

Iren S.p.A.

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB-	Stable	Affirmed 19 December 2016
Senior unsecured rating	BBB		
Click here for full list of ratings			

Financial Summary

	2014	2015	2016F	2017F
Gross Revenues (EURm)	2,880	3,094	3,156	3,219
Operating EBITDAR Margin (%)	20.4	22.2	24.3	23.4
FFO Margin (%)	11.6	12.9	14.6	15.7
FFO Fixed Charge Coverage (x)	3.4	4.0	4.7	5.2
FFO Adjusted Leverage (x)	6.6	6.1	5.9	5.6
Source: Fitch				

Key Rating Drivers

Updated Business Plan: The key pillars of the updated business plan (October 2016) remain operational efficiency, development in selected activities and focus on customers. Management expects EBITDA growth at a CAGR of 5% to EUR900m in 2021, mainly driven by cost savings (around EUR100m), external growth (around EUR100m) and the development of the district heating network and waste treatment (around EUR60m). Considering average annual capex of around EUR370m and rising dividends from EUR67m to around EUR100m in 2016-2021, the group expects to achieve its target level of 3x net debt/EBITDA in 2018 (corresponding to FFO-adjusted net leverage of 4.5x-4.8x).

External Growth: A large part of the external growth included in the business plan is related to transactions already completed in 2016 and largely included in our previous forecasts. Iren S.p.A. has pursued its growth mainly by increasing its stake in companies in which it already had some ownership and experience, which in our view lowers the execution risk.

The main transaction completed in 2016 related to Trattamento Rifiuti Metropolitan (TRM), a quasi-regulated waste-to-energy plant in Turin, with a contribution to EBITDA of around EUR50m and an impact on debt of around EUR350m. Iren also increased its ownership of the local multi-utility Atena to 60% (from 22.7%), mainly through the subscription to a capital increase. Atena will contribute almost EUR15m EBITDA on a full-year basis. The group also finalised other smaller transactions in water and energy supply, which have a good strategic fit with the existing activities.

Positive Current Trading: Iren has reported a solid operating performance, with 9% EBITDA growth in 2015 and 10% in the first nine months of 2016. In the nine months to September 2016 growth was supported by cost savings (EUR23m) and the consolidation of Atena and TRM (EUR43m in total), while organic growth (EUR24m) more than offset the impact of the allowed weighted-average cost of capital reduction for regulated businesses. In the same period underlying net debt fell by around EUR70m, but after acquisitions (and the related debt consolidation) group net debt increased by almost EUR300m.

The group's FFO net adjusted leverage fell from 6.2x in 2014 (pro forma) to 5.5x expected for the full year 2016.

Moderate Deleveraging: Fitch factors into its forecasts some conservative assumptions mainly related to unregulated businesses, and expects regulated and quasi-regulated activities to contribute on average 48% and 22% of EBITDA, respectively, across 2016-2021. Fitch forecasts FFO net adjusted leverage to average 5.3x in 2016-2018 and 4.8x in 2019-2021, potentially putting some upward pressure on the rating in the medium term (the positive guideline is 5.0x). In our view the main risks for deleveraging are related to potential acquisitions not factored into the plan, which we consider quite likely.

The funding structure (debt or equity) and the results visibility of the acquired businesses will be key in determining the impact of these potential transactions on the group's profile.

Regulated Activities: Iren operates in electricity, gas and water distribution. All these activities are regulated and bring no or negligible volume risk. We consider the regulatory framework mature and transparent, with tariffs set by the authority to cover depreciation and operating costs, and to ensure a return on regulatory asset base (RAB).

Concession Renewal Risk: Iren has concession renewal risk in gas and water distribution and around half of the installed hydro capacity. We consider this risk rather limited, as the company is the incumbent in three of the four relevant gas districts and the two water districts where it intends to bid. Moreover, in case of concession loss the outgoing operators are entitled to receive a reimbursement value broadly aligned to the value of the RAB for gas and of the net invested capital for water.

Rating Derivation Relative Table

Rating Derivation versus Peers	
Peer Comparison	Iren has a comparable business profile to other Italian multi-utilities rated by Fitch such as Acea SpA (BBB+/Stable) and Linea Group Holding S.p.A. (BBB-/Stable). For Acea the rating differential derives from the higher contribution of fully regulated activities (around 75% compared to 50%) and lower leverage (around 4.5x), while Linea has tighter guidelines for the same rating (negative guideline at 5x compared to 5.7x for Iren), due to its smaller size and a less solid business profile. Linea reports weak operational performance, but the recent acquisition of a majority stake by A2A is credit-positive.
Parent/Subsidiary Linkage	No parent/subsidiary linkage is applicable.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	No operating environment influence was in effect for these ratings.
Other Factors	N.A.
Source: Fitch	

Rating Sensitivities

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

- FFO-adjusted net leverage declining below 5.0x, FFO interest coverage sustained above 4.0x, assuming unchanged business risk profile and positive free cash flows.

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

- FFO-adjusted net leverage above 5.7x, FFO interest coverage below 3.0x over a sustained period, for instance as a result of lower-than-expected operating cash flows and lack of capex and dividend adjustment.
- Growing exposure to unregulated activities, upward revision to Iren's dividend policy or material debt-funded acquisitions beyond those already considered.

Liquidity and Debt Structure

Healthy Liquidity: At 30 September 2016 Iren had readily available cash of EUR184m and undrawn committed lines of EUR370m, compared with short-term debt of EUR258m and expected positive free cash flow for the following 12 months of around EUR25m. After that date Iren issued a EUR500m eight-year bond with a coupon of 0.875%, bought back bonds for EUR150m and increased lines made available by the European Investment Bank by EUR30m. Iren's share of fixed and swapped rate debt stands at 80% and the average maturity of long-term debt is 4.7 years.

Debt Maturities and Liquidity at 30 September 2016

(EURm)

Debt Maturities	
up to September 2017	258
Sep – Dec. 2017	62
2018	374
2019	469
After 2019	1,987
Total debt	3,150
Liquidity Analysis	
Unrestricted cash	184
Committed banking facilities	370
Available undrawn portion	370
FCF (post dividend) from forecast	26
Short-term debt	258
Total Liquidity	322
Liquidity score (x)	2.3x
Source: Fitch	

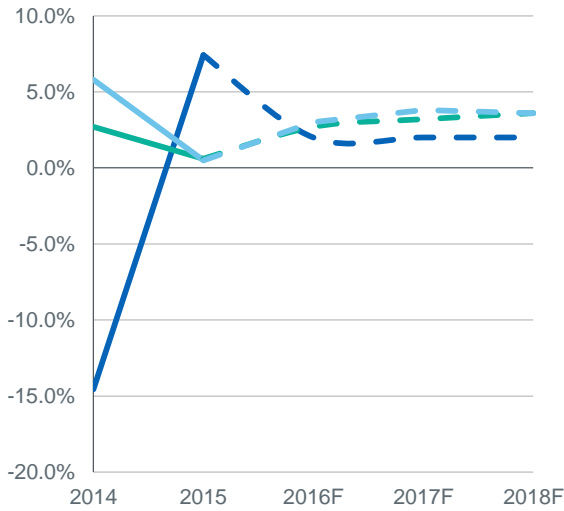
Trends and Forecasts

Iren S.p.A.

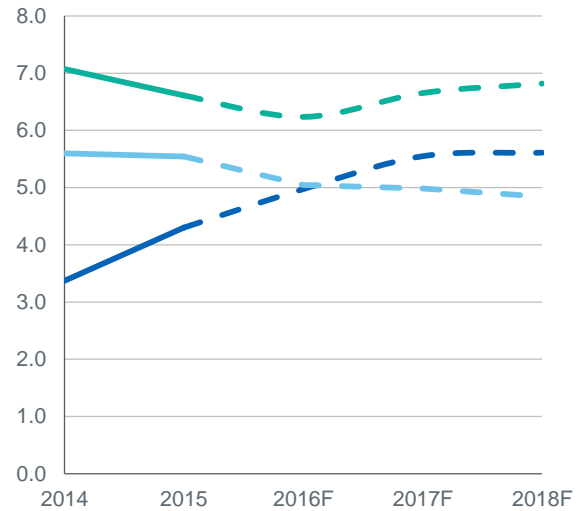
— Developed BBB- Median

— Utilities Median

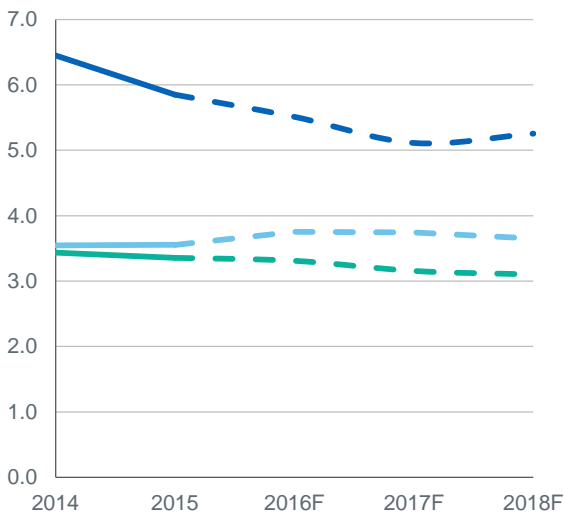
Revenue Growth



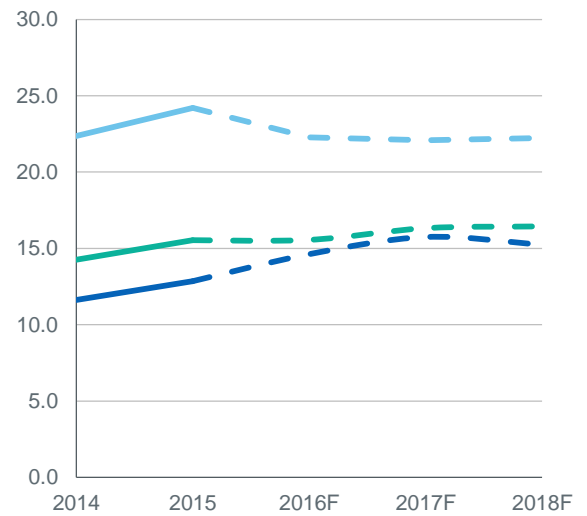
FFO Interest Cover



FFO Adjusted Net Leverage



FFO Margin



Note: Including Fitch expectations
Source: Fitch

Definitions

Revenue Growth: Percentage growth in revenues since previous reporting period.

FFO Interest Cover: FFO + Gross Interest paid minus interest received + Preferred Dividends paid divided by Gross Interest Paid + Preferred Dividends Paid.

FFO Adjusted Net Leverage: Total Debt with Equity Credit + Lease equivalent Debt + Other off Balance Sheet Debt - Readily Available Cash & Equivalents divided by Funds From Operations [FFO] + Gross Interest (Paid) - Interest Received + Preferred Dividends (Paid) + Operating Lease Expense for Capitalised Leased Assets.

FFO Margin: FFO divided by Revenues.

Key Assumptions

Fitch's key assumptions within our rating case for the issuer include:

- EBITDA growing at a CAGR of around 3% in 2015-2021, mainly due to external growth and cost efficiencies (very limited benefits from scenario improvement);
- average cost of debt of 3.2% throughout the plan;
- reduction of the tax rate by 3.5pp from 2017;
- acquisitions as included in the company's business plan (largely executed in 2016);
- annual capex of EUR370m on average and dividends to shareholders of EUR85m on average.

Financial Data

(EURm)	Historical			Forecast	
	2014	2015	2016F	2017F	2018F
Summary Income Statement					
Gross Revenues	2,880	3,094	3,156	3,219	3,283
Revenue Growth (%)	-14.6	7.4	2.0	2.0	2.0
Operating EBITDA (before income from associates)	588	678	757	742	774
Operating EBITDA Margin (%)	20.4	21.9	24.0	23.1	23.6
Operating EBITDAR	588	688	767	752	784
Operating EBITDAR Margin (%)	20.4	22.2	24.3	23.4	23.9
Operating EBIT	350	410	458	435	455
Operating EBIT Margin (%)	12.2	13.3	14.5	13.5	13.8
Gross Interest Expense	-99	-114	-112	-108	-105
Pretax Income (Including Associate Income/Loss)	219	246	304	273	285
Summary Balance Sheet					
Readily Available Cash & Equivalents	52	140	210	299	329
Total Debt with Equity Credit	2,873	2,868	3,203	3,285	3,350
Total Adjusted Debt with Equity Credit	2,873	3,053	3,327	3,411	3,493
Net Debt	2,822	2,728	2,993	2,986	3,022
Summary Cash Flow Statement					
Operating EBITDA	588	678	757	742	774
Cash Interest Paid	-130	-114	-112	-108	-105
Cash Tax	-116	-82	-113	-91	-94
Divs received less Divs paid to minorities (inflow / (out)flow)	43	-7	-15	-16	-18
Other Items Before FFO	-78	-101	-73	-36	-70
Funds Flow from Operations	335	398	461	507	501
Change in Working Capital	39	87	-19	-22	62
Cash Flow from Operations (Fitch Defined)	374	484	442	485	563
Total Non-Operating/Non-Recurring Cash Flow	0	0			
Capital Expenditure	-257	-268			
Capital Intensity (Capex/Revenues)	8.9	8.7			
Common Dividends	-74	-67			
Net Acquisitions & Divestitures	-88	0			
Other Investing and Financing Cash Flow Items	-272	-95	0	23	20
Net Debt Proceeds	318	37	335	82	66
Net Equity Proceeds	0	0	0	0	0
Total Change in Cash	1	92	70	89	30

Detail Cash Flow Statement					
FFO Margin (%)	11.6	12.9	14.6	15.7	15.2
Calculations for Forecast Publication					
Capex, Dividends, Acquisitions & oth. Items before FCF	-496	-435	-780	-536	-689
Free Cash Flow after Acquisitions & Divestitures	-44	150	-265	-15	-56
Free Cash Flow Margin (after net acquisitions) margin (%)	-1.5	4.8	-8.4	-0.5	-1.7
Coverage Ratios					
FFO Interest Coverage	3.4	4.3	5.0	5.5	5.6
FFO Fixed Charge Coverage	3.4	4.0	4.7	5.2	5.2
Operating EBITDAR/Gross Interest Expense + Rents	6.4	5.5	6.2	6.2	6.6
Operating EBITDA/Gross Interest Expense	4.9	5.9	6.6	6.7	7.2
Leverages Ratios					
Total Adjusted Debt/Operating EBITDAR	4.6	4.5	4.4	4.6	4.6
Total Adjusted Net Debt/Operating EBITDAR	4.5	4.3	4.1	4.2	4.1
Total Debt with Equity Credit/Operating EBITDA	4.6	4.3	4.3	4.5	4.4
FFO Adjusted Leverage	6.6	6.1	5.9	5.6	5.8
FFO Adjusted Net Leverage	6.5	5.9	5.5	5.1	5.3

How to Interpret the Forecast Presented

The forecast presented is based on the agency's internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch's rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch's forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch's own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch's own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch's own internal deliberations, where Fitch, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch may update the forecast in future reports but assumes no responsibility to do so.

Rating Navigator

Iren S.p.A.

Corporates Ratings Navigator EMEA Integrated Utilities

Factor Levels	Sector Risk Profile	Operating Environment	Business Profile					Financial Profile			Issuer Default Rating
			Management and Corporate Governance	Integration	Asset Base and Operations	Market Risk and Position	Cashflow Profile and Regulation	Profitability and Cash Flow	Financial Structure	Financial Flexibility	
aaa											AAA
aa+											AA+
aa											AA
aa-											AA-
a+	█										A+
a		█									A
a-			█					█	█		A-
bbb+				█	█						BBB+
bbb			█			█		█			BBB
bbb-										█	BBB- Stable
bb+											BB+
bb										█	BB
bb-											BB-
b+											B+
b											B
b-	█	█									B-
ccc											CCC
cc											CC
c											C
d or rd											D or RD

Operating Environment

a+	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
a	Financial Access	a	Strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	bbb	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of Incorporation consistent with 'bbb'.
b-			
ccc			

Integration

a-	Degree of Integration	bbb	Partially integrated (typically including generation, distribution and supply).
bbb+			
bbb			
bbb-			
bb+			

Market Risk and Position

bbb+	Fundamental Market Trends	bb	Markets with structural challenges.
bbb	Customer Base	bbb	Economy of area served provides structurally stable background; some exposure to cyclical industries/customers.
bbb-	Counterparty Risk	bbb	Medium counterparty risk. Diversified counterparties, pooled/codified counterparty risk; high collection rates for supply operations.
bb+	Market Position	bbb	Average market position. Cost of production close to market clearing price or reasonably good ability to pass through costs.
bb			

Profitability and Cash Flow

a	Free Cashflow	a	Structurally neutral to positive FCF across the investment cycle.
a-	Volatility of Profitability	bbb	Stability and predictability of profits in line with utility peers.
bbb+			
bbb			
bbb-			

Financial Flexibility

a	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a-	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well-spread debt maturity schedule but funding may be less diversified.
bbb+	FFO Fixed Charge Cover	bbb	4.5x
bbb	FX Exposure	aa	No material FX mismatch.
bbb-			

Management and Corporate Governance

a	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
a-	Governance Structure	bbb	Good governance track record but board effectiveness/independence less obvious. No evidence of abuse of power even with ownership concentration.
bbb+	Group Structure	a	Group structure has some complexity but mitigated by transparent reporting.
bbb	Financial Transparency	bbb	Good-quality reporting without significant failings. Consistent with the average of listed companies in major exchanges.
bbb-			

Asset Base and Operations

a-	Asset Quality	bbb	Mid-range asset quality not likely to affect opex and capex requirements compared with peers.
bbb+	Asset Diversity	bbb	Partial diversification by geography, generation source or supplied product.
bbb	Critical Mass	bbb	Asset base size potentially affecting efficiency of operations (cost base, customer base, key personnel).
bbb-	Operational Performance	bbb	Key performance measures on par with industry average.
bb+			

Cashflow Profile and Regulation

a	Earnings from Regulated Network Assets	a	30%-75% of EBITDA comes from regulated network assets.
a-	Regulatory Framework and Policy Risk	bbb	Less transparent frameworks, with emerging track record and multi-year tariffs; exposed to political risk. Medium-term predictability.
bbb+	Quasi-regulated Earnings	a	Over 20% of EBITDA comes from quasi-regulated assets in markets or from long-term contracted sales with creditworthy counterparties.
bbb	Natural Hedge and Cash-Flow Smoothing	bbb	Portfolio/cash flow smoothing effects from extensive natural or contractual hedge. Presence of midstream assets; high exposure to fuel cost.
bbb-			

Financial Structure

bbb	Lease Adjusted FFO Gross Leverage	bb	6.5x
bbb-	Lease Adjusted FFO Net Leverage	bb	6.0x
bb+			
bb			
bb-			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

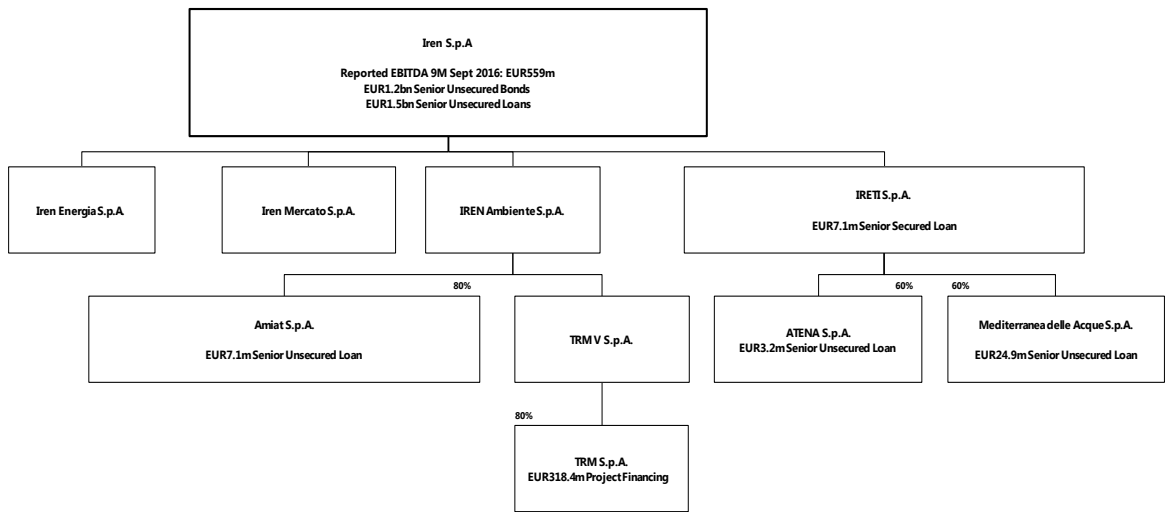
Peer Financial Summary

Company	Date	IDR	Gross Revenues (EURm)	Operating EBITDAR Margin (%)	FFO Margin (%)	FFO Fixed Charge Coverage (x)	FFO Adjusted Net Leverage (x)
Iren S.p.A.	2017		3,219	23.4	15.7	5.2	5.1
	2016	BBB-	3,156	24.3	14.6	4.7	5.5
	2015	BBB-	3,094	22.2	12.9	4.0	5.9
	2014		2,880	20.4	11.6	3.4	6.5
Acea SpA	2017		2,802	26.4	18.4	6.0	4.6
	2016	BBB+	2,766	26.1	18.4	6.2	4.4
	2015	BBB+	2,917	24.1	18.0	6.4	4.1
	2014	BBB+	3,038	23.0	17.8	4.9	4.1
Linea Group Holding S.p.A.	2017		608	15.0	11.0	4.3	4.7
	2016	BBB-	525	15.0	10.7	3.6	5.6
	2015	BBB-	550	13.0	9.3	3.7	6.4
	2014	BBB-	611	14.8	10.7	4.3	4.8
Veolia Environnement S.A.	2017		24,324	12.9	7.7	2.8	4.8
	2016	BBB	24,197	12.5	7.5	2.6	4.7
	2015	BBB	24,965	11.8	7.5	2.8	4.6
	2014	BBB	23,880	9.5	6.1	2.3	5.3

Source: Fitch

Simplified Group Structure Diagram

As at 30th September 2016



Source: Fitch, Company.

Reconciliation of Key Financial Metrics

(EUR Millions)	31 Dec 2015
Income Statement Summary	
Operating EBITDA	678
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	-7
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	671
+ Operating Lease Expense Treated as Capitalised (h)	10
= Operating EBITDAR after Associates and Minorities (j)	680
Debt & Cash Summary	
Total Debt with Equity Credit (l)	2,868
+ Lease-Equivalent Debt (Op. Lease Expense Treated as Capitalised * Capit. Lease Multiple) (h*i)	78
+ Other Off-Balance-Sheet Debt	108
= Total Adjusted Debt with Equity Credit (a)	3,053
Readily Available Cash [Fitch-Defined]	140
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	140
Total Adjusted Net Debt (b)	2,914
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	0
Interest Received	23
+ Interest (Paid) (d)	-114
= Net Finance Charge (e)	-90
Funds From Operations [FFO] (c)	398
+ Change in Working Capital [Fitch-Defined]	87
= Cash Flow from Operations [CFO] (n)	484
Capital Expenditures (m)	-268
Multiple applied to Capitalised Leases (i)	8.0
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	4.5
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	6.1
<i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	4.3
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	4.3
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	5.9
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	12.6
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	5.5
Op. EBITDA / Interest Paid* [x] (k/(-d))	5.9
FFO Fixed Charge Cover [x] ((c-e+h-f)/(-d+h-f))	4.0
<i>(FFO - Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i>	
FFO Gross Interest Coverage [x] ((c-e-f)/(-d-f))	4.3
<i>(FFO - Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)</i>	
* EBITDA/R after Dividends to Associates and Minorities	
Source: Fitch based on company reports	

Fitch Adjustment Reconciliation

	Reported Values 31 Dec 15	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Lease Adjustment	- CORP - Factoring	Other Adjustment	Adjusted Values
Income Statement Summary							
Revenue	3,094	0					3,094
Operating EBITDAR	678	10		10			688
Operating EBITDAR after Associates and Minorities	678	2	-7	10		0	680
Operating Lease Expense	0	10		10			10
Operating EBITDA	678	0					678
Operating EBITDA after Associates and Minorities	678	-7	-7				671
Operating EBIT	410	0					410
Debt & Cash Summary							
Total Debt With Equity Credit	2,868	0					2,868
Total Adjusted Debt With Equity Credit	2,868	186		78	108		3,053
Lease-Equivalent Debt	0	78		78			78
Other Off-Balance Sheet Debt	0	108			108		108
Readily Available Cash & Equivalents	140	0					140
Not Readily Available Cash & Equivalents	0	0					0
Cash-Flow Summary							
Preferred Dividends (Paid)	0	0					0
Interest Received	23	0					23
Interest (Paid)	-114	0					-114
Funds From Operations [FFO]	405	-7	-7				398
Change in Working Capital [Fitch-Defined]	83	4			4		87
Cash Flow from Operations [CFO]	488	-3	-7		4		484
Non-Operating/Non-Recurring Cash Flow	0	0					0
Capital (Expenditures)	-268	0					-268
Common Dividends (Paid)	-67	0					-67
Free Cash Flow [FCF]	153	-3	-7		4		150
Gross Leverage							
Total Adjusted Debt / Op. EBITDAR* [x]	4.2						4.5
FFO Adjusted Leverage [x]	5.8						6.1
Total Debt With Equity Credit / Op. EBITDA* [x]	4.2						4.3
Net Leverage							
Total Adjusted Net Debt / Op. EBITDAR* [x]	4.0						4.3
FFO Adjusted Net Leverage [x]	5.5						5.9
Total Net Debt / (CFO - Capex) [x]	12.4						12.6
Coverage							
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	6.0						5.5
Op. EBITDA / Interest Paid* [x]	6.0						5.9
FFO Fixed Charge Coverage [x]	4.4						4.0
FFO Interest Coverage [x]	4.4						4.3

*EBITDA/R after Dividends to Associates and Minorities

Full List of Ratings

	Rating	Outlook	Last Rating Action
Iren S.p.A.			
Long-Term IDR	BBB-	Stable	Affirmed 19 December 2016
Senior unsecured rating	BBB		

Related Research & Criteria

[Fitch Affirms Iren S.p.A. at 'BBB-'; Outlook Stable \(December 2016\)](#)

[Iren S.p.A. – Ratings Navigator \(October 2015\)](#)

[Criteria for Rating Non-Financial Corporates \(September 2016\)](#)

[Recovery Ratings and Notching Criteria for Utilities \(March 2016\)](#)

Analysts

Antonio Totaro

+39 02 8790 87 297

antonio.totaro@fitchratings.com

Chris Moore

+44 203 530 1683

chris.moore@fitchratings.com

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