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RATING ACTION COMMENTARY

Fitch Rates Assemblin Caverion Group's Planned Senior Secured Notes 'B(EXP)'; Affirms 'B' IDR

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Fitch Ratings - Warsaw - 10 Jun 2024: Fitch Ratings has assigned Assemblin Caverion Group AB's (Assemblin Caverion) EUR800 million planned senior secured notes an expected rating of 'B(EXP)' with a Recovery Rating of 'RR4'. A full list of rating actions is below.

The group's new fixed- and floating-rate notes with an aggregate principal of EUR800 million will rank equally with its existing EUR480 million senior secured floating-rate notes (FRNs). The assignment of the final rating is contingent on completing the transaction in line with the terms already presented.

Assemblin Caverion's 'B' Long-Term Issuer Default Rating (IDR), which has also been affirmed, reflects Fitch's expectation of high leverage and expected limited deleveraging over the next four years. It also reflects the group's improved business profile following the completed acquisition of Caverion Corporation (Caverion) and its expected sound profitability. The Stable Outlook on its IDR mainly reflects expected improving operating profitability, which will support its leverage profile in the medium term.

KEY RATING DRIVERS

Rating Limited by Leverage: Assemblin Caverion's rating remains constrained by Fitch's expectation of high leverage and expected limited deleveraging of about 1.1x by end-2027. We expect total Fitch-defined debt to rise to about SEK15 billion at end-2024 after the EUR800 million notes issue. We expect temporarily high EBITDA leverage of about 5.7x at end-2024, with gradual deleveraging towards 4.6x by end-2027, driven by improving operating profitability.

Improved Business Profile: The recent transformative acquisition of Caverion has strengthened the group's business profile via a considerably increased combined scale of operations, improved geographic diversification, stronger regional market positions and a broader services offering. Fitch expects the combined Fitch-defined EBITDA to more than double to about SEK2.6 billion in 2024. We estimate revenue share generated in Sweden to decline to below 40% at end-2024 from about 70% at end-2023.

The overall solid business profile remains supported by sound diversification in services and end-markets, a fairly high share of contracted revenue with increased exposure to revenue from services relative to projects and a sound industry outlook. The Nordic installation market benefits from solid demand from energy-efficiency projects, smart buildings and urbanisation trends. Demand for the group's services is further supported by a regulatory environment targeting low emissions.

Integration Risk: Fitch expects heightened integration risk due to the scale of the Caverion acquisition. The execution risk is mainly mitigated by early progress in integration of operations including overhead reductions as well as a clear strategic fit of companies with potential benefits from increased combined scale and further operating efficiencies. Nevertheless, post-merger integration remains an important rating driver.

Lower but Improving Margins: We expect a gradual improvement in operating profitability in 2025-2027, following about a 1pp decline in Fitch-defined EBITDA margin to about 6.1% in 2024 due to the acquisition of Caverion. Fitch expects about a 20bp annual increase in EBITDA margin in 2025-2027, driven mainly by restructuring of unprofitable branches and overhead reductions including operating efficiencies from Caverion's acquisition.

Positive FCF Through-the-Cycle: We expect the combined group to continue to generate positive free cash flow (FCF) through the cycle. We assume muted FCF margins of about 1pp in 2024-2025, due mainly to one-off integration and restructuring costs, before they rise to about 2.5%-3% in 2026-2027. The improvement will be driven by higher operating margins, sound working capital management and low capex requirements that are partly offset by high interest payments.

Acquisitive Growth Strategy: Fitch expects that Assemblin Caverion will continue its active M&A strategy with total cumulative bolt-on acquisitions of about SEK1.3 billion in 2024-2027. The group has a sound record of M&A bolt-on integration, supported by a focus on smaller acquisitions operating in its core technical services and with a good cultural fit with existing operations. We believe a prudent acquisition strategy prioritising sustainable growth with sound margins over market share support both its business and financial profiles.

DERIVATION SUMMARY

Assemblin Caverion compares favourably with other major Nordic installation and service providers, due to its larger combined scale and strong market positions in its prioritised local markets.

Within the Fitch-rated universe, we view the group's business profile as stronger than Expleo Group's (B-/Stable), broadly in line with Polygon Group AB's (B/Negative) and weaker than Irel Bidco S.a.r.l.'s (IFCO, B+/Stable), Circet Europe SAS's (Circet, B+/Positive) and SPIE SA's (BB+/Stable). Following the combination with Caverion, the group's size is broadly in line with IFCO's, about two times larger than Expleo Group's and Polygon's, modestly smaller than Circet's and about three times smaller than SPIE's.

Assemblin Caverion's financial profile is stronger than that of Expleo, due mainly to stronger FCF generation through the cycle being partly offset by Expleo's modestly higher 8%-10% expected EBITDA margins. Both companies have broadly similar expected gross leverage profiles. Assemblin Caverion's expected EBITDA leverage is lower than Polygon Group's and higher than Circet's and SPIE's. Assemblin Caverion, Polygon and SPIE have broadly similar 6%-8% expected EBITDA margins, which are lower than Circet's about 12%. All companies generate neutral-to-positive FCF through the cycle.

KEY ASSUMPTIONS

Key Rating Assumptions Within Our Rating Case for the Issuer:

-About 1% revenue decline in 2024, and low single-digit annual organic revenue growth in 2025-2027

-About 1pp EBITDA margin decline in 2024, followed by about a 20bp annual margin gain in 2025-2027

-Working capital requirement at 0.5% of revenue in 2024 and 0.1% annually in 2025-2027

-Capex at 0.4% of revenue in 2024-2027

-M&A spend of about SEK100 million in 2024 and SEK400 million annually in 2025-2027

RECOVERY ANALYSIS

- The recovery analysis assumes that Assemblin Caverion would be reorganised as a going-concern (GC) in bankruptcy rather than liquidated

- We have assumed a 10% administrative claim

- The GC EBITDA estimate for the combined group of SEK1,800 million reflects Fitch's view of a sustainable, post-reorganisation EBITDA level on which we base the enterprise valuation (EV). The GC EBITDA reflects intense market competition resulting in subdued operating profitability

- An EV multiple of 5.5x is used to calculate a post-reorganisation valuation. It mainly reflects the group's solid growth prospects, strong market position and high barriers to entry that are partly offset by its fairly low operating margins relative to peers'.

- We assume the group's post-notes issue debt structure to comprise its EUR800 million (about SEK9,220 million) senior secured notes, existing EUR380 million FRNs (about SEK5,532 million), about EUR250 million (SEK2,880 million) upsized super-senior revolving credit facility (RCF; assumed fully drawn), about SEK260 million non-recourse factoring and around SEK19 million other debt

-We do not view its pension guarantee facility of SEK410 million (outstanding amount as at March 2024) provided by banks as a debt obligation for the purpose of computing leverage metrics under our criteria. However, this guarantee facility is treated as a super-senior facility in recoveries as the pension administrator can make a cash claim under a guarantee issued to cover pension payments

- Based on the proposed capital structure, our waterfall analysis generates a ranked recovery for the senior secured noteholders in the 'RR4' category, leading to a 'B(EXP)' rating for the proposed EUR800 million senior secured notes. The waterfall-generated recovery computation output percentage is 37%

- The recovery analysis for the existing notes was based on the group's perimeter excluding Caverion. Following the acquisition in April 2024, Caverion initially constitutes a separate restricted group. We assumed that the debt structure comprises the existing EUR380 million FRNs, SEK1,100 million super-senior RCF (assumed fully drawn), around SEK18 million other debt and the SEK410 million pension guarantee facility. The GC EBITDA estimate excluding Caverion of SEK720 million reflects Fitch's view of a sustainable, post-reorganisation EBITDA level for the existing notes on which we base the EV. We have used the same 5.5x EV multiple to calculate a post-reorganisation value

- The waterfall analysis output for the existing notes generated a ranked recovery in the 'RR4' band, indicating an instrument rating of 'B', which is in line with the IDR. The waterfall analysis output percentage on current metrics and assumptions was 37%.

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

-EBITDA gross leverage below 5.0x on a sustained basis

-Successful integration of Caverion leading to increase in EBITDA margin towards 7%

-FCF margin above 2% on a sustained basis

-Successful M&A improving scale and/or market position without negatively affecting credit metrics

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

-Unsuccessful M&A resulting in an EBITDA margin of less than 5% on a sustained basis

-EBITDA gross leverage above 6.0x on a sustained basis

-EBITDA interest coverage below 2x on a sustained basis

-Lack of consistently positive FCF generation

LIQUIDITY AND DEBT STRUCTURE

Sufficient Liquidity: We estimate Assemblin Caverion's liquidity post-notes issue to mainly consist of about SEK450 million of readily available cash (excluding about SEK450 million that Fitch restricts for intra-year working capital swings) and access to an upsized about EUR250 million (about SEK2.9 billion) undrawn RCF due 2029. We expect positive FCF generation over the next four years.

No Material Near-Term Maturities: The group has no significant short-term debt maturities as its debt structure is dominated by long-dated senior secured notes. The group's existing EUR480 million FRNs are due in 2029 and the upcoming EUR800 million notes will be due in 2030 (fixed-rate notes) and 2031 (floating-rate notes).

ISSUER PROFILE

Assemblin Caverion is a Swedish-based leading Nordic provider of multi technical services and installation across the Nordics, with a foothold in Germany, Austria and the Baltics.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

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			RECOVERY	PRIOR
Assemblin Caverion Group AB	LT IDR	B Rating Outlook Stable	Affirmed		B Rating Outlook Stable
senior secured	LT	B(EXP)	Expected Rating	RR4	
senior secured	LT	B	Affirmed	RR4	B

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 13 Oct 2023) (including rating assumption sensitivity)

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

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 3 November 2023 to 21 June 2024 (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

ENDORSEMENT STATUS

Assemblin Caverion Group AB	EU Issued, UK Endorsed

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