

ARC Ratings affirms Grupo Visabeira “BBB-” rating with positive outlook

<u>ISSUER</u>	<u>ISSUER RATING</u>
Grupo Visabeira, S.A.	BBB- Medium and Long Term (BBB-, with positive outlook)
	A-3 Short Term (A-3)
	<u>ISSUES RATING</u>
	A-3 Short Term (A-3)
<u>RATING DATE</u>	<u>NEXT REVIEW DATE</u>
12 August 2019	12 February 2020 (Short Term) 12 August 2020 (Medium and Long Term)

ARC Ratings, S.A. (ARC Ratings) affirms the “BBB-” rating assigned to the medium and long-term financial commitments, with positive outlook, and “A-3” rating assigned to the short term financial commitments of Grupo Visabeira, S.A.. This rating action is based on the Group’s increasing capacity to generate funds, on its proven resilience from an unfavourable foreign exchange rate movement impacting its Angolan operations given its greater geographical diversification in European markets. Despite this favourable evolution, and some disinvestment in non-core business, strategical acquisitions of subsidiaries, namely in the British market, and operational investment, lead to some net financial debt increase in 2018 and in the first half of 2019. However, the Group continues to be strongly committed not to increase its net financial debt. Its expectations point to a strengthening of its financial structure and further improvement in its debt coverage ratios from 2019 onwards supported by the increasing cash flow generation, based on significant multi-year contracts with the main operators in the European telecommunications market and the Group proven capacity of execution, and by partnerships in main subsidiaries. ARC Ratings will monitor the Group’s performance and its financial structure.

ISSUER PROFILE

GRUPO VISABEIRA S.A. (GRUPO VISABEIRA), previously denominated Grupo Visabeira, SGPS, S.A, headquartered in Viseu, Portugal, is the parent company of a group that started its operations in 1980. The Group started as a provider of services to telecoms and energy infrastructure operators, in which it has vast knowledge, skills and proved capacity to mobilize. In addition, it has been a telecoms operator in Mozambique and Angola for about 20 years. The Group also has an industrial presence, mainly through the brand Vista Alegre that has shown remarkable performance improvements, and in tourism, real estate and other services.

Since 2017 the Group acquired some strategic companies in the Italian, Belgium, British, French and Danish markets. All the subsidiaries acquired have signed multi-year contracts with the local main telecoms operators.

Therefore, the external market, namely the European markets, and in particular France and United Kingdom (UK), is becoming increasingly important for the Group's turnover and cash flow generation. The Group aims to strengthen its presence in European markets, taking advantage of the favourable investment environment, namely in the installation of optical fibre networks, and its growing recognition among the main telecommunications operators with whom it has signed multi-year contracts with a global amount of EUR 2.4 billion for the next four or five years. Hence, it is expecting increased cash flow generation and geographic diversification and consequently a continuous decrease in the relative importance of African markets to the Group's cash flow, namely in the context of significant devaluation of Angolan Kwanza (AON) against the Euro, which was deliberate and is expected to stabilize in the near term.

It should be also highlighted the expansion of the subsidiaries based in Portugal, in most business areas, and in particular in the Industry area.

In 2018 and in the first half of 2019 the Group gave continuity to its deleveraging strategy and focusing on its core business, through the sale of its subsidiaries in the Health area. The Group is in an ongoing process to improve its financial structure through partnerships in main subsidiaries.

Mr. Fernando Campos Nunes, the GRUPO VISABEIRA's founder and Chairman continues to hold indirectly, through NCFGest, SGPS, SA., 99.45% of the GRUPO VISABEIRA's share capital.

RATING RATIONALE

GRUPO VISABEIRA's key rating drivers are the following:

- Strengthening of cash flow generation – Group's EBITDA increased at double digits to EUR 141.8 million in 2018 and to EUR 76.1 million in the first half of 2019. The generation of funds from the European markets continues to more than offset the decrease in the contribution from the African markets, due to the significant devaluation of the AON against the Euro. The main business area (Telecoms, Energy, Technology and Construction) generated more than 60% of total EBITDA, mainly from providing services to telecoms and energy infrastructure operators, through multi-year agreements, and from operating TV, internet and audio.
- Business expansion forecasts – The Group expects a significant expansion of its main business activity in European strategic markets, benefiting from its vast knowledge and skills and of the investment cycle expected to be carried out in the coming years from the operators. For the next four or five years there is already identified a pipeline, mainly with the incumbent operators, in a global amount of EUR 2.4 billion. In addition, EUR 800 million of contracts are under negotiation. The Group also seeks to develop its activity in the Industry area (which has recorded a performance improvement) and in the Tourism sector, particularly in Portugal. It forecasts point to an 8.3% increase of EBITDA to EUR 153.5 million in 2019.
- Greater geographic diversification – The Group's geographical diversification is generally seen as a credit strength by ARC Ratings, to the extent that it reduces its vulnerability to macro risks in Portugal. The activities developed in other European countries with more potential for growth in the main business area and that are considered to be more economically stable (France, Germany, Belgium, Italy, Denmark and UK) increased, as well as their contribution to the total EBITDA (21.2% in 2018 and 26.6% in the January – March 2019 period), which ARC Ratings also views as a credit positive. The exposure to Angola and Mozambique markets continues

to pose risks, although the Group expects a greater contribution from its European countries to the total EBITDA (to almost 26% in 2019). Diversification into the Indian market included in the Group's plans has commenced via the joint-venture with the Birla Group.

- Diversification of funding sources – The Group diversified its sources of funding in 2018 by placing a bond with French investors, at the same time as it extended the base of banks who provide finance. It should also be highlighted that its funders continue to renew short-term debt as it falls due. The Group intends to further diversify its sources of funding.
- Maintenance of Support – Caixa Geral de Depósitos, S.A. (CGD), Portugal's largest bank and 100% government-owned, maintains a significant involvement with the Group, being its largest funder.

The key constraints on GRUPO VISABEIRA's credit ratings are:

- Indebtedness – Notwithstanding the cash flow generation improvement (even in an unfavourable exchange rate context for its Angolan operations) and some disinvestment in non-core business, strategic acquisitions of subsidiaries lead to some increase of net financial debt in 2018, by 8.9%, and in the first half of 2019, by 3.4%. The equity / assets ratio (including minority interests) showed a small decrease to 22.5% at the end of June 2019 (compared with 23.1% at the end of 2018 and 24.1% at the end of 2017), being negatively impacted by the significant depreciation of Angolan currency against Euros. The net gearing ratio increased somewhat in 2018 to 1.7 times (1.6 times in 2016) and stabilised in the first half of 2019. It should be mentioned that the debt increase is expected to be temporary, given the ongoing process to raise funds from investors and consequently improve the Group's financial structure. Group's net financial debt / EBITDA ratio slightly improved to 4.7 times in 2018 (4.8 times in 2017) and in the first half of 2019, to 4.5 times. Group's forecasts point to further improvement of the net leverage to 3.7 times at the end of 2019. It should be highlighted that even in an unfavourable exchange rate context, the coverage of net interest costs by EBITDA improved to 2.4 times in 2018 and to 3.1 times in the first half of 2019. For 2019 the Group forecasts a significant improvement of this debt coverage ratio to the 4 times band. ARC will monitor the Group's financial structure.
- Cash flow generation still subject to foreign exchange and political risks – Namely in Angola and Mozambique, with the depreciation of the local currency against the Euro. In 2018 the foreign exchange rate risk materialised because of a monetary policy action taken by the Angolan Government. It is expected that the significant devaluation of AON that occurred in 2018 will precede a period of greater stability of the local currency against the Euro. The Group seeks to offset these risks through higher EBITDA margins than in the European markets and foresees a decline in the relative importance of Angola and Mozambique to the total EBITDA in Euros from 2019 onwards (which still accounted for 28% of the total EBITDA in 2018 and close to 22% in the first half of 2019) with the predictable expansion of the contribution from the European markets. In addition, is worth noting the improvement from 2019 onwards of the conditions for transferring funds from Angola.

RECENT DEVELOPMENTS AND OUTLOOK

Visabeira Group's turnover showing an increasing trend reached EUR 745.3 million in 2018 and EUR 423.6 million in the first half 2019. Comparing with the same period of the previous year, Visabeira Group's turnover grew 17% and 30%, respectively. This sizable growth was achieved through the strategy of acquisition of subsidiaries in the European markets and by organic growth.

Group showed a stronger capacity to generate funds in 2018 and in the first half of 2019, reaching an EBITDA of EUR 141.8 million (including EUR 4 million from the sale of Health subsidiaries) and of EUR 76.1 million, respectively. The significant 15% and 24% year-on-year increases of Group's EBITDA were reached in a context of expansion of activity, primarily in the main business area, and consequently some reduction of the EBITDA margin. It should be mentioned that the significant devaluation of AON against EUR (particularly in 2018) has a negative impact on total EBITDA of EUR -8.3 million in 2018 and of EUR -4.8 million in the first half of 2019, which was however more than offset by the increasing generation of funds from other geographies.

GRUPO VISABEIRA'S MAIN CONSOLIDATED INDICATORS (THOUSAND EUROS)

	2014	2015(re)	2016	2017	2018	2018 Jan to Jun	2019 Jan to Jun	2019 (F)
TURNOVER	631,438	677,651	601,109	638,131	745,300	326,607	423,600	903,300
EBITDA	96,033	103,831	111,092	123,444	141,775	61,224	76,100	153,500
NET PROFIT (AFTER MINORITY INTERESTS, EXCEPT IN INTERIM PERIODS)	8,083	15,610	24,384	45,657	53,945	16,790	19,500	54,900
TOTAL ASSETS	1,665,411	1,670,300	1,566,310	1,576,970	1,694,897	1,555,094	1,820,500	1,676,400
Coverage of Net Interest Costs by EBITDA + Dividends (x)	2.4	2.2	2.6	2.2	2.4	2.8	3.1	4.3
Net Financial Debt / (EBITDA + Dividends) (x) (*)	7.2	7.1	6.0	4.8	4.7	4.5	4.5	3.7
Equity (Incl. Minor. Int.) / Assets (%)	22.1%	22.6%	21.6%	24.1%	23.1%	23.5%	22.5%	28.3%

Notes:

Figures rounded.

(re) = Restated. (F) = Forecasts. (n.av.) = Not available (*) For the interim periods it was considered the last twelve months.

Accounts prepared under IFRS. Adjusted by ARC Ratings for analysis purposes.

2014 to 2018 Accounts certified by Ernst & Young Audit & Associados.

Sources:

GRUPO VISABEIRA's Annual Reports and additional information.

GRUPO VISABEIRA's Budget for 2019, prepared by the Group based on the estimates for 2018.

The operational investments net of disinvestment proceeds (net investment) was close to EUR 90 million in 2018. In addition, the Group made a financial investment of EUR 35 million in 2018, mainly related to the acquisition of 100% of the share capital of the MJ Quinn, a strategic UK company, and the scheduled payment of the subsidiaries acquired in 2017 (in the Italian and Belgium markets). In the first half of 2019, net investment was EUR 36 million mainly in Industry business area and in the main business area. In January 2019 the Group acquired a Danish company for EUR 2 million.

In the context of strategic investment, mainly to expand its main business area, unfavourable conditions of the Portuguese stock market in the last quarter of 2018 that did not allow it to improve VAA SGPS's sources of funds, despite increasing Group's cash flow generation and some divestment, the Group's net financial debt increased EUR 54.5 million, to EUR 665.8 million at the end of 2018. In the context of EBITDA improvement, the net financial debt / EBITDA ratio slightly improved to 4.7 times at the end of 2018. In the first half of 2019, the net debt increased to EUR 688.7 million and this ratio further improved to 4.5 times.

The Group's perspectives point to a significant expansion of activity in the next years, surpassing the EUR 1 billion level in 2020, based particularly on the expected growth of the main business area in European countries, and development of the Industry area, with investments in expansion to be concluded in 2019, and in the Tourism area, namely in Portugal.

It should be noted that the Group continues to be strongly committed not to increase its net financial debt. Group's forecasts point to a reduction of its net financial debt to circa EUR 571 million at the end of 2019 and to an

improvement of net financial debt / EBITDA to below 4 times (3.7 times). All other things being equal, the absence of divestments would lead this debt coverage ratio to the 4.4 times band (almost the same level reached in first half of 2019).

The achievement of this goal will depend on its operational performance, being the operational risks mitigated by the multi-year contracts already signed and the capacity of execution demonstrated by the Group, and the completion of the ongoing process to establish partnerships in its main subsidiaries. ARC Ratings will monitor the Group's performance and its financial structure.

THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY AND SHOULD BE READ IN CONJUNCTION WITH THE RESPECTIVE RATING REPORT

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