FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Aenza 'BB-'; Outlook Stable

Wed 17 Apr, 2024 - 9:35 ET

Fitch Ratings - São Paulo - 17 Apr 2024: Fitch Ratings has assigned Aenza S.A.A. (Aenza) Foreign and Local Currency Long-Term Issuer Default Ratings (IDRs) of 'BB-' with a Stable Outlook. Fitch has also assigned a 'BB-' rating to Aenza's US dollar senior secured notes of up to USD350 million, maturing in 2029 or 2031. Proceeds will be used to refinance debt, increase economic stake in subsidiaries and for other corporate purposes.

The ratings reflect Aenza's leading position as the largest infrastructure concessions conglomerate in Peru and one the main contractors in South America with long track record of operations. The company is diversified in terms of services and geography with subsidiaries in Chile and Colombia. The ownership of mature and liquid concessions, such as toll roads, a subway line, and water and waste water treatment, increases revenue and cash flow visibility and attenuates the margin volatility of the Engineering and Construction (E&C) civil construction and Oil & Gas (O&G) segments. The ratings also incorporate the success of a bond issuance, which will contribute to improve the company's liquidity, to extend its debt maturity profile, and to support its growth strategy.

The Stable Outlook incorporates the maintenance of conservative capital structure, with net leverage below 2.0x over the next three years and considers that the company will be able to replenish its E&C backlog and increase oil production.

KEY RATING DRIVERS

Medium-sized Diversified Business Profile: Leading infrastructure conglomerate in Peru, Aenza has a medium-sized scale and is diversified in terms of geography and services. Near 40% of its EBITDA comes from mature infrastructure concessions that will only expire in the medium to long term. The group owns majority stakes in toll roads, a subway line, and a wastewater treatment plant. Aenza also operates in three other complementary segments: Oil&Gas (29% of EBITDA), Engineering and Construction

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(E&C, 23%), and Real Estate (7%). Activities are concentrated in Peru, while Chile and Colombia represent 18% of sales. Exposure to public clients is low, at around 9% of sales.

Concessions Provides Revenues Visibility: Aenza's infrastructure concessions segment contributes to improve revenues and cash flow visibility and reduces operating margin volatility. The ownership of mature concessions that stream up dividends help to attenuate the intrinsic volatility of the E&C and O&G sectors. Aenza is in the process of shifting the focus to concessions, from E&C, and the strategy is to use part of the proceeds of the new issuance to expand the economic stakes in infrastructure subsidiaries, namely Norvial and Linea 1 subway. If Aenza is unable to increase the stake in current concessions, Fitch believes the group can use proceeds to acquire other concessions in Latin America.

Aenza operates in the Exploration & Production (E&P) from blocks III and IV in Talara basin nearby the second largest refinery of the country. Proven reserves have reached 27.2 million barrels. These fields are mature with limited exploration risk and are operated under long-term contracts with Petroperu. The E&C segment is cyclical and volatile, as it depends in most cases on economic growth of the regions it operates. The company has already bided for USD1.1 billion in projects and is preparing proposals for an additional USD3.5 billion in contracts. Aenza reported a backlog in E&C of USD700 million in December 2023. Nearly half of Aenza's contracts is related to the other three business segments of the group.

FCF Pressured by Capex and WCN: Aenza is expected to generate adjusted EBITDA of PEN641 million in 2024 and PEN665 million in 2025, considering 67% of Norvial, which is broadly in line with the PEN639 million registered in 2023, as per Fitch's criteria. Cash flow from operations (CFFO) should be negative at PEN310 million in 2024 on high working capital needs, turning to positive PEN304 million in 2025. Capex is expected to reach PEN251 million in 2024 and PEN315 million in 2025, boosted by E&P investments to increase oil production. Free cash flow (FCF) is expected to average a negative at PEN282 million from 2024 until 2026, to be funded with the bond issuance. Base case also considers the acquisition of 48.8p.p. stake in Norvial in 2024.Fitch forecasts interest covered ratios on the bond varying from 2.1x in 2025 to 3.3x in 2028. coverage ratios tend to increase from larger economic stake in Norvial and an acceleration of oil extraction and backlog execution in E&C.

Adequate Capital Structure: Aenza is expected to maintain an adequate capital structure, in the absence of material debt-funded acquisitions. In 2023, net debt/EBITDA was 1.1x, compared to an average of 3.9x between 2019 and 2022, as per Fitch's calculations. On March 31, 2022, bondholders of USD90 million (PEN356 million) convertible bonds accepted the exchange for equity, benefiting the company's leverage. As the company aims to use around USD250 million of the new bond issuance in acquisitions, growth capex, and working capital needs, Fitch projects net adjusted leverage to reach 2.1x in 2024 and 1.9x in 2025.

DERIVATION SUMMARY

Aenza's rating is weaker than larger contractors such as Ferrovial SE (BBB/Stable), KAEFER SE & Co. KG (BB+/Stable), and Webuild S.p.A. (BB/Stable) that benefit from their substantially larger and global scale, conservative capital structure and moderate to strong liquidity. The company's credit profile is however materially stronger than Andrade Gutierrez Engenharia S.A. ('CCC-') and OEC S.A. (CC), which are facing liquidity pressures to service their bonds.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

--Infrastructure revenues being benefited by tariff readjustments in line with inflation and recovery of the traffic;

--Average oil production of 5.4k barrels per day (bpd) in 2024, 7.3k in 2025, and 9.5k in 2026, with in average oil prices of USD75, USD65, and USD60 per barrel, respectively;

--E&C backlog of USD760 million in 2024 and USD800 million in 2025, executed on average in 1.2 year;

--Annual Real Estate units delivered of 1,000 in 2024 and 731 in 2025;

--Consolidated Adjusted EBITDA margins of 15% in 2024 and 2025, and 17% in 2026, as per Fitch's criteria;

--Capex of PEN251 million in 2024 and PEN315 million in 2025;

--No dividends in the rating horizon paid from Aenza to its shareholders.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action

-- Stronger diversification into concessions and to other countries in Latin America;

-- Net adjusted leverage below 1.5x, sustainably;

Developments That May, Individually or Collectively, Lead to Negative Rating Action

-- Net adjusted leverage above 3.0x, consistently;

-- Fail to issue long-term bond and improve liquidity;

-- Deterioration of the E&C backlog in terms of size and quality (i.e. profitability) of the contracts;

-- Weaker liquidity profile.

LIQUIDITY AND DEBT STRUCTURE

Liquidity to Improve: Aenza's liquidity is expected to improve with the USD350 million seven-year senior secured bond issuance. Proceeds will be used to refinance the USD100 million bridge loan that expires in October 2024, while the rest will support growth capex; and fund working capital needs. In 2023, readily available cash of USD197 million was enough to cover debt maturities over the next three years. Total and net debt are estimated to reach PEN2.1 billion and PEN 1.4 billion in 2024 (USD555 million and USD376 million, respectively), as most of the issuance will be directed to foster organic and inorganic growth.

As of 2023, Aenza's total debt of USD355 million, after deconsolidating 81.8% of Norvial's debt as per Fitch's criteria. The debt was composed of bonds of USD178 million (or 50% of total), a bridge loan of USD102 million (29%) including accrued interests, term loans of USD59 million (17%), and working capital lines and other debts of USD16 million (4%). At the same time, 52% of the group's debt was allocated in infrastructure, 9% in energy, 3% in E&C, 6% in Real Estate, and the remaining 30% at the holding level. Approximately 50% of the total debt is in USD and is naturally hedged. Fitch excludes the debt from Norvial's dividend monetization (also known as IASA) from the total debt calculation.

ISSUER PROFILE

Aenza S.A.A. is one of the largest engineering and infrastructure conglomerates in South America, operating mainly in Peru ('BBB'/Negative) and also in Chile ('A-'/Stable) and Colombia ('BB+'/ Stable). In 2023, infrastructure concessions represented 41% of the group's EBITDA, while energy (oil & gas), engineering & construction, and real estate, contributed with 29%, 23% and 7%, respectively.

SUMMARY OF FINANCIAL ADJUSTMENTS

Fitch has deconsolidated 81.8% of Norvial's results from Aenza's consolidated figures. If Aenza manages to buyback the 48.8p.p. economic interest in the subsidiary from BCI Peru, the agency will deconsolidate 33% of Norvial. Fitch also excludes IASA's debt (debt from dividend monetization). Net hedge positions on the balance sheet are added to the total debt. Fitch also excludes assets sales and impairments from the EBITDA. Linea 1 EBITDA incorporates the financial expenses, as well as the capital amortization applied to the corresponding long-term account receivable of the train acquisition.

DATE OF RELEVANT COMMITTEE

27 March 2024

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Aenza S.A.A. has an ESG Relevance Score of '4' for Group Structure due to its complexity, related party transactions, and other joint operations, which has a negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		
Aenza S.A.A.	LT IDR	BB- Rating Outlook Stable	New Rating
	LC LT IDR	BB- Rating Outlook Stable	New Rating
senior secured	LT	BB-	New Rating

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 03 Nov 2023)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Aenza S.A.A.	EU Endorsed, UK Endorsed

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