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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 is 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.

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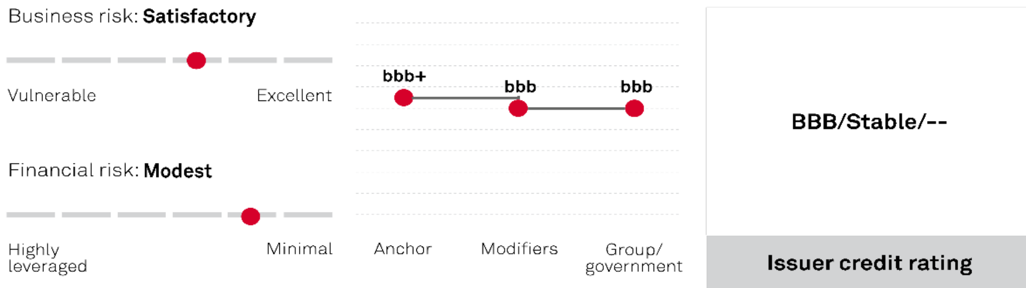
# Ratings Score Snapshot




# 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

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** | **Dec-31-2019** | **Dec-31-2020** | **Dec-31-2021** | **Dec-31-2022** | **Dec-31-2023** | **Dec-31-2024** | **Dec-31-2025** | **Dec-31-2026** |
|---|---|---|---|---|---|---|---|---|
| **(Mil. EUR)** | **2019a** | **2020a** | **2021a** | **2022a** | **2023e** | **2024f** | **2025f** | **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 |
| **Adjusted ratios** | | | | | | | | |
| 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

| Period ending | Dec-31-2017 | Dec-31-2018 | Dec-31-2019 | Dec-31-2020 | Dec-31-2021 | Dec-31-2022 |
|---|---|---|---|---|---|---|
| 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 |
| **Adjusted ratios** | | | | | | |
| 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 Construccion 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

| | |
|---|---|
| **Foreign currency issuer credit rating** | BBB/Stable/-- |
| **Local currency issuer credit rating** | BBB/Stable/-- |
| **Business risk** | Satisfactory |
| Country risk | Low |
| Industry risk | Moderately High |
| Competitive position | Satisfactory |
| **Financial risk** | Modest |
| Cash flow/leverage | Modest |
| **Anchor** | bbb+ |
| 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) |
| **Stand-alone credit profile** | bbb |

# 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