

## PROCME GROUP

ARC Ratings, S.A. (ARC Ratings) has affirmed the final public "BBB" long-term issuer ratings assigned to CME - Construção e Manutenção Electromecânica, S.A. (CME) and Tecneira Tecnologias Energéticas, S.A. (Tecneira), with Stable outlook.

ISSUERS	RATING CLASS	RATING	OUTLOOK
CME – Construção e Manutenção Electromecânica, S.A.	Long-Term	BBB	Stable
Tecneira Tecnologias Energéticas, S.A.	Long-Term	BBB	Stable

Rating Date	16 August 2021
Initial Rating	26 November 2015
Last Review	17 August 2020
Next Review Date	16 August 2022
Criteria Applied	ARC Ratings' Non-Financial Corporate Entities Rating Methodology

This action reflects Group's strong cash generation with positive net cash position, balanced with the concentration of its activity in Portugal and the ongoing investing phase.

The rating was assigned by ARC Ratings, S.A. and endorsed by ARC Ratings (UK) Limited in accordance with Statutory Instrument 2019 n° 266 - The Credit Rating Agencies (Amendment etc.) (EU Exit).

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## ISSUERS PROFILE

CME and Tecneira are both wholly owned by ProCME - Gestão Global de Projectos, S.A. (ProCME), the parent company of ProCME Group. The three companies are incorporated in Portugal and, under Portuguese law, ProCME is liable for the obligations of CME and Tecneira. ProCME Group is owned by Mr. José António dos Reis Costa (25.45%), the founder and Chairman, in partnership with ACS, Actividades de Construcción Y Servicios, S.A. and subsidiaries (ACS Group) (74.55%).

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 promoting new solar photovoltaic projects in Portugal and Colombia with a developing, constructing and divesting strategy.

## **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 in Portugal 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.
- Low financial leverage and residual liquidity risk – The Group maintains a small amount of financial debt (EUR 7.5 million at the end of June 2021, representing only 0.6x the EBITDA), much lower than the amount of cash and deposits (EUR 21.2 million at the end of June 2021). 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, although the rating assigned to ACS by Standard and Poor's (S&P) was downgraded in March 2021 by one notch from BBB to BBB-, with Stable outlook (detail below). Payment of dividends increased in 2020, although the increase was point-in-time justified with increased treasury surplus, while dividends' policy was unchanged and is decided annually by shareholders considering the Group's equity, treasury levels and investment plans.

## **THE KEY CONSTRAINTS ON PROCME GROUP'S CREDIT RATINGS ARE:**

- Concentration in Portugal – Portugal continues to be the only market with significant positive cash generation for the Group. Portugal is rated BBB/Stable by S&P; Baa3/Positive by Moody's Investors Service (Moody's); and BBB Stable by Fitch Ratings (Fitch).
- 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 next set of investments, the divesting strategy of the Group 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.

## KEY TIPPING POINTS

### Positive Turning Points

- Upgrade of the Portuguese sovereign rating and/or the ratings assigned to the Group's main shareholder.

### Negative Turning Points

- Significant increase in competition in the Group's core business in Portugal, leading to the eventual loss of significant contracts and/or the decrease in margins.
- Significant increase in the Group's financial leverage, in the event of any change in the current strategy of developing, constructing and divesting for the power generation business.

## SHAREHOLDERS AND GOVERNANCE

ProCME Group continues to be owned by Mr. José António dos Reis Costa (25.45%), the founder and Chairman, in partnership with ACS Group (74.55%). The partnership is regulated under the company's bylaws and in the shareholders' general meeting a minimum majority of 80% of votes (i.e. requiring the vote of both partners) is required for capital increases, transmission of shares, pledging of shares, amendments of the bylaws and dividends' approval.

The ProCME Group's 2020 consolidated accounts, as well as 2020 accounts of both CME and Tecneira, were audited without qualifications by Deloitte & Associados, SROC, S.A..

On 03 August 2021 ARC Ratings conducted a conference call with senior management of ProCME Group as part of the analytical review process. In summary, the Group's strategy was discussed along with performance and forecasts in the core business, the development stage of the new energy assets, insurance policies in force, divesting and financing strategies and contingent liabilities.

### ACS GROUP

ACS Group is a Spanish construction and services conglomerate, with relevant know-how in the ProCME Group's main lines of business, and highly internationalised, mainly in developed countries (in 2020 the Spanish market represented only 14.1% of the total turnover of the ACS Group, while the US market, presently the most relevant, represented 45.1%).

ACS is a listed company, with a dispersed shareholder structure, the main shareholder being its Executive Chairman, Mr. Florentino Pérez Rodriguez, with a 12.68% stake at the end of 2020.

ACS Group's rating was downgraded by S&P on 09 March 2021 to BBB-/Stable from BBB, following the sale of a 50% equity interest in Thiess, the world's largest mining services provider, which, in S&P's view, reduces ACS' business scale and diversity and adds complexity to the Group structure, in a context of weaker than expected earnings and cash flow and higher debt.

#### ACS GROUP INDICATORS (IN MILLION EUROS)

	FYE	FYE	FYE	FYE	FYE	1H 2020	1H 2021
	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020		
<b>Revenue</b>	31,975	34,898	36,659	39,049	34,937	13,330	13,816
<b>EBITDA</b>	2,023	2,279	2,941	3,148	2,444	737	643
<b>Net Profit</b>	751	802	916	962	574	335	351
Order Book	66,526	67,082	72,223	77,756	69,226	63,993	62,989
<b>Total Assets</b>	33,373	31,881	35,701	38,592	37,334	39,208	37,334
<b>Net Financial Debt*</b>	3,257	1,883	2,845	3,212	5,103	n.av.	n.av.
<b>EBITDA Margin (%)</b>	6.3%	6.5%	8.0%	8.1%	7.0%	5.5%	4.7%
<b>Net Return on Revenue (%)</b>	2.3%	2.3%	2.5%	2.5%	1.6%	2.5%	2.5%
<b>Coverage of Net Interest Costs by EBITDA (x)</b>	5.9	8.1	9.9	10.8	9.0	7.0	5.6
<b>Net Financial Debt / EBITDA (x)</b>	1.6	0.8	1.0	1.0	2.1	n.av.	n.av.
<b>Equity (Including Minority Interests) / Assets (%)</b>	14.9%	16.2%	16.8%	14.2%	11.5%	11.0%	11.6%

Notes: \*Including those related to assets held for sale.

Sources: ACS Annual and Interim Reports.

## PROCME GROUP'S OPERATIONS

### CORE BUSINESS

ProCME Group's core business activity continues to be mainly based in medium term contracts for maintenance of electricity and telecommunication networks in Portugal with some of the main operators in these two areas. From these contracts ProCME Group maintained strong and stable cash generation. These activities are considered essential and did not stop due to the Covid-19 outbreak, even during the emergency periods.

Additional activity from construction in power generation and in electricity and telecommunication networks is strongly dependent on the economic cycles and structural changes in the underlying technologies. A new investing phase in Portugal started slowly in 2019 and the expected acceleration in 2020 was partially delayed due to Covid-19, although it is increasing and is expected to further increase in the short to medium-term. The growth in the electrical sector will be based on new investments in renewable power generation and the need to substantially increase the capacity of the electricity grid to absorb the new production, while in the telecommunications sector the granting of 5G licenses (auction process is ongoing) will be key for growth.

Some relevant construction contracts have been obtained in Angola and Cape Verde, in both cases revenues are received in EUR or USD.

The Group's main clients in this business area are the following:

- EDP - Energias de Portugal, S.A. (EDP) and subsidiaries (EDP Group), the biggest Portuguese energy company and the main operator in Portugal, represented 23.7% of ProCME Group's revenue in 2020; the size of EDP's electrical grid in Portugal increased 0.5% from June 2020 to June 2021, to 229.3 thousand km; and capex in this grid increased 16% year-on-year in 1H 2021; EDP is rated BBB/Stable/A-2 by S&P; Baa3/Positive/P-3 by Moody's; and BBB/Stable/F2 by Fitch;

### PROCME GROUP'S ACTIVITY (THOUSAND EUROS)

	FYE Dec 2016	FYE Dec 2017	FYE Dec 2018	FYE Dec 2019	FYE Dec 2020	1H 2020	1H 2021
Consolidated Revenue*	186,915	133,583	106,539	124,055	122,934	59,531	67,760
Core Business	148,399	106,268	106,539	124,055	122,934	59,531	67,760
CME	118,410	101,366	103,659	122,305	117,241	58,404	59,619
Electricity	61,596	57,467	54,859	67,209	65,289	n.av.	n.av.
Telecommunications	35,000	20,327	27,227	27,186	26,487	n.av.	n.av.
Water and Gas	6,876	6,568	5,762	6,336	5,214	n.av.	n.av.
Installations and Maintenance	7,825	-	-	-	-	n.av.	n.av.
Maintenance	-	8,011	8,682	8,369	8,129	n.av.	n.av.
Technical Installations and Environment	-	8,458	5,744	9,706	10,816	n.av.	n.av.
Special Projects	7,113	535	1,385	3,499	1,306	n.av.	n.av.
Energy Production	38,516	27,315	0	0	0	0	0
Consolidated Net Profit	9,054	6,391	6,087	6,500	7,021	3,550	3,458
Core Business	991	(1,879)	6,087	6,500	7,021	3,550	3,458
CME	4,414	2,957	6,268	7,286	10,412	4,986	2,259
Energy Production	8,063	8,271	0	0	0	0	0

Notes: Figures rounded. \* Includes own works capitalised and production variation. Accounts adjusted by ARC Ratings for analysis purposes. Annual Accounts certified by Deloitte & Associados, SROC, Lda..

Sources: ProCME Group.

- Vodafone Portugal - Comunicações Pessoais, S.A. (Vodafone Portugal), the Portuguese subsidiary of Vodafone Group and the third biggest telecom operator in Portugal, represented 11.6% of the Group's revenue in 2020; Vodafone Group is rated BBB/Stable/A-2 by S&P; Baa2/Stable / P-2 by Moody's; and BBB/Stable/F2 by Fitch;
- REN - Redes Energéticas Nacionais, S.G.P.S., S.A. (REN), the Portuguese electricity transmission network operator (under a concession agreement with the Portuguese Government), represented 11.6% of the Group's revenue in 2020; REN's investment in Portuguese electricity transmission network decreased from EUR 140.9 million in 2019 to EUR 126.4 million in 2020 and in 1H 2021 it increased to EUR 58.3 million from EUR 45.3 million in 1H 2020 and recently announced a 40% increase in investment in Portugal; REN is rated BBB/Stable/A-2 by S&P; Baa3/Positive by Moody's; and BBB/Stable/F3 by Fitch;
- NOS, SGPS, S.A. (NOS), the second biggest telecom operator in Portugal, represented 9.8% of the Group's revenue in 2020; NOS is rated BBB-/Stable by S&P and BBB/Stable by Fitch; and
- Somincor - Sociedade Mineira de Neves-Corvo, S.A. (Somincor), the largest mining company in Portugal, represented 5.3% of the Group's revenue in 2020; Somincor is currently not rated.

We note that these 5 main clients represented together 62.0% of the Group's revenue in 2020 (57.0% in 2019).

At the end of June 2021, the Group's order book in the core business amounted to EUR 125.6 million (compared with EUR 166.3 million one year before and representing near one year of activity), of which EUR 62.7 million is forecasted to be executed in the second half (2H) of 2021. The order book is concentrated in Portugal (EUR 84.9 million or 67.6%) and Angola (EUR 38.0 million or 30.3%). The reduction in the order book was punctual reflecting the close to expire of an important medium-term contract and which renewal is highly probable (conservatively the Group only registers in its order book contracts after they are signed) and in July 2021 the Group already obtained a new EUR 8.0 million with Somincor.

ProCME is one of the two main operators in the activity of providing engineering services for energy and telecommunications infrastructure in Portugal. All other competitors are smaller and focused on market niches, not offering a complete set of services covering all kind of works in these activities, as the two main service providers do. Also, the competition from international operators, while always a potential risk, has not been occurring and is not expected to occur in the near future 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. Thus, the risk of losing big contracts in Portugal by the ProCME Group is considered low, especially in the area of energy where the Group has higher competitive advantages.

## **ENERGY PRODUCTION**

After a divesting phase between 2015 and 2017 (when the Group sold all its previous portfolio of wind and solar energy producing assets), the Group is currently developing new solar photovoltaic projects in Portugal and Colombia as part of a developing, constructing and divesting strategy.

In Portugal, the Group has the following projects in different stages of development:

- Sado 15 MW solar photovoltaic farm – Construction was concluded in June 2021 (a bit delayed from March/April 2021 previously forecasted) and started production and sale of electricity in July 2021. Total investment was EUR 9.0 million as planned (EUR 2.7 million in 2020 and EUR 6.3 million in 1H 2021). On 29 December 2020 the Group agreed the sale of this solar farm, having received EUR 3.5 million in advance and the Group expects to conclude the sale until the end of September 2021.
- Small photovoltaic units (SPU) – The Group has licences to install 113 SPU, each with a maximum of 1 MW capacity. The Group's current plan includes projects with total capacity of 60.2 MW and total investment of EUR 36.5 million, of which only EUR 4.6 million expected to be spent in 2H 2021 (installing 7 MW), EUR 20.8 million in 2022 (installing 34.7 MW) and EUR 11.1 million in 2023 (installing 18.5 MW). The Group delayed a bit the start of construction of the first set of these units due to the recent increases (around 20%) in solar panels and other materials prices. These price increases are expected to be temporary (in the long term, the technology development should continue to support the price decrease trend) and were accompanied by even more significant electricity price increases. According to the Group, the projects would still be profitable with the higher solar panel prices, even not considering the increases in electricity prices.
- Direct grid connexions agreement requests (600 MW solar photovoltaic) – The Group made direct grid connexions agreement requests to REN for 2 solar photovoltaic farms (each with 300 MW capacity). These requests were performed under reference terms where the producers support the necessary costs for grid reinforcement and obtained a very good classification (second and third on a list of near 80 projects for around 17,000 MW) and REN is now performing a grid assessment for the possible projects. These are potential large projects to be developed in the medium and long term (total pluriannual investment forecasted is EUR 440 million).

In addition, it was recently announced a new auction for solar farms in Portugal, to be launched in September 2021, for a total of 500 MW of floating farms in dam's lakes. ProCME Group in preparing to compete in this auction to obtain new licenses.

In Colombia the project for a solar photovoltaic farm of 200 MW is still in phase of obtaining connecting conditions to the Country's national electric grid, expected to be concluded by the end of September 2021, and the environmental impact assessment will follow. Total investment is forecasted to be around EUR 120 million and construction will not start before 2023 but the sale of the project before then is currently being considered.

## CASH FLOW GENERATION CAPACITY

### REVENUE

Following a 16.4% increase in 2019, in 2020 ProCME Group's revenue decreased 0.9%, to EUR 122.9 million, with a year-on-year decrease of 13.6% in 1H 2020 due to delays in some construction works (mainly from REN in the electricity transmission network) impacted by Covid-19 and a year-on-year increase of 14.9% in 2H 2020. The activity in Portugal increased 5.0% in 2020 (to EUR 109.8 million – representing 89.3% of the total), while the activity abroad (mainly in Angola) decreased 32.7% (to EUR 13.1 million).

Despite the strong recovery in 2H 2020, the revenue in FY2020 was still below the forecasted EUR 130.1 million due to further delays in a few big works and the Group's current strategy of not accepting or competing for works with low or no margins.

In 1H 2021 the Group's revenue increased 13.8% year-on-year, to EUR 67.8 million, although still below the budget (EUR 70.7 million).

### EBITDA AND EBIT

EBITDA margin improved to 11.0% in 2020 from 9.3% in 2019 (EBITDA improved to EUR 13.6 million from EUR 11.5 million) and compared with 7.4% forecasted (and EUR 9.7 million of EBITDA), reflecting the above-mentioned price strategy and cost savings due to Covid-19 impact (EUR 1.0 million in travelling and EUR 0.5 million in energy, while higher costs from Covid-19 in security and cleaning were EUR 0.3 million).

#### PROCME GROUP – CONSOLIDATED FINANCIALS AND RATIOS I/II (THOUSAND EUROS)

	FYE Dec 2016	FYE Dec 2017	FYE Dec 2018	FYE Dec 2019	FYE Dec 2020	1H 2020	1H 2021	FYE Dec 2021 (B)
<b>REVENUE*</b>	186,915	133,583	106,539	124,055	122,934	59,531	67,760	148,588
<b>EBITDA</b>	29,653	13,799	5,849	11,475	13,560	6,797	5,807	10,976
<b>EBIT</b>	14,571	2,718	6,759	9,289	11,417	5,685	4,576	9,861
<b>FINANCIAL RESULT</b>	(8,742)	(4,659)	270	(972)	(1,126)	(610)	(333)	(1,654)
<b>NON-CURRENT RESULTS</b>	321	8,411	127	0	0	0	0	0
<b>NET PROFIT (AFTER MINORITY INTERESTS)</b>	9,054	6,391	6,087	6,500	7,021	3,550	3,458	6,349
<b>OPERATING CASH FLOW (OCF)</b>	15,851	2,501	9,410	7,090	25,244	n.av.	n.av.	n.av.
<b>NET CASH FLOW FROM OPERATIONS</b>	9,647	(3,381)	8,674	5,928	23,475	n.av.	n.av.	n.av.
<b>FREE CASH FLOW</b>	10,028	103,147	12,633	(95,310)	113,411	n.av.	n.av.	n.av.
<b>EBITDA Margin (%)</b>	15.9%	10.3%	5.5%	9.3%	11.0%	11.4%	8.6%	7.4%
<b>Operating Return on Revenue* (%)</b>	7.8%	2.0%	6.3%	7.5%	9.3%	9.5%	6.8%	6.6%
<b>Net Return on Revenue* (%)</b>	4.8%	4.8%	5.7%	5.2%	5.7%	6.0%	5.1%	4.3%
<b>Payout Ratio (%)</b>	60.7%	93.9%	65.7%	61.5%	170.9%	169.0%	57.8%	n.av.
<b>Coverage of Interest Costs by EBITDA (x)</b>	3.0	2.4	14.2	11.0	9.8	10.3	15.6	6.6
<b>Coverage of Net Interest Costs by EBITDA (x)</b>	3.4	3.0	-	11.8	12.0	11.2	17.4	6.6
<b>CASH FLOW Coverage of Net Interest Paid (x)</b>	2.2	0.4	-	13.3	35.9	n.av.	n.av.	n.av.

Notes: Figures rounded. n.av. = Non available; B = Budget. \* Includes own works capitalised and 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 1H 2021 EBITDA margin decreased to 8.6% from 11.4% in 1H 2020 and EBITDA decreased 14.6% year-on-year, to EUR 5.8 million, although better than the forecasted (7.4% EBITDA margin for FY2021).

EBIT increased 22.9% in 2020 (to EUR 11.4 million), benefiting also from a decrease in amortization and depreciation costs (to EUR 2.6 million from EUR 2.8 million), while in 1H 2021 amortization and depreciation costs increased 9.4% (to EUR 1.5 million) leading to a stronger decrease in EBIT (-19.5%), to EUR 4.6 million.

### **INTEREST COSTS AND COVERAGE RATIO**

Net financing costs increased 15.8% in 2020, to EUR 1.1 million, reflecting the full year impact of a financing in kwanzas obtained in 2019 for the works in Angola to pay local costs in kwanzas while revenue is received in EUR (the Group is obtaining exchange rate gains with this operation), while net cash position increased. In 1H 2021 net financing costs decreased 45.4%, to EUR 0.3 million, reflecting the partial repayment of this debt.

The coverage of net interest costs by EBITDA still increased in 2020, to 12.0x from 11.8x, and further increased in 1H 2021, to 17.4x from 11.2x, very comfortable levels reflecting the low financial leverage with positive net cash.

### **NET PROFIT AND DIVIDENDS**

Net profit increased 8.0% in 2020, to EUR 7.0 million, with the increase in EBIT being softened by the increase in net financing costs and also an increase in effective tax (mostly reducing deferred taxes in assets from previous losses, i.e. not being payable), while in 1H 2021 net profits slightly decreased 2.6%, to EUR 3.5 million, with the decrease in EBIT being mostly off-set by the decrease in net financing costs and a reduction in effective tax.

In 2020 the Group paid EUR 4.0 million of 2019 dividends, representing a pay-out ratio of 61.5% of 2019 net profit, and advanced EUR 12.0 million of 2020 dividends, representing a pay-out ratio of 170.9% of 2020 net profit. This exceptional payment of dividends in 2020 was justified with the exceptional level of treasury surplus (the Group closed 2020 still with a net cash position of EUR 14.7 million, compared with a net cash position of EUR 8.4 million at the end of 2019) and lack of significant projects for investment in the short-term. Dividends' policy was unchanged and is decided annually by shareholders considering the Group's equity, treasury levels and investment plans.

## FINANCIAL POLICY

### ASSETS AND LIABILITIES

At the end of June 2021, the Group had total assets of EUR 107.5 million, more EUR 4.9 million or 4.8% than one year before, mainly reflecting the EUR 9.0 million investment in Sado solar farm (recorded as a financial asset in current assets due to the sale agreement), while cash and deposits decreased by EUR 7.2 million, to EUR 21.2 million, and trade and other receivables increased by EUR 0.9 million (to EUR 25.5 million). We note that at the end of 2019 the Group's total assets and liabilities included loans received and loans granted to shareholders both in the amount of EUR 103.0 million – this was a very short-term operation with no risk for ProCME Group.

### CAPITAL STRUCTURE, LEVERAGE AND LIQUIDITY

The Group's total assets are mainly composed of current assets, being also financed by current non-financial liabilities (current assets ratio has been near 100% and acid test ratio around 90%), which justifies a small equity/assets ratio (11.6% at the end of June 2021, having improved from 4.4% at the end of 2019 and 2020) with a situation of low financial debt (EUR 7.5 million at the end of June 2021) and treasury surplus (cash and deposits, net of financial debt, was EUR 13.6 million at the end of June 2021).

After an increase in the Group's gross financial debt in 2019 (to EUR 9.7 million from EUR 1.9 million) mainly reflecting the inclusion of operational leasing liabilities due to IFRS 16 and the above-mentioned financial debt in kwanzas obtained in Angola, in 2020 and 1H 2021 the Group's financial debt decreased to EUR 8.9 million and EUR 7.5 million, respectively.

#### PROCME GROUP - CONSOLIDATED FINANCIALS AND RATIOS II/II (THOUSAND EUROS)

	FYE Dec 2016	FYE Dec 2017	FYE Dec 2018	FYE Dec 2019	FYE Dec 2020	1H 2020	1H 2021
<b>TOTAL ASSETS</b>	348,306	121,596	103,365	211,355	115,358	102,624	107,513
<b>FINANCIAL DEBT</b>	170,978	6,269	1,886	9,687	8,893	10,169	7,547
<b>NET FINANCIAL DEBT</b>	157,496	(15,761)	(11,284)	(8,425)	(14,749)	(18,269)	(13,649)
<b>Operating Return on Assets (%)</b>	4.2%	2.2%	6.5%	4.4%	9.9%	11.1%	8.5%
<b>Financial Debt / EBITDA (x)</b>	5.8	0.5	0.3	0.8	0.7	0.7	0.6
<b>Net Financial Debt / EBITDA (x)</b>	5.3	-1.1	-1.9	-0.7	-1.1	-1.3	-1.2
<b>CASH FLOW Coverage of Net Financial Debt (%)</b>	6.1%	21.5%	-	-	-	-	-
<b>Equity / Assets (including Minority Interests) (%)</b>	11.6%	9.1%	7.3%	4.4%	4.4%	6.8%	11.6%
<b>NET GEARING (Net Debt to Equity and Minority Interests) (x)</b>	3.9	-1.4	-1.5	-0.9	-2.9	-2.6	-1.1
<b>Financial Debt Struct. (S.T. Fin. Debt as a % of Total Fin. Debt)</b>	39.0%	53.2%	98.3%	65.8%	84.3%	67.4%	88.9%
<b>Short-Term Debt Cov. by Cash and Undrawn Facilities (%)</b>	46.6%	1,454.6%	1,141.4%	451.9%	467.0%	597.0%	816.6%
<b>Interest-Rate Risk (%)</b>	57.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Current Assets Ratio (%)</b>	113.3%	98.6%	88.7%	96.6%	91.9%	92.3%	99.7%
<b>Acid Test Ratio (%)</b>	110.6%	91.8%	80.6%	93.0%	79.9%	83.7%	91.3%

Notes: Figures rounded. 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.

The financial debt/EBITDA ratio was 0.6x at the end of June 2021 (compared with 0.8x at the end of 2019) and the net financial debt/EBITDA ratio was -1.2x (-0.7x at the end of 2019).

We note that the Group doesn't have any encumbered assets.

## **CONTINGENCIES**

In 2019 and 2020 the Group received notifications from the Portuguese tax authorities for the payment of additional income taxes in the amount of EUR 2.3 million regarding 2015 and EUR 1.8 million regarding 2016 due to losses in Brazil that Portuguese authorities are not accepting for tax calculation. The Group is contesting this process and the Group's balance sheet still includes EUR 2.2 million of provisions for possible additional losses in Brazil after closing the operations.

The total value of guarantees and surety insurance provided by the Group to third parties in connection to tenders and the good execution of works amounted to EUR 40.4 million at the end of 2020 (EUR 36.6 million at the end of 2019).

## **INSURANCE**

The Group maintains adequate insurance coverage for its operations, namely regarding third party civil liability, employer liability, professional liability, environmental liability and product liability, mainly contracted with Mapfre (A-/Stable by S&P and Fitch) and Fidelidade (controlled by the Chinese group Fosun ('BB'/Negative by S&P and 'Ba3'/Stable by Moody's)).

## FORECASTS

The Group forecasts to record EUR 148.6 million of revenue in FY2021, with an increase of 20.9% over 2020, which considering the growth of 13.8% in 1H 2021, implies a forecast of 27.5% growth in 2H 2021 with revenue of EUR 80.8 million (compared with existing EUR 62.7 million order book at the end of June 2021 for 2H 2021). The Group considers this performance is still achievable considering the new contract with Somincor obtained in July 2021 and the start of a significant new construction work in electrical grid (contracted with REN) that was delayed from the original starting date in 1H 2021, but will start in 2H 2021. In addition, the Group's activity in 2H of each year typically performs better than 1H because of the weather conditions that in the Summer are more suitable for outside works and also due to the management of the budgets by its clients.

The Group's budget considered a conservative EBITDA margin of 7.4% and thus EBITDA forecasted for FY2021 (EUR 11.0 million) is lower than FY2020 (EUR 13.6 million), although effective EBITDA margin in 1H 2021 was 8.6%.

For 2022 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.

As referred above, the Group planned capex (totally in SPUs in Portugal) is EUR 4.6 million in 2H 2021, EUR 20.8 million in 2022 and EUR 11.1 million in 2023, while the major project in Colombia is currently considered to be sold before the construction phase. Considering cash and deposits on 31 June 2021 (EUR 21.2 million), the receivable proceeds in the following months from the conclusion of the sale of Sado solar farm, the divesting strategy and regular cash generation from the core business (payment of dividends in 2021 is expected to be EUR 4.0 million), the Group will not need to significantly increase its financial debt in the medium term and any increase in net financial leverage will be small and temporary.

Larger projects in Portugal that may require significant increase in financial leverage are still potential, yet to be defined, and in case of advance will be pluriannual investments.

## **RELATED CRITERIA AND RESEARCH**

ARC Ratings' Non-Financial Corporate Entities Rating Methodology.

ProCME Group Initial Rating Report (26 Nov 2015).

ProCME Group Previous Rating Report (28 Aug 2020).

## **PERIOD OF ANALYSIS AND INFORMATION ANALYSED**

### **PERIOD OF ANALYSIS**

Historic: 2016 to June 2021

Forecast: 2021

### **INFORMATION ANALYSED**

ProCME Group Reports and Audited Accounts – 2016 to 2020

ProCME Group Interim Unaudited Accounts – 1H 2020 and 1H 2021

ProCME Group 2021 Forecasts and Order Book

ACS Group Annual (2016 to 2020) and Interim (1H 2020 and 1H 2021) Reports

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

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