

Tear Sheet:

# Strabag SE

October 10, 2023

**We anticipate Strabag's operating performance will remain solid in 2023-2024, thanks to high order backlog and resilient profitability.** Following strong results achieved during the first half of 2023, with output volume and reported EBITDA up by 9% and 8%, respectively compared with the previous year, we expect Strabag will continue to show solid operating performance in our forecast. We project revenues will increase by 4%-6% in 2023 to about €17.6 billion-€17.9 billion. This will be driven by continued high order backlog and output volume and supported by solid activity in the infrastructure end market, which will more than compensate the declining trend in residential construction. According to our base-case scenario, higher sales and good cost management will result in the S&P Global Ratings-adjusted EBITDA margin improving to 7.0%-7.5% in 2023-2024, compared with 6.9% in 2022.

**We expect Strabag will maintain its net cash position in our forecast.** At year-end 2022, the company continued to report a net cash position of about €1.9 billion despite significantly higher working capital outflow; we project Strabag will maintain its net cash position over the next two years. While we expect the reversal of advance payments will continue to negatively affect cash flow generation in 2023-2024, before normalizing from 2025, we anticipate Strabag's liquidity will remain strong and that its limited free operating cash flow (FOCF) will not have a material impact on rating headroom.

**We consider Strabag's commitment to preserve credit metrics in line with an investment-grade rating and its prudent risk management.** We believe management remains committed to maintaining credit metrics in line with a moderate financial policy, which underpins the current rating. We project the company has large headroom under the 'BBB' rating, allowing for flexibility to increase spending on investments, working capital, and dividends, and to resume its pipeline of bolt-on acquisitions before credit metrics deteriorate below the downside triggers. We positively note Strabag's prudent bidding strategy, good project execution, and cost management, which led to a track record of largely stable operating margins.

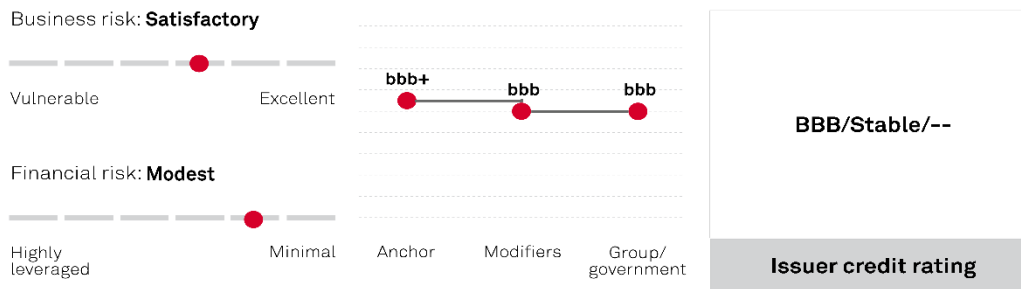
## Primary contact

**Arianna Valezano**  
Milan  
44-20-7176-3838  
arianna.valezano  
@spglobal.com

## Secondary contact

**Renato Panichi**  
Milan  
39-0272111215  
renato.panichi  
@spglobal.com

## Ratings Score Snapshot



## Recent Research

- Industry Top Trends Update North America: Building Materials, July 18, 2023
- Industry Top Trends Update Europe: Building Materials, July 18, 2023

## Company Description

With annual output volume of about €17.7 billion in 2022, Strabag is one of Europe's largest construction groups. It operates in the following three segments:

- North and West (49% of 2022 output volume, with an EBIT margin of 6.1%), mainly including Germany, Poland, Belgium, the Netherlands, and Luxembourg, Sweden, Denmark, and the United Kingdom, and the Ground Engineering segment.
- South and East (31% of 2022 output volume, with an EBIT margin of 2.8%), mainly including Austria, Switzerland, the Czech Republic, Slovakia, Hungary, southeastern Europe and neighboring countries, and the Environmental Engineering segment; and
- International and Special Divisions (19% of 2022 output volume, with an EBIT margin of 2.6%), comprising International, Tunneling, Construction Materials (except asphalt), Property and Facility Services, Real Estate, and Infrastructure Development (concessions).

We think the company's medium-term strategy will continue to focus on gradually increasing margins by implementing cost-efficiency improvements and strengthening its risk management policies. We also expect Strabag will continue to focus on both organic and inorganic growth opportunities, mostly focusing on existing core markets in Central Europe and expand further the geographical presence in U.K., Canada, Australia, Columbia, and Chile.

Strabag is publicly listed, with a free float of 11.7%. Its core shareholders are the Haselsteiner family (28.3%), Raiffeisen/UNIQA (29.5%), and MKAO Rasperia Trading Ltd. (27.8%).

## Outlook

## Strabag SE

The stable outlook on Austria-based construction company Strabag reflects our view that the company will continue to post an adjusted EBITDA margin of about 7.0%-7.5% in 2023 and 2024. We think that Strabag has some headroom in its leverage metrics to absorb the negative impact of high cost inflation, as well as some expansionary investments and selected bolt-on acquisitions. Furthermore, we believe that in 2023-2024, Strabag's financial metrics could absorb a continued reversal of the exceptionally favorable working capital trend that boosted its gross cash from 2017 to 2021. We expect that the company's adjusted funds from operations (FFO) to debt will comfortably exceed 45% over the next two years, with adjusted debt to EBITDA remaining below 2.0x and liquidity staying strong.

### Downside scenario

We could consider a negative rating action if Strabag's debt-to-EBITDA ratio rises to more than 2.0x and FFO to debt drops to less than 45% over a sustained period. We believe that a downgrade is unlikely in 2023-2024 since there is headroom for a potential weakening of the credit metrics at the current rating. However, we believe that the credit metrics could deteriorate to these downgrade trigger levels if:

- Strabag experiences a meaningfully weaker operating performance and a materially adverse trend in its working capital needs; or
- There is markedly high debt, owing for instance to sizable acquisitions or increased shareholder returns that we do not reflect in our base-case scenario.

### Upside scenario

We could raise the ratings if we observed a track record of materially positive discretionary cash flow, with FFO to debt more than 60% and debt to EBITDA less than 1.5x. Strabag's financial metrics are generally significantly weaker than this for most of the year, mainly reflecting seasonal working capital requirements. We expect that FOCF will remain fairly weak over the next two years, driven by a reversal of working capital and still-high capital expenditure. We would need to see a material and sustainable improvement in FOCF before considering an upgrade.

## Key Metrics

### Strabag SE--Forecast summary

Period ending (Mil. EUR)	Dec-31-2019 2019a	Dec-31-2020 2020a	Dec-31-2021 2021a	Dec-31-2022 2022a	Dec-31-2023 2023e	Dec-31-2024 2024f	Dec-31-2025 2025f	Dec-31-2026 2026f
Revenue	15,613	14,703	15,243	16,967	17,733	17,972	18,213	18,458
EBITDA	1,041	1,131	1,426	1,168	1,292	1,257	1,267	1,285
Funds from operations (FFO)	882	944	1,048	912	990	969	986	1,008
EBIT	570	599	857	685	794	750	749	757
Cash flow from operations (CFO)	1,020	1,233	1,165	813	794	772	936	955
Free operating cash flow (FOCF)	373	782	709	182	194	137	296	307
<b>Adjusted ratios</b>								
FFO/debt (%)	N.M.	N.M.	N.M.	N.M.	N.M.	N.M.	N.M.	N.M.
EBITDA interest coverage (x)	23.3	35.0	56.9	35.0	37.9	36.1	51.5	88.7
Annual revenue growth (%)	2.6	(5.8)	3.7	11.3	4.5	1.3	1.3	1.3
EBITDA margin (%)	6.7	7.7	9.4	6.9	7.3	7.0	7.0	7.0

**Strabag SE--Forecast summary**

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--Euro. N.M.--Not meaningful.

**Financial Summary****Strabag SE--Financial summary**

<b>Period ending</b>	<b>Dec-31-2017</b>	<b>Dec-31-2018</b>	<b>Dec-31-2019</b>	<b>Dec-31-2020</b>	<b>Dec-31-2021</b>	<b>Dec-31-2022</b>
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	13,509	15,222	15,613	14,703	15,243	16,967
EBITDA	946	960	1,041	1,131	1,426	1,168
Funds from operations (FFO)	864	811	882	944	1,048	912
Interest expense	68	67	45	32	25	33
Cash interest paid	57	59	37	31	19	27
Operating cash flow (OCF)	1,270	673	1,020	1,233	1,165	813
Capital expenditure	458	643	647	451	456	631
Free operating cash flow (FOCF)	812	30	373	782	709	182
Discretionary cash flow (DCF)	711	(80)	259	676	(6)	9
Cash and short-term investments	2,769	2,344	2,415	2,802	2,915	2,665
Gross available cash	2,769	2,344	2,415	2,802	2,915	2,665
Debt	0	0	0	0	0	0
Common equity	3,398	3,654	3,856	4,108	4,072	4,025
<b>Adjusted ratios</b>						
EBITDA margin (%)	7.0	6.3	6.7	7.7	9.4	6.9
Return on capital (%)	13.8	15.5	15.2	15.0	20.9	16.9
EBITDA interest coverage (x)	13.9	14.4	23.3	35.0	56.9	35.0
FFO cash interest coverage (x)	16.1	14.6	25.1	31.1	57.6	34.2
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0	0.0
FFO/debt (%)	NM	NM	NM	NM	NM	NM
OCF/debt (%)	NM	NM	NM	NM	NM	NM
FOCF/debt (%)	NM	NM	NM	NM	NM	NM
DCF/debt (%)	NM	NM	NM	NM	NM	NM

**Peer Comparison**

## Strabag SE--Peer comparisons

	Strabag SE	Webuild SpA	ACS, Actividades de Construcción y Servicios SA	Vinci S.A.
Foreign currency issuer credit rating	BBB/Stable/--	BB/Stable/--	BBB-/Stable/A-3	A-/Stable/A-2
Local currency issuer credit rating	BBB/Stable/--	BB/Stable/--	BBB-/Stable/A-3	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	16,967	8,078	34,917	61,013
EBITDA	1,168	595	2,062	10,178
Funds from operations (FFO)	912	340	1,506	8,118
Interest	33	120	540	624
Cash interest paid	27	122	530	440
Operating cash flow (OCF)	813	(63)	2,035	8,625
Capital expenditure	631	278	438	3,395
Free operating cash flow (FOCF)	182	(341)	1,596	5,230
Discretionary cash flow (DCF)	9	(427)	814	2,238
Cash and short-term investments	2,665	1,921	9,797	12,486
Gross available cash	2,665	1,921	9,983	12,486
Debt	0	1,492	5,893	18,852
Equity	4,025	1,935	6,376	25,351
EBITDA margin (%)	6.9	7.4	5.9	16.7
Return on capital (%)	16.9	9.3	9.1	15.5
EBITDA interest coverage (x)	35.0	5.0	3.8	16.3
FFO cash interest coverage (x)	34.2	3.8	3.8	19.5
Debt/EBITDA (x)	0.0	2.5	2.9	1.9
FFO/debt (%)	NM	22.8	25.6	43.1
OCF/debt (%)	NM	(4.2)	34.5	45.8
FOCF/debt (%)	NM	(22.8)	27.1	27.7
DCF/debt (%)	NM	(28.6)	13.8	11.9

## Environmental, Social, And Governance

Environmental, social, and governance factors are an overall neutral consideration in our credit rating analysis of Strabag. A significant portion of its backlog is in transportation infrastructure, building construction, and civil engineering, which we see as neutral in terms of environmental risk. Strabag's backlog is not exposed to the metals and mining or oil and gas end-markets. In addition, Strabag has a track record of significantly fewer litigations than other companies operating in the same industry, which has helped preserve its creditworthiness.

### Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BBB/Stable/--</b>
<b>Local currency issuer credit rating</b>	<b>BBB/Stable/--</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Modest</b>
Cash flow/leverage	Modest
<b>Anchor</b>	<b>bbb+</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
<b>Stand-alone credit profile</b>	<b>bbb</b>

### Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Engineering And Construction Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.