financial debt decreased by 4.1% to €131.7M as a result of the generation of positive free cash flow after the payment of dividends, although the final cash flow was negative due to higher debt repayments. At the same time, the group has reduced working capital financing by transferring it to long-term financing, mainly through 6-year ICO loans, in order to achieve a more efficient structure with a more flexible maturity schedule.

Main financial figures

Main Consolidated Figures. Thousands of €.	2018	2019	2020	20vs19
Turnover	605.305	640.201	450.252	-29,7%
EBITDA	39.373	46.449	20.085	-56,8%
EBITDA Margin	6,5%	7,3%	4,5%	-2,8 p.p.
Adjusted EBITDA or group EBITDA (1)	47.744	54.783	26.890	-50,9%
Adjusted EBITDA or group EBITDA Margin (1)	7,9%	8,6%	6,0%	-2,6 p.p.
EBT	17.261	29.017	9.488	-67,3%
Total assets	785.116	842.039	703.078	-16,5%
Equity	217.816	227.616	209.754	-7,8%
Gross Financial Debt with Recourse (2)	165.329	189.240	175.705	-7,2%
Net Financial Debt with Recourse (2)	76.173	137.342	131.732	-4,1%
NFD with Recourse/Adjusted EBITDA (1)(2)	1,6x	2,5x	4,9x	95,4%
Adjusted EBITDA/financial expenses (1)(3)	5,6x	8,4x	6,0x	-29,1%
FFO/DFN with recourse	12,6%	15,1%	1,5%	-13,6 p.p.

(1) Calculated for covenant´s compliance as 'EBITDA with recourse': Consolidated EBITDA plus Distributions plus/minus Results from divestments of non-recourse projects, and minus EBITDA from non-recourse projects. (2) Calculated for covenant´s compliance: Financial Debt minus Financial Debt of projects without recourse minus Cash (excluding reserve accounts in projects without recourse). (3) Calculated for covenant´s compliance as 'Net financial expenses with recourse': Financial expenses of the debt with recourse minus Income from cash positions and Other financial investments.

Rating and Outlook

Axesor Rating maintains the rating of **Ortiz Construcciones y Proyectos, S.A.** at **BB+** and with a **stable outlook**. Although the results for 2020 reflect the deterioration in activity in the construction and concession sector as a result of the health crisis caused by COVID-19, which led to a delay in the execution of projects due to the restrictions on mobility introduced during the State of Alarm, the group maintains a solid order book that will allow, as of the date of the report, to cover 86% of the turnover forecast for 2021 (€600.2M), in addition to improving operating margins (group EBITDA margin forecast for 2021 of 10.2%).

Rating sensitivities

Detailed below are the factors that individually or collectively would impact Company's rating:

- **Positive factors (↑).**

  Achievement of the strategic plan in the coming years, improvement in profitability, increase in the backlog, reduction in the DFN/EBITDA ratio, improvement in the interest coverage ratio.

- **Negative factors (↓).**

  Non-compliance with the projections provided, deterioration of margins, non-compliance with financial covenants, increase in gross financial debt, significant increase in the DFN/EBITDA ratio or reduction in the capacity to generate operating cash flow.

Regulatory information

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, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

1. The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on www.axesor-rating.com/en-US/about-axesor/methodology and according to the Long-term Corporate Rating scale available at www.axesor-rating.com/en-US/about-axesor/rating-scale.
2. Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
3. In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has not provided ancillary services to the rated entity or its related third parties.
4. The issued credit rating has been notified to the rated entity, and has not been modified since.

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