

ARC Ratings affirms the "BBB" public ratings assigned to CME and Tecneira and changes the outlook to stable from negative

Lisbon, 17 August 2020 – ARC Ratings, S.A. (ARC Ratings) has affirmed the final public "BBB" medium and long-term issuer ratings assigned to CME - Construção e Manutenção Electromecânica, S.A. (CME) and Tecneira Tecnologias Energéticas, S.A. (Tecneira), changing the outlook to Stable from Negative. This action reflects the Group's improved operating performance in the first half of 2020, leading to a stronger net cash position. In fact, the Covid-19 outbreak in 2020 had a very limited impact on the Group's operations and cash generation as most of the Group's activities are considered essential and have not stopped even during the emergency period. In addition, the Group's activities will benefit from the strong investments in electricity production using renewable sources of energy planned to be executed in Portugal in the short and medium-term.

<u>ISSUER</u>	<u>RATING CLASS</u>	<u>RATING</u>	<u>OUTLOOK</u>	<u>NEXT REVIEW DATE</u>
CME – Constr. e Man. Electrom., S.A.	Medium and Long-Term Issuer	BBB	Stable	17 August 2021
Tecneira Tecnologias Energéticas, S.A.	Medium and Long-Term Issuer	BBB	Stable	17 August 2021

ISSUERS' PROFILE

CME and Tecneira are both wholly owned by ProCME – Gestão Global de Projectos, S.A. (ProCME), the holding company of ProCME Group.

CME, established in 1983, is the Group's main company and the sub-holding of the Group's core business: providing engineering services with high technology mainly in the areas of energy (electricity and gas), telecommunications, water and HVAC (heating, ventilation and air conditioning). CME's activity is mainly concentrated in Portugal, but the Group also operates abroad, notably in Angola.

Tecneira, established in 2000, is the Group's sub-holding company dedicated to the promotion of electricity production assets using renewable energy sources. The company is currently developing new solar photovoltaic projects in Portugal and Colombia with a developing, constructing and divesting strategy.

RATING RATIONALE

ProCME Group's key rating drivers are the following:

- Cash generation – Medium term contracts for the maintenance of the main electricity and telecommunication networks in Portugal provides a strong and stable source of cash generation for the Group.
- Competitive advantage – The Group has a strong competitive advantage in the electricity segment given its accumulated know-how, experience and market position. The risk of increased competition from international operators is considered low due to the high investment needed to achieve a relevant position in the market and the relatively small scale of the Portuguese market for those operators.

- Export approach for internationalisation in services activity – The Group has been applying an export approach to develop its services activity outside Portugal, i.e. without setting up local infrastructure, thus minimizing the risks arising from the investment in multiple local structures.
- Low financial leverage and residual liquidity risk – The Group maintains a small amount of financial debt, much below the amount of cash and deposits. This conservative financial structure is suitable for the Group’s current profile, almost completely focused and dependent on the maintenance, and some expansion, of electricity and telecommunication grids in Portugal, and for the development of new green energy production assets.
- Stable and supporting shareholder structure – Stable partnership that joins the local knowledge and expertise of the Portuguese founder entrepreneur with the capacities of ACS Group, one of the world’s largest and solid engineering and construction groups (BBB rating, with stable outlook, assigned by Standard and Poor’s (S&P)).

The key constraints on ProCME Group's credit rating are:

- Concentration in Portugal – Portugal continues to be the only market with significant positive cash generation for the Group.
- Investment risk and eventual interim financial leverage – The current promotion of new solar photovoltaic projects in Portugal and Colombia with a developing, constructing and divesting strategy, while being positive for the growth of the Group’s activities and cash generation also exposes the Group to investment risk and to the risks from eventual interim financial leverage. However, considering the strong know-how of the Group in construction, the Group’s current treasury surplus to finance the first set of investments, the divesting strategy and the strong appetite in the market to acquire renewable energy assets, these risks are substantially mitigated. ARC Ratings will closely monitor this process and eventual developments in the Group’s strategy.

RECENT DEVELOPMENTS AND OUTLOOK

PROCME GROUP - CONSOLIDATED FINANCIALS AND RATIOS (THOUSAND EUROS)

	FYE Dec 2015	FYE Dec 2016	FYE Dec 2017	FYE Dec 2018	FYE Dec 2019	1H 2019	1H 2020
ACTIVITY*	206,724	186,915	133,583	106,539	124,055	68,897	59,531
EBITDA	40,158	29,653	13,799	5,849	11,475	4,421	6,797
NET PROFIT (AFTER MINORITY INTERESTS)	1,515	9,054	6,391	6,087	6,500	3,324	3,550
TOTAL ASSETS	380,138	348,306	121,596	103,365	211,355	103,904	102,624
FINANCIAL DEBT	185,405	170,978	6,269	1,886	9,687	3,152	10,169
NET FINANCIAL DEBT	163,093	157,496	(15,761)	(11,284)	(8,425)	(3,056)	(18,269)
Coverage of Net Interest Costs by EBITDA (x)	3.4	3.4	3.0	-	11.8	14.8	11.2
Net Financial Debt / EBITDA (x)	4.1	5.3	(1.1)	(1.9)	(0.7)	(0.3)	(1.3)
Equity / Assets (including Minority Interests) (%)	11.6%	11.6%	9.1%	7.3%	4.4%	8.2%	12.3%
Short-Term Debt Cov. by Cash and Undrawn Facilities (%)	69.0%	46.6%	1454.6%	1141.4%	451.9%	197.3%	597.0%

Notes:

Figures rounded.

n.av. = Non available; B = Budget; E = Estimates (budget update).

* Turnover + Own Works Capitalised + Production Variation.

Accounts adjusted by ARC Ratings for analysis purposes.

Annual accounts audited by Deloitte & Associados, SROC, Lda..

The interim accounts are unaudited and have some differences in accounting criteria, particularly in shorter depreciation periods.

Sources:

PROCME Annual Reports and additional information.

In 2019 ProCME Group's revenue increased 16.4%, to EUR 124.1 million, an improvement totally from its core business. EBITDA margin improved in 2019 to 9.3% from 5.5%, mainly reflecting the increase in activity with higher dilution of fixed costs but also impacted by the first application of IFRS 16 (without this impact EBITDA margin would have been 7.4% in 2019).

In 1H 2020 the Group's revenue decreased 13.6% year-on-year, to EUR 59.5 million, reflecting the delays in some construction works due to Covid-19. However, EBITDA margin still improved to 11.4% from 9.3% in the full year of 2019 reflecting more complex works with higher margins and lower costs due to optimization and lower oil prices.

The coverage of interest costs and net interest costs by EBITDA was respectively 11.0x and 11.8x in 2019 and 10.3x and 11.2x in 1H2020, very comfortable levels reflecting the low financial leverage with positive net cash.

The Group's total assets are mainly composed of current assets, being also financed by current non-financial liabilities, which justifies a small equity / assets ratio (12.3% at the end of June 2020) with a situation of low financial debt and treasury surplus (cash and deposits, net of financial debt, was EUR 18.3 million at the end of June 2020). The financial debt / EBITDA ratio was 0.7x at the end of June 2020 and the net financial debt / EBITDA ratio was -1.3x.

At the end of June 2020, the Group's order book in the core business amounted to EUR 166.3 million (representing more than one year of activity), of which EUR 70.8 million is forecasted to execute in 2H 2020. For 2021 and following years the Group is very optimistic for the development of its core business with the new investments in renewable power generation in Portugal and the need to substantially increase the capacity of the electricity grid to absorb the new production.

In 2H 2020 the Group will start the construction phase of power generation projects currently being developed, planning to invest EUR 6.5 million in this period, EUR 23.9 million in 2021 and EUR 21.2 million in 2022.

The investment in 2020 (EUR 6.5 million) will be totally funded by cash generation and treasury surplus (EUR 18.3 million at the end of June 2020), thus not changing the Group's current status of low financial leverage and treasury surplus.

The investment in 2021 (EUR 23.9 million) will be funded by a mix of regular cash generation and treasury surplus, proceeds from sale of the first project and interim short-term financial debt. In the medium-term the investments in power generation will be financed by proceeds from the sale of previous projects and any relevant financial leverage will be temporary.

RELATED CRITERIA AND RESEARCH

ARC Ratings' Corporate Entities Rating Methodology (March 2020)

ProCME Group Rating Review Report

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

ARC Ratings, S.A.

11 Hollingworth Court
Turkey Mill, Ashford Road
Maidstone, Kent ME14 5PP
UNITED KINGDOM

Phone: +44 (0)1622 397350
E-mail: arcratings@arcratings.com
Site: www.arcratings.com



Key Contacts:

Carlos Leitão Senior Corporate Analyst Lead Analyst carlos.leitao@arcratings.com	Isabel Fernandes Senior Corporate Analyst Back-up Analyst isabel.fernandes@arcratings.com	Philip Walsh Chief Ratings Officer & Panel Chairperson philip.walsh@arcratings.com
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