S&P Global
Ratings

Research

Research Update:

Greek Industrial Company Mytilineos S.A. Upgraded To 'BB+' On Further Strong Growth; Outlook Stable

January 18, 2024

Rating Action Overview

- Mytilineos' strong profitability in 2023 indicates that the addition of build-operate-transfer (BOT) projects has been a successful and significant step toward transforming its portfolio for the future.
- The financial policy remained conservative, with the company making limited and predictable shareholder returns but showing little appetite for material acquisitions.
- We therefore raised to 'BB+' from 'BB' our long-term issuer credit rating on Mytilineos and our issue ratings on its senior unsecured debt.
- We have assigned a new Management & Governance (M&G) assessment of neutral to Mytilineos. This assignment follows the Jan. 7 publication of S&P Global Ratings' revised criteria for evaluating the credit risks presented by an entity's M&G framework.
- The stable outlook indicates that we expect the company will continue to report profitable growth, despite normalizing prices in its principal end markets, energy and aluminum.

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Rating Action Rationale

S&P Global Ratings expects Mytilineos' profitability will remain robust in 2024, supported by strong performance in the energy sector. EBITDA is estimated at €900 million-€1 billion in 2023, up from €854 million in 2022. The company now organizes its business into two divisions, energy and metals. Both demonstrated resilience in 2023, underpinning Mytilineos' strong results.

We expect profitability in the metals division has been about €250 million in 2023, broadly in line with that reported in 2022. Mytilineos' profitability benefits from the hedging of London Metal Exchange (LME) prices and cost controls. Pricing has weakened significantly, with a year-on-year drop of 19% in LME aluminum prices and 60% in premiums (extra charges for supplying the physical material).

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In the energy division, the company added new BOT projects to its pipeline and completed the sale of a number of photovoltaic (PV) parks in the Balkan region and one in Spain during 2023. In addition, its energy production, supply, and trading business reported robust performance in the supply of natural gas and in renewables. The ramping up of the new combined cycle gas turbine plant boosted natural gas supply. The company made two small acquisitions to support its vertical integration into the Greek retail electricity supply market, which helped increase its domestic market share to almost 13%. We anticipate that EBITDA will rise to up to €1.1 billion in 2024, as more BOT projects mature. Mytilineos' other businesses will likely remain stable, with EBITDA at 2023 levels.

Mytilineos has maintained its focus on developing its BOT activities. The company decided in 2018 to tap into its engineering and construction capabilities and knowledge of the energy business by entering the market for energy BOT projects. This was part of the company's renewable asset rotation plan. Mytilineos designs, constructs, and operates the projects, before eventually selling them. By the end of 2023, the company had invested about €1.7 billion in the development of a variety of BOT projects (including PV and wind farms) across Europe, Australia, and South America. The sale of mature projects led to cumulative proceeds of about €300 million and Mytilineos expects to collect a further €1.5 billion in 2024. As it completes the execution of its current projects, it plans to invest in new projects.

Mytilineos aims to adopt a self-funded business model, which will reduce risk. Specifically, the company has set itself a maximum balance sheet exposure of €1 billion (after netting project finance proceeds and contracted asset sales) and expects to reach this level by the end of 2024. Mytilineos' BOT operations and its increased activities across southeastern Europe expand the company's geographical diversification beyond Greece.

Our forecast indicates that Mytilineos, at the current rating, will have little leverage headroom in 2023. We expect S&P Global Ratings-adjusted debt to EBITDA was 1.8x in 2023. This excludes project finance outside Greece of €414 million and is slightly below our 2x threshold. We project debt to EBITDA will decline to below 1.5x from 2024 onward. Management targets a return to reported net debt to EBITDA of about 1.5x, which is equivalent to an adjusted 1.7x and will happen by the end of 2024 under our base case. In our view, if management continues to follow this objective beyond 2024, it will need to maintain a disciplined approach, particularly when it comes to its overall exposure to BOT projects.

Our decision to exclude secured project finance facilities outside Greece from our adjusted debt is based on several reasons. Secured project finance facilities outside Greece are non-recourse, diversified over numerous projects and countries, and non-core to Mytilineos' operations. According to the company, it intends to continue to secure project finance facilities or identify concrete buyers for its projects before starting a project. We understand that Mytilineos is about to sign more project finance facilities, which will reduce the company's exposure well below the €1 billion watermark. Another condition for approving the construction of a project is having power purchase agreements in place. While we exclude the project finance from our adjusted debt, we also exclude any EBITDA from BOT projects.

We view Mytilineos' liquidity as adequate. This is because of the company's successful bond issuance earlier in 2023 and the maturity profile of its debt. Mytilineos made use of nonrecourse project finance to support its BOT endeavors.

Outlook

The stable outlook indicates that we expect the company's BOT activity to become a strong contributor to its portfolio in the coming years and that it will build some headroom under the rating.

We project EBITDA of €1.0 billion-€1.1 billion over 2023-2024. This implies that adjusted debt to EBITDA will be 1.5x-1.8x, close to the 2x threshold for adjusted debt to EBITDA we expect at the current rating level. In addition, we expect free operating cash flow (FOCF) will be meaningfully positive in 2024.

Downside scenario

We do not expect any pressure on the rating over the next 12 months. However, we could lower the rating if adjusted debt to EBITDA exceeded 2x through 2024 because:

- EBITDA is at or below €900 million and Mytilineos does not reduce debt by a commensurate amount;
- Overall maximum balance sheet exposure to BOT projects exceeds the €1 billion (after netting project finance proceeds outside Greece and contracted asset sales) Mytilineos has set itself as a limit, and returns from the current projects are not sufficient to offset the increased exposure;
- The company's liquidity position deteriorates; or
- Mytilineos makes a debt-funded acquisition with no immediate earnings contribution.

Upside scenario

We consider an upgrade is unlikely over the next 12-24 months. Raising the ratings on Mytilineos depends on it building a longer record of sustainable and profitable growth in its main business divisions.

Specifically, an upgrade would depend on:

- Mytilineos making no changes to its financial policy, including that on dividend distributions and reducing capital expenditure risk;
- Adjusted debt to EBITDA of 1.5x or better and a consistently positive FOCF generation, even if the company is investing heavily in its BOT portfolio; and
- The renewables asset rotation plan having a longer track record, including a record of the company maintaining the limit on its total exposure.

In addition, we would not upgrade Mytilineos unless it was maintaining adequate liquidity and a competitive position in each of its divisions.

Company Description

Mytilineos is an industrial company based in Greece. It reported revenue of €6.3 billion in 2022 (€2.6 billion in 2021) and EBITDA of €854 million in 2022 (€366 million in 2021).

The company operates through two business segments:

- Energy, which includes renewables, energy generation and management, energy customer solutions, power projects, and integrated supply and trading; and
- Metallurgy, which encompasses aluminum production, complex metal construction, recycling, commercial, bauxite mining, and zinc and lead metallurgy.

Mytilineos was created in 1990 and is publicly traded on the Athens Stock Exchange. The founder, Evangelos Mytilineos, owns 26.5% of the company.

Ratings Score Snapshot

Issuer credit rating	**BB+/Stable/--**
Business risk:	Fair
Country risk	Moderately high
Industry risk	Moderately high
Competitive position	Fair
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bb+
Modifiers:	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral
Stand-alone credit profile:	bb+

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded; Outlook Action

	To	From
Mytilineos S.A.		
Issuer Credit Rating	BB+/Stable/--	BB/Positive/--
Senior Unsecured	BB+	BB
Mytilineos Financial Partners S.A.		
Senior Unsecured	BB+	BB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.