RATING ACTION:

ARC RATINGS UPGRADES GRUPO VISABEIRA'S RATINGS

Lisbon, 28 March 2022 - ARC Ratings, S.A. has upgraded the public final ratings assigned to Grupo Visabeira, S.A. to "BBB-", with stable outlook, from "BB+", with positive outlook, and to "A-3", from "B".

Issuer	Issue	Rating Class	Rating	Outlook	Next Review Date
Grupo Visabeira, S.A.	-	Corporate Long-Term Issuer	BBB-	Stable	28 September 2022
Grupo Visabeira, S.A.	-	Corporate Short-Term Issuer	A-3	-	28 September 2022
Grupo Visabeira, S.A.	Commercial Paper up to EUR 21.8 million	Corporate Short-Term Issue	A-3	-	28 September 2022

This action is based on the proven resilience of the Group's cash flow generation, in the Covid-19 pandemic context, and on the expected acceleration of its growth strategy focusing on its main business area in developed markets. In ARC's view, the Group continues to not face liquidity pressures. Additionally, the group is committed to continue to improve its net financial debt/EBITDA ratio fundamentally on the back of the growth of its main business area, supported by the investment agreement with Goldman Sachs Asset Management (Goldman Sachs or institutional investor), which is deemed credit positive. In the short-term the impact of the recent Ukraine/Russia conflict on its business and profitability is expected to be low, however the evolution and length of this conflict and consequent negative impact on the global economy raises concerns about potential specific impacts on the Group. ARC will monitor closely the Group's performance and its financial structure.

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ISSUER PROFILE

Grupo Visabeira is the holding company of a group that provides services to telecoms and energy infrastructure operators, as its main activity, and which also includes activities in the Industry business area and in the Tourism business.

In 2021 and year to date 2022 the Group maintained its strategy of growth by organic growth and targeted acquisitions of providers of services to telecoms and energy infrastructure operators, mainly operating in European markets, to reinforce its main business area. The Group is taking advantage of the favourable investment environment in the telecommunication and energy sectors in developed markets (with strong investments in the installation of fibre optic networks, 5G technology, as well as in the expansion of energy networks to support the development of renewable energies and reduce the dependency on Russian gas).

On 20 October 2021, the Group signed an investment agreement of EUR 200 million in growth capital from Goldman Sachs in exchange for a minority equity stake, marginally above 20.0%, on Constructel Visabeira S.A. (the Group's sub-holding for the provision of services to telecoms and energy infrastructure operators). The approval by the European competition authorities was obtained on 9 March 2022 and the remaining precedent conditions are fulfilled, thus the closing of the transaction is expected very shortly. This agreement is deemed as credit positive, to the extent that it will allow the acceleration of the Group's growth strategy in its main business area, by organic growth and targeted merger and acquisitions, at the same time that it strengthens its financial structure.

RATING RATIONALE

Grupo Visabeira's key rating drivers are the following:

- Proven resilience in cash flow generation – In an unfavourable environment marked by the Covid-19 pandemic, the Group's EBITDA increased 15.9% year-on-year in the January to October 2021 period (YTD October 2021), on the back of continued growth from its main business line (Telecoms, Energy, Technology and Construction), and the recovery from the Industry area. For the full year of 2021 the Group estimates a 12.4% increase of its EBITDA.

- Expected acceleration of its growth fuelled by the entry of an institutional investor in its main business area – The Group expects an increase in its turnover (by 33.4%) and EBITDA (by 24.3%) in 2022, with positive growth in all areas, but particularly in its main business and Industry areas. Continued growth is expected in the following years based on pluriannual contracts.

- Focus on Western European countries and diversification to USA – The Group intends to continue to expand its activity in Western European Countries, and to diversify to USA, both markets with significant potential for growth in its main business area. This focus will tend to reduce in the medium term the weight of the operations in Africa, which pose the greatest operational and financial risk, improving the Group's risk profile.

The key constraints on Grupo Visabeira's credit ratings are:

- High indebtedness – Net financial debt/EBITDA ratio remains high, at 4.2 times in October 2021. For 2021 the Group estimates an improvement of its ratio to 4.0 times. Providing some comfort to the high indebtedness, debt affordability continued to improve, with the Group showing an improved and comfortable coverage of its net interest costs by EBITDA (4.2 times YTD October 2021 against 3.5 times in YTD October 2020). It should be noted that the Group is committed to continue to improve its indebtedness level (to below 3.0x in 2022) fundamentally on the back of the growth of its main business area, supported by the investment agreement with institutional investor, and further ongoing steps to reach this goal.

- Foreign exchange and political risks from African operations – The Group maintains a significant exposure to foreign exchange risk from African operations. The Group's strategy of refocus on the main business area in developed markets should lead to a reduction of the contribution from African markets to its total EBITDA.

- Increased economic uncertainty related with the Ukraine/Russia conflict – At least in the short-term the impact on Visabeira Group is expected to be low, as its business on these territories is not material, the Group expects to be able to continue to pass, at least partially, the raw material and energy price increases to final prices, and in the Industry business area, the most exposed to energy prices, the impact is partially mitigated through contracts with fixed prices. But, the uncertainty regarding the evolution and length of this conflict and consequent negative impact on the global economy raise concerns about its potential specific impact in the Group's business and profitability.

- Covid-19 pandemic - Although the Covid situation has improved on the back of the vaccination process, the risk of new waves still remains with negative impact in some business areas of the Group (though, the most likely scenario is that its impact, if any, will clearly be less significant than before).

RECENT DEVELOPMENTS AND OUTLOOK

In 2021, the Group's turnover and profitability continued to be affected by Covid-19. In YTD October 2021, its turnover increased by 19.7%, year-on-year, to EUR 938.8 million. Acquisitions topped organic growth in terms of contribution for this increase (62.6% and 37.4% respectively). The exchange rate impact from its African operations was modest (EUR -3.6 million). For 2021 the Group estimates EUR 1,134.4 million turnover, a 18.2% increase compared with the 2020 figure.

The Group's EBITDA achieved EUR 140.5 million in YTD October 2021 (including EUR 10.8 million of badwill and public support related with the Covid-19), whilst EUR 174.7 million EBITDA is estimated for 2021 (a c. 10% increase over 2020, in comparable terms). Its EBITDA margin decreased to 15.0% (13.8% before badwill and support) reflecting the Covid-19 impact and an expected side effect of the refocus on its main business area in YTD October 2021, while a slight improvement is estimated for full year 2021, to 15.4%.

The Group carried out EUR 77.8 million in operational investments in 2021 to expand its main activity, as well as the Tourism and Industry sectors. Strategic acquisitions led to c. EUR 19.0 million in financial investments, while the inflow from its divestment strategy was EUR 2 million. Despite the investment value and the new lines of short and medium-term credit to support its treasury under the Covid-19 framework (EUR 12.9 million), the Group estimates a small decrease of its gross debt in 2021, by -1.4%, to EUR 814.0 million (which is close to the October 2021 value).

Larger working capital needs, as usual, led the Group's cash and cash equivalents to decline to EUR 83.6 million in October 2021, still a significant level. An increase to EUR 114.0 million in December 2021 is estimated, namely thanks to the predictable seasonality in the Industry business area. Therefore, the Group estimates a modest increase of its net financial debt in 2021 (by 4.4%, versus 9.1% in YTD October 2021), to EUR 700.0 million. Nonetheless, a small improvement of its Net financial debt/EBITDA ratio is projected to 4.0 times in 2021 (from 4.3 times in 2020 and 4.2 times in October 2021).

The Group's equity/assets ratio (including minority interests) increased to 23.5% in October 2021, from 20.5% in 2020, benefiting from the net profit (EUR 46.5 million) and positive impact of foreign exchange differences (EUR 23.0 million). The Group's capital structure will improve with the investment agreement with Goldman Sachs to at least 28.0% at the closing of the transaction.

In its main business area in Western European and USA markets, currently EUR 2.9 billion worth of contracts have already been signed for the next four years, and an additional EUR 1.2 billion is under negotiation with the usual customers, thus with a significant probability of being successful. In addition, the Group also has a EUR 440 million order book from other business sectors.

For 2022 the Group expects to reach EUR 1,512.8 million turnover and EUR 217.0 million EBITDA, before possible foreign exchange impact (which is not considered in the forecasts given its uncertainty). This means a very significant increase of its turnover, by 33.4% (c. 60%/40% by acquisitions, including the impact of 2021/2022 acquisitions, and organic growth), and of its EBITDA, by 24.3% (or 32.4% before badwill and support). The significant growth is supported by the existing multi-year contracts on its main business area (and additional contracts from acquisitions to be completed), the order book from other sectors and expected recovery on the Tourism sector. Therefore, the Group expected to maintain the high contribution from its main business area to total EBITDA (79.8%), while the Industry business area will account for 13.5% and the Tourism sector for 3.7%.

Globally the Group estimates a 14.3% EBITDA margin in 2022, which is close to the EBITDA margin estimated for 2021, in comparable terms. In fact, the projected improvement of the EBITDA margin in the Industry business area and in the Tourism sector is expected to offset the projected decrease of EBITDA margin in its main business area (this decrease is mostly due to the 2022 acquisitions).

An operational investment of EUR 67 million is estimated for 2022 combined with additional strategic acquisitions (EUR 58 million). The proceeds from the investment agreement will partially finance these strategic acquisitions and will allow a reduction of the Group's net financial debt. The Group is committed to improve the net financial debt/EBITDA ratio to below the 3.0x band in 2022 and reinforce its coverage of its net interest costs by EBITDA to the 5.0x band. Furthermore, the Group intends to improve the maturity of its financial debt, reducing the percentage of short-term debt in total debt (25.2% in October 2021), being on ongoing negotiations.

It is worth to note that the impact of the recent Ukraine/Russia conflict was not considered in the Group's 2022 forecasts. It is already noticeable that this conflict will lead, at least, to a slowdown of the economic growth and increase in inflation, namely due to the increase of raw materials and oil products price (globally, but with particular impact in Europe, the continent most affected by the conflict). However, the final impact will depend on the evolution and length of the conflict itself, as well as of the sanctions to Russia, and the measures taken to mitigate the effects of these factors. The impact on the Group's main business area is expected to be modest, while in the Industry business area, the most exposed to the increasing energy prices, the impact is partially mitigated until the end of 2022 through contracts with fixed prices. In both cases the Group has been able to share the impact of increasing prices with its customers. The Tourism business can somewhat benefit due to Portugal (and Mozambique)'s locations, distant from the conflict zone.

Considering the high percentage of expected revenues, and EBITDA, from its main business area under pluriannual contracts in areas deemed crucial to reach greater digitalisation of economy and reduce the dependency of gas from Russia, in ARC's view, the targeted improvement in the Group's debt metrics in 2022 seems achievable. We should however note that, the Group's performance is sensitive to a set of operational, exchange rate and transfer risks and, as referred before, the Ukraine/Russia conflict impacted negatively and added a significant layer of uncertainty on the evolution of the European economy, and the Covid-19 pandemic still can't be ruled out as a potentially negative factor. ARC will monitor closely the Group's performance and its financial structure.

KEY TIPPING POINTS

Positive Turning Points

The triggers that could prompt a rating upgrade or an improvement of outlook would include:

– Higher and more stable (with a greater contribution from developed markets) recurrent EBITDA than currently forecast.

– A reduction in net debt/EBITDA ratio to a long-term lower level.

Negative Turning Points

Triggers that could prompt a rating downgrade would include:

– Less favourable conditions to develop activity in Europe, namely related to the Ukraine/Russian conflict.

– The significant deterioration in the cash generation capacity and transferability in Angola and in Mozambique if not offset by the expected increase from the other countries.

– Greater than expected Covid-19 pandemic impact on the Group's EBITDA and debt.

GRUPO VISABEIRA'S - FINANCIALS AND RATIOS (THOUSAND EUROS)

	2016	2017	2018	2019	2020	2020 Jan to Oct	2021 Jan to Oct	2021 (updated E)	2022 (F)
TURNOVER	601,109	638,131	745,300	910,079	959,927	784,016	938,804	1,134,400	1,512,800
EBITDA	111,092	123,444	141,775	165,119	155,286	121,269	140,534	174,700	217,000
NET PROFIT (AFTER MINORITY INTERESTS) (*)	24,384	45,657	53,945	47,481	24,253	16,764	32,757	46,500	68,200
EBITDA Margin (%)	18.5%	19.3%	19.0%	18.1%	16.2%	15.5%	15.0%	15.4%	14.3%
Coverage of Net Interest Costs by EBITDA + Dividends (x)	2.7	2.8	3.7	3.6	3.5	3.5	4.2	4.2	5.2
TOTAL ASSETS	1,566,310	1,576,970	1,694,897	1,938,236	1,847,503	1,921,375	1,920,398	n.av.	n.av.
NET FINANCIAL DEBT	695,883	611,259	665,789	751,224	670,641	766,563	731,499	700,000	601,000
Net Financial Debt / (EBITDA + Dividends) (x) (**)	6.0	4.8	4.7	4.5	4.3	4.7	4.2	4.0	2.8
Equity (Incl. Minor. Int.) / Assets (%)	21.6%	24.1%	23.1%	25.7%	20.5%	22.9%	23.5%	n.av.	n.av.
NET GEARING (Net Debt to Equity and Minority Interests) (x)	2.1	1.6	1.7	1.5	1.8	1.7	1.6	n.av.	n.av.

Notes: Figures rounded. (E) = Estimates. (F) = Forecasts. N.av. = Non available. (*) Except for 2021 updated estimates and 2022 forecasts. (**) For the interim periods it was considered the last twelve months. Accounts prepared under IFRS. Adjusted by ARC Ratings for analysis purposes. 2016 to 2020 Accounts certified by Ernst & Young Audit & Associados. Interim periods and estimates unaudited figures.

Sources: GRUPO VISABEIRA's Annual Reports and additional information. GRUPO VISABEIRA's Budget for 2022 prepared in January 2022.

RELATED CRITERIA AND RESEARCH

ARC Ratings' Non-Financial Corporate Entities Rating Methodology (March 2021).

The rating was assigned by ARC Ratings, S.A. and endorsed by ARC Ratings (UK) Limited in accordance with Statutory Instrument 2019 nº 266 - The Credit Rating Agencies (Amendment etc.) (EU Exit).

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