ARC Ratings affirms the public "BB" medium and long-term issuer rating, with negative outlook, assigned to Oásis Atlântico

Lisbon, 28 August 2020 - ARC Ratings, S.A. (ARC) has affirmed the final, public "BB" medium and long-term issuer rating, with Negative outlook, assigned to Oásis Atlântico Portugal SGPS, S.A. (Oásis Atlântico), based on its ability to minimize the impacts from having almost no operational activity from April to mid-July 2020 due to Covid-19 and being slowly restarted since then. ARC maintained the Negative Outlook due to the uncertainties as to when full recovery of normal operations will be achieved and potential stymieing of the recovery process.

ISSUER	RATING CLASS	RATING	OUTLOOK	NEXT REVIEW DATE
Oásis Atlântico Portugal SGPS, S.A.	Medium and Long-Term Issuer	BB	Negative	30 August 2021

ISSUER PROFILE

Oásis Atlântico, based in Portugal, is the parent company of Oásis Atlântico Group, a group that owns and operates hotels in Cape Verde since the early 1990's, expanded its hotels operations to Brazil in the beginning of the 2000's and to Morocco in 2019.

RATING RATIONALE

Oásis Atlântico's key rating drivers are the following:

- Good portfolio of assets – Oásis Atlântico Group owns a portfolio of resort hotels in premium locations in Cape Verde and Morocco, which is deemed a competitive advantage, and a long-term rent agreement for one hotel, also in a privileged location, in Brazil. The Group also owns a significant portfolio of land in both Cape Verde (with part of it already approved for use as tourist resorts) and Brazil.
- Long-term relationship with a diversified base of tour operators – with almost 30 years in operation, Oásis Atlântico Group works currently with a diversified base of tour operators, having medium-term agreements for different origin markets .
- Absence of seasonality – the natural conditions of Cape Verde (high temperatures all the year and low likelihood of extreme weather events like hurricanes), the main operating site of the Group (80% of consolidated revenue in 2019), together with the previous referred ability to work with a diversified base of tour operators for different markets of origin, ensures a stable revenue stream throughout the year for the Group in times of normal operation.
- Strong cash generation in normal operation – Oásis Atlântico's consolidated EBITDA decreased 8.0% in 2019 from a 4-year peak in 2018 and EBITDA margin decreased to 24.1% from 30.2% reflecting the costs of launching the new operation in Morocco and some delays in opening it, however EBITDA in 2019 (EUR 8.9 million) was still the 3rd highest amount recorded in the last 5 years and it covered net interest costs by 3.3x.
- Stable shareholders' structure and experienced management team – the Group was founded and continues to be owned and managed by a group of entrepreneurs, having currently almost 30 years in the business and

showing a conservative approach to new investments this captured in the careful analysis of opportunities and in the prudent financial structuring of acquisitions.

The key constraints on Oásis Atlântico's credit rating are:

- Covid-19 impact – The closing of borders and government-imposed lockdown obliged the Group to close all its hotels (except for those serving as quarantine accommodation). The Group has taken measures to reduce costs during this period and protect treasury to avoid any liquidity constraints (which also benefitted from the Group’s conservative financial leverage and debt maturity profile), these measures included laying-off of personnel; negotiation of agreements to reduce other fixed costs (rents, insurance, etc.); managing of working capital; use of the legal mechanisms in Portugal and Cape Verde to obtain grace periods for capital repayments (and interest) under its main bank loans; delaying tax payments; and obtaining new financing facilities. Operations gradually restarted in mid-July in Morocco and in mid-August in Brazil and are planned to gradually restart in Cape Verde from 1 September 2020.
- Moderate to high financial leverage – from 2015 to 2017 the Group reduced its financial leverage with a decrease in the net financial debt / EBITDA ratio to 3.7x from 5.4x and an increase in the equity / assets ratio to 56.8% from 53.2%. In 2018 and 2019 the investment in a new hotel in Morocco led to an increase in adjusted net financial debt / EBITDA ratio to 4.6x and a decrease in adjusted equity / assets ratio to 53.6%. In 2020 the impact from Covid-19 will lead to a deterioration in both ratios.
- Concentration of current operations mainly in Cape Verde – despite the increase in geographical diversification in 2019 with the new opening in Morocco, the Group’s operations in Cape Verde still represented 80.0% of consolidated revenue in 2019 (87.7% in 2018). Cape Verde has ratings of ‘B’ / Stable by Standard and Poor’s (S&P) and ‘B-’ / Stable by Fitch Ratings (Fitch), however these are not considered a constraint for Oásis Atlântico’s rating as the Group’s markets (foreign tourism) are stronger rated European Countries, Cape Verde has been a peaceful country and the tourism sector has a growing importance for the development of the country.

RECENT DEVELOPMENTS AND OUTLOOK

OÁSIS ATLÂNTICO - CONSOLIDATED FINANCIALS AND RATIOS (THOUSAND EUROS)

	2015 (re)	2016	2017	2018	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)	2024 (F)
REVENUE	24,940	28,906	31,856	31,824	36,788	15,996	41,894	44,906	51,253	82,256
EBITDA	7,323	7,941	9,331	9,626	8,859	1,145	12,807	14,395	16,888	27,654
NET PROFIT (AFTER MINORITY INTERESTS)	(1,955)	3,649	1,955	9,710	330	(6,828)	2,752	3,448	4,709	10,842
TOTAL ASSETS	157,858	159,622	174,503	199,705	202,899	191,745	201,861	212,045	236,414	266,782
ADJUSTED FINANCIAL DEBT	41,835	40,467	37,481	40,754	43,226	47,465	50,782	52,326	60,339	69,614
ADJUSTED NET FINANCIAL DEBT	39,883	37,630	34,821	37,855	40,629	46,356	43,145	47,592	58,842	61,924
Coverage of Net Interest Costs by EBITDA (x)	2.3	2.7	4.1	4.6	3.3	0.5	5.7	6.4	8.5	10.1
Adjusted Net Financial Debt / EBITDA (x)	5.4	4.7	3.7	3.9	4.6	40.5	3.4	3.3	3.5	2.2
Adjusted Equity / Assets (%)	53.2%	54.2%	56.8%	54.7%	53.6%	52.6%	51.4%	50.8%	48.1%	47.4%
Short-Term Debt Cover. by Cash and Undrawn Facilities (%)	97.7%	78.9%	62.8%	54.4%	32.1%	8.6%	63.9%	39.9%	13.2%	73.6%

Notes:
Figures rounded; (re) = Restated; .
Accounts adjusted by ARC Ratings for analysis purposes.
2015 to 2019 annual accounts certified by João Manuel Gonçalves Correia das Neves Martins and 2015 to 2018 accounts were audited by BDO & Associados, SROC, Lda.

Sources:
Oásis Atlântico Consolidated Annual Reports.
Business Plan prepared by the Oásis Atlântico Group, in August 2020, based on its 2019 accounts.

In 2019 the Oásis Atlântico Group's revenue increased 15.6%, to EUR 36.8 million, mainly reflecting the opening of a new hotel resort in Morocco in mid-2019. However, Cape Verde operations still represented 80.0% of consolidated revenue (87.7% in 2018), while Brazilian operations represented 10.5% and Moroccan operations represented 9.5%.

EBITDA margin decreased to 24.1% in 2019 from 30.2% in 2018 and EBITDA decreased 8.0%, to EUR 8.9 million, reflecting the costs of launching the new operation in Morocco and the delay in opening it, not allowing full operations during the peak summer period (this is a tourism destination with a marked seasonality).

Net interest costs increased 27.0% in 2019, to EUR 2.7 million, reflecting the increase in the financial debt to finance the investments in Morocco. Therefore, reflecting both the decrease in EBITDA and the increase in interest costs, the coverage of net interest costs by EBITDA decreased to 3.3x in 2019 from 4.6x in 2018, still comfortable coverage and much above the minimum of 2.3x recorded in 2015.

Total net profit in 2019 was negative EUR 0.5 million, reflecting a negative net profit in the Moroccan subsidiary, while final net profit for the Oásis Atlântico shareholders was positive EUR 0.3 million.

The Group's total assets increased 1.9% or EUR 3.8 million in 2019, to EUR 202.9 million, reflecting the investments in fixed assets (EUR 8.9 million, mainly in the refurbishment of the hotel in Morocco) net of depreciation.

Adjusted equity / assets ratio decreased to 53.6% (from 54.7%) and net financial debt / EBITDA ratio increased to 4.6x (from 3.9x).

In April 2020, the closing of borders and lockdown obliged the Group to close all its hotels, with some exceptions in Cape Verde for quarantine accommodations paid for by the Government. The Group has taken measures to reduce costs during this period and protect treasury to avoid any liquidity constraints (which also benefitted from the Group's conservative financial leverage and debt maturity profile), at three main levels:

- Reducing operating costs – closing hotels, laying-off of personnel and negotiation of agreements to reduce other fixed costs (rents, insurance, etc.).
- Managing working capital.
- Financial debt – utilising the legal mechanisms in Portugal and Cape Verde to obtain grace periods for capital repayments (and interest) and obtaining new financing facilities.

Operations gradually restarted in mid-July in Morocco and in mid-August in Brazil and are planned to gradually restart in Cape Verde from 1 September 2020. A full recovery is not expected before the second quarter of 2021.

Thus, the Group forecasts to record a 56.5% decrease in revenue in 2020, to EUR 16.0 million, still with a positive EBITDA of EUR 1.1 million, representing an EBITDA margin of 7.2%, and a negative net profit of EUR 6.8 million. In 2020 the coverage of net financing costs by EBITDA will be much below 1x (0.5x forecasted).

For 2021 the Group forecasts a strong recovery of revenue to EUR 41.9 million, reflecting the full recovery of current operations in Q2 2021 and additional revenue from a tourist real estate project in Cape Verde (Tarrafal) and a new rented hotel in Cape Verde (in Boa Vista Island). With a recovery of the EBITDA margin to 30.6% expected, the Group forecasts to obtain a very comfortable coverage of net financing costs by EBITDA of 5.7x.

Adjusted net financial debt / EBITDA ratio is expected to increase to a huge level of 40.5x due to the sharp decrease in EBITDA – considering the EBITDA of 2019 as a more normal level, adjusted net financial debt / EBITDA ratio would be 5.2x. In 2021 the return to a positive and strong cash generation, with no relevant investment, will allow a significant decrease in adjusted net financial debt / EBITDA to 3.4x.

RELATED CRITERIA AND RESEARCH

ARC Ratings' Corporate Entities Rating Methodology (March 2020)
Oásis Atlântico Rating Review – Report (28 August 2020)

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

Note that ARC Ratings is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. Moreover, ARC Ratings is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the transaction documents / mechanics and should form their own views in this respect. They should not rely on ARC Ratings for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

ARC Ratings, S.A. is registered as a Credit Rating Agency (CRA) with the European Securities and Markets Authority (ESMA) , within the scope of the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council, of 16 September, and recognised as External Credit Assessment Institution (ECAI).

This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

Ratings assigned by ARC Ratings represent opinions on the capacity and willingness of an entity to make all required payments on a given obligation in a timely manner. The meaning of each rating category is explained in www.arcratings.com.

The rating(s) assigned by ARC Ratings in this report was / were sought by the entity whose financial commitments are being rated.

Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are being rated the documents that substantiate the rating to be attributed. This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are being rated are taken into account by ARC Ratings in the assignment of the rating. ARC Ratings also grants the issuer the possibility of appealing a rating accorded by ARC Ratings as long as this appeal is supported on additional information that hasn't been taken into account in the original rating accordance.

ARC Ratings, S.A. historical default rates are published in the European Securities and Markets Authority Central Repository (CEREP) which can be accessed on the website cerep.esma.europa.eu/cerep-web/. ARC Ratings default rate is the probability of lack of full and timely payment of capital or interest or of the occurrence of any event that explicitly indicates that the future full and timely payment of those commitments will not occur (e.g., in case of insolvency).

Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors.

Throughout the entire period during which ratings are valid, ARC Ratings monitors the issuer's performance on a constant basis, and may even bring forward the date of the review unless stated as point in time. Hence, prior to an investor using a rating, ARC Ratings recommends that it be confirmed, namely by consulting the list of public ratings available on the website www.arcratings.com.

ARC Ratings' ratings are assigned based on information, which may include confidential information, collected from a wide group of sources, which may include the entity whose financial commitments are subject to rating. ARC Ratings uses and treats this information with due care and attention. Although all due care was taken in the collection, cross-checking and processing of the information for the purposes of the rating analysis, ARC Ratings cannot be held liable for its accuracy. ARC Ratings must make sure that the information has a minimum level of quality prior to assigning a rating based on such information.

In the rating process, ARC Ratings adopts procedures and methodologies aimed at ensuring transparency, credibility and independence, and also that rating classifications are not influenced by situations of conflict of interests. Any exceptions to these principles are disclosed by ARC Ratings together with the rating of the financial commitment in question.