

## ARC Ratings has affirmed Grupo Visabeira's ratings and maintained the negative outlook

Lisbon, 30 September 2020 - ARC Ratings, S.A. (ARC Ratings) has affirmed the "BB+" public medium and long-term issuer rating with Negative outlook, assigned to Grupo Visabeira, S.A. ('Grupo Visabeira') and the "B" public short-term issuer and issue ratings. This action is based on the considerable uncertainty around the continuation of Covid-19 and its impact on the Group's global activity and, in particular, on its net financial debt / EBITDA ratio. Notwithstanding these concerns, so far, the Group's main European-based activities have increased, which is expected to continue, and it faces no current liquidity pressure.

<u>ISSUER</u>	<u>ISSUE</u>	<u>ISSUE AMOUNT</u>	<u>RATING CLASS</u>	<u>RATING</u>	<u>OUTLOOK</u>	<u>NEXT REVIEW DATE</u>
Grupo Visabeira, S.A.	NA	NA	Medium and Long-Term Issuer	BB+	Negative	30 September 2021
Grupo Visabeira, S.A.	NA	NA	Issuer Short-Term	B	NA	30 March 2021
Grupo Visabeira, S.A.	Commercial Paper	Up to EUR 21.8 Million	Issue Short-Term	B	NA	30 March 2021

### ISSUER PROFILE

Grupo Visabeira, established in 1980, headquartered in Viseu, Portugal, is the holding company of a group that provides services to telecoms and energy infrastructure operators. Over time the group diversified its activities, specifically in the Industry business area (mainly in the ceramics and crystal sectors) and in the Tourism business.

### RATING RATIONALE

Grupo Visabeira's key rating drivers are the following:

- Strengthening of cash flow generation – The Group's EBITDA increased in full 2019 year. In the first half of 2020 (1H2020), in the Covid-19 pandemic context, the EBITDA from its main business lines (Telecoms, Energy, Technology and Construction) rose significantly. Conversely, the other businesses recorded a decrease of EBITDA.
- Business expansion forecast – The Group expects an expansion of its main business activity from its strategic European markets in 2020 (and in the coming years), which will offset 68.2% of the predicted reduction of EBITDA from the remaining business areas resulting from Covid-19.
- Focus on European countries – The Group intends to reinforce its activity in other European countries with greater potential for growth in its main business areas. This focus will reduce the weight of operations in Africa, which pose the greatest operational and financial risks.

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

- High indebtedness – High net financial debt/EBITDA ratio, although ARC Ratings notes that the Group showed

comfortable coverage of its net interest costs by EBITDA.

- Foreign exchange, transfer risk and political risks from African operations – Negative impact in cash flow generation and on equity from the significant depreciation of the local currency against the Euro. The Group intends to reduce the contribution from African markets to 25.0% of its total EBITDA, down from 25.7% in 2019 and 30.0% forecasted for 2020 after-Covid (without consider possible foreign exchange impact).

<b>KEY TIPPING POINTS</b>	
<p><u>Positive Turning Points</u></p> <p>The trigger for a rating upgrade or an improvement of outlook would come from:</p> <ul style="list-style-type: none"> <li>• higher EBITDA than currently forecast with greater contribution from European markets.</li> <li>• a reduction in net debt / EBITDA (e.g. from the sale of assets).</li> </ul>	<p><u>Negative Turning Points</u></p> <p>Triggers that could prompt a rating downgrade would include:</p> <ul style="list-style-type: none"> <li>• a continuation or increase in the negative effects of the Covid-19 pandemic on the Group’s EBITDA and debt.</li> <li>• less favourable conditions to develop activity in Europe.</li> <li>• the significant deterioration in the cash generation capacity and transferability in Angola and Mozambique not offset by the expected increase from the European countries.</li> </ul>

## **RECENT DEVELOPMENTS AND OUTLOOK**

In the Covid-19 pandemic context the Group’s main activity was not affected. In the Industry sector, the main activity in Portugal was stopped briefly but restarted in mid-April and has shown increasing performance, particularly since June 2020 with strengthening exports. On the contrary, the tourism sector was the most negatively impacted, albeit with a gradual recovery. The Group benefited from a set of governmental measures to support its treasury.

The Group’s turnover increased by 22.1% in 2019, to EUR 910.2 million, and showed a small decrease in 1H2020, to EUR 420.7 million from EUR 423.5 million in 1H2019. The Group’s EBITDA was EUR 165.1 million in 2019 (EUR 141.8 million in 2018) and EUR 64.5 million in the 1H2020 (EUR 76.2 million in 1H2019).

Coverage of net interest costs by EBITDA decreased to 3.6 times in 2019 (from 3.7 times in 2018), falling to 3.2 times in the 1H2020 (3.8 times in the 1H2019). Notwithstanding the increase of cash and cash equivalents, its net financial debt rose in 2019 (by 12.8%) and in the 1H2020 (by 2.7%), to EUR 771.5 million. The net financial debt / EBITDA ratio slightly improved to 4.5 times in 2019 from 4.7 times in 2018. However, this ratio increased to 5.0 times in 1H2020.

The Group’s 2020 budget, prepared after the outbreak of Covid-19, forecasts turnover of EUR 947.2 million and EBITDA of EUR 160.0 million. Its net financial debt/EBITDA ratio is expected to be 4.8 times, while the coverage of net interest costs by EBITDA is predicted to be 3.2 times.

The Group’s performance is sensitive to a set of operational, exchange rate and transfer risks, the latter on its operations in African markets. There remains considerable uncertainty around the continuation and severity of Covid-19 and its impact on the Group’s activities. ARC Ratings will continue to monitor the Group’s performance and its financial structure closely.

**RELATED CRITERIA AND RESEARCH**

ARC Ratings’ Corporate Entities Rating Methodology (March 2020)
Grupo Visabeira Rating Review – Report (30 September 2020)

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