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DBRS Morningstar Assigns an Issuer Rating of BBB and a Short-Term Issuer Rating of R-2 (middle) to Acciona, S.A. with Stable Trends

Web Headline: DBRS Morningstar Assigns an Issuer Rating of BBB to Acciona, S.A.

Industry Group: Corporate Finance

Sub-Industry: Utilities & Independent Power

Region: Canada

DBRS Limited (DBRS Morningstar) assigned an Issuer Rating of BBB to Acciona, S.A. (Acciona or the Company). DBRS Morningstar also assigned a Short-Term Issuer Rating of R-2 (middle) to Acciona. All trends are Stable. Acciona's ratings largely reflect (1) its relatively low-risk regulated renewable generation assets in Spain; (2) its long-term contracted international renewable electricity generation assets; (3) a moderate-risk profile associated with fee-for-service operations at water, concessions, and other services in its Infrastructure division; (4) and its solid credit metrics and strong liquidity. Acciona's ratings also incorporate its strong geographical diversification and technical expertise, experience in its principal businesses, and good progress in its deleveraging program; however, the ratings are limited by the relatively higher risk associated with the construction business and nonregulated short-term contracted electricity generation assets in Spain. The Stable trends incorporate DBRS Morningstar's expectation that Acciona's credit metrics, while strong in 2019, will not materially weaken in 2020 because of the impact of the Coronavirus Disease (COVID-19) pandemic and that Acciona's liquidity will remain solid enough to cope with the uncertainties associated with the magnitude of the future impact of the coronavirus pandemic.

Acciona's business risk profile is strongly supported by its Energy division (consisting of renewable power generating assets located in Spain and internationally), which accounts for approximately 62% to 67% of consolidated EBITDA. International power generation accounted for approximately 50% of 2019 EBITDA for the Energy division. Approximately 80% of the Energy division's EBITDA is under regulated or long-term contracts, and this contracted portion is not expected to change materially going forward, significantly supporting cash flow stability. Renewable generation assets in Spain include regulated and nonregulated operations. Regulated generation assets account for over 75% of Acciona's Spanish power generation EBITDA. The regulatory regime in Spain has been stable since 2014, providing (1) a reasonable return on Acciona's capital investment and (2) floor-price protection against Spanish wholesale power market volatility. Following the six-year regulatory period ended in 2019, the new six-year regulatory period (2020–25) does not present any material changes from the previous period from a credit perspective. Under Royal Decree Law (RDL 17/2019), Acciona's regulated rate of return (RROR) for renewable energy is reasonable at 7.09% through 2025. In addition, RDL 17/2019 allows Acciona to have the option to maintain its RROR of 7.398% for the next two regulatory periods from 2020 through 3031 (provided no international arbitrage claims affect its regulated assets), which provides strong visibility of earnings and cash flow for Acciona's regulated generation assets in Spain. In addition, the exposure of the Company's nonregulated, noncontracted generation assets to power-price volatility (in Spain and internationally) is mitigated with short-term contracts and hedges, typically between 18 months and 24 months, further reducing cash flow volatility in the Energy division.

The ratings also incorporate the higher risk associated with the Infrastructure division, typically accounting for approximately 30% of consolidated EBITDA, largely reflecting risks in the construction business (the largest operation in the Infrastructure division) posed by the difficulty of forecasting construction costs,

potential cost overruns, long lead times, exposure to economic conditions, and the challenge of securing funding for complex projects. However, Acciona has mitigated these risks with its systematic risk management, project execution experience, and contractual arrangements in which a significant portion of contracts are cost pass through or allow for price negotiation for unforeseen future events. Furthermore, the Infrastructure division's risk profile is supported by relatively stable revenues from long-term fee-for-service contracts at its water operations. In addition, most revenues in the concessions operations are fixed payments under long-term contracts with no or minimal demand risk. DBRS Morningstar notes that the risk associated with the construction business is heightened by the impact of the coronavirus pandemic where construction activities have been delayed and volumes and revenues have been significantly affected.

From a liquidity perspective, Acciona maintains strong liquidity to cope with weakening economic conditions due to the coronavirus pandemic. As of mid-April 2020, the Company's cash and available credit facilities amounted to approximately EUR 4.65 billion, while there are no substantial committed growth capital expenditures (capex) in 2020 (growth capex in 2020 is expected to decrease significantly from 2019). DBRS Morningstar believes that the BBB rating is well supported by Acciona's credit metrics (on a net debt basis, DBRS Morningstar adjusted). Acciona is well on its deleveraging plan with a significant reduction of debt over the past few years while cash flow has steadily grown. Financial performance in 2018 and 2019 improved from the solid 2017 level with stronger cash flow and lower net debt. The 2019 cash flow-to-net debt of 23.2% and net debt-to-EBITDA of 3.74 times (x) were solid for the current ratings and allow Acciona to reasonably cope with the expected weakening cash flow in 2020 as a result of lower earnings due to the coronavirus pandemic. The Stable trends incorporate DBRS Morningstar's expectation that Acciona's 2020 leverage will remain relatively stable from the 2019 level because Acciona does not require external funds to finance its expected free cash flow deficit, which is expected to be modest as a result of a reduction in capex, as well as substantial cash on hand. DBRS Morningstar expects that if required, Acciona could implement a flexible dividend policy like it did in the past to further preserve its liquidity. However, DBRS Morningstar expects that Acciona's 2020 cash flow-to-net debt metric will likely decline to reflect the weakening cash flow. DBRS Morningstar also expects that although Acciona's 2020 credit metrics will weaken, they are expected to remain sufficiently solid to support the assigned ratings and are expected to improve over the medium term.

A negative rating action could occur if (1) the coronavirus' impact on Acciona's business risk profile is prolonged and/or more severe than currently expected, (2) material increases in exposure to commodity risk in the generation business or a material increase in exposure to construction risk, or (3) its credit metrics decline to below DBRS Morningstar's required level, with cash flow-to-net debt significantly below 17.5% and net debt-to-EBITDA significantly above 4.5x on a sustained basis and without Acciona's financial remedies. On the other hand, DBRS Morningstar could take a positive rating action if the uncertainties of the coronavirus pandemic are removed and (1) cash flow-to-net debt increases above 25%, (2) net debt-to-EBITDA falls below 3.0x, (3) adjusted EBITDA-interest coverage rises above 7.5x on a sustained basis, and (4) the stable business risk profile is maintained by the Company.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

Notes:

All figures are in euros unless otherwise noted.

The principal methodologies are Rating Companies in the Independent Power Producer Industry (May 9, 2019); Rating Companies in the Regulated Electric, Natural Gas and Water Utilities (September 16, 2019); Rating Companies in the Construction and Property Development (November 28, 2019); DBRS Morningstar Criteria: Rating Corporate Holding Companies and Parent/Subsidiary Rating Relationships (November 25, 2019); and DBRS Morningstar Criteria: Guarantees and Other Forms of Support (January 22, 2020), which can be found on dbrsmorningstar.com under Methodologies & Criteria.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>.

The related regulatory disclosures pursuant to the National Instrument 25-101 *Designated Rating Organizations* are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrsmorningstar.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar trends and ratings are under regular surveillance.

DBRS Morningstar will publish a full report shortly that will provide additional analytical detail on this rating action. If you are interested in receiving this report, contact us at info@dbrsmorningstar.com.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

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Issuer	Debt Rated	Rating Action	Rating	Trend
Acciona, S.A.	Issuer Rating	BBB	New Rating	Stable
Acciona, S.A	Short-Term Issuer Rating	R-2 (middle)	New Rating	Stable

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