GS Inima Environment S.A.U.

Kingdom of Spain, Concessions

Issuer

BBB-

Outlook

Stable

Rating composition

Business Risk Profile		
Industry risk profile	BBB	BBB-
Competitive position	BBB-	
Financial Risk Profile		
Credit metrics	BBB-	BBB-
Liquidity	+/-0 notches	
Standalone credit assessment		**BBB-**
Supplementary rating drivers		
Financial policy	+/-0 notches	**+/-0 notches**
Parent/government support	+/-0 notches	
Governance & structure	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BBB-**

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA interest cover	6.6x	5.5x	4.3x	2.9x
Scope-adjusted debt/EBITDA*	0.5x	0.4x	1.6x	1.6x
Scope-adjusted funds from operations/debt*	264%	219%	51%	51%
Scope-adjusted free operating cash flow/debt*	299%	183%	40%	54%
Liquidity*	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenarios for the rating and Outlook (individually):

- Scope-adjusted debt/EBITDA of below 1.5x as well as Scope-adjusted EBITDA interest cover of above 4x
- Greater diversification of operations into more mature markets (a scenario currently considered remote), improving the credit quality of the concession portfolio's country exposure

The downside scenarios for the rating and Outlook (individually):

- Scope-adjusted debt/EBITDA of above 2.5x
- Scope-adjusted EBITDA interest cover of around 2x
- Deteriorating credit quality of the concession portfolio's country exposure

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Related methodologies

General Corporate Rating Methodology LINK, Oct 2023

Construction and Construction Materials Rating Methodology LINK, Jan 2025

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* Values were amended on 17 March 2025 due to additional disclosures that impacted the cash in concessions, reducing the amount of non-accessible cash and, as a result, reducing the amount of debt.

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Low-risk water activities with long-term concession contracts (weighted average term of 25 years) • Revenue base subject to regular inflation-linked price adjustments and tariff mechanisms, providing good revenue growth prospects • Stable profitability with remaining concession life indicating well-protected future revenue and margin • Low leverage, mainly related to long-term project finance loans, with no recourse to the issuer • Supportive long-term industry dynamics	• Limited size from a sector perspective, partially mitigated by the monopoly-like nature of the water concession business • High exposure to emerging markets, with higher sovereign risk and less mature regulatory framework • Concentrated portfolio of concessions and customers

2. Rating Outlook

The Stable Outlook reflects our view that GS Inima will maintain predictable cash flows thanks to its long-term contractual concessions with strong remuneration mechanisms. We also expect the group will deliver on its growth targets (successful conclusion of projects under construction), maintaining Scope-adjusted debt/EBITDA ratio, consistently at around 2.0x, with a 25% consolidation of non-recourse debt as well as an Scope-adjusted EBITDA interest cover of between 2.5x to 3.0x.

3. Corporate profile

Global leader in water treatment solutions

GS Inima is a company specialized in the development, designing, construction, financing and operation of projects related to water treatment with more than 50 years of experiences in the maintenance, operation and optimization of water treatment plants of all types. GS Inima operates on four continents with facilities in several countries, including Spain, Brazil, Oman, the UAE, South Korea, Vietnam, Abu Dhabi, Mexico, Chile, Algeria, Morocco and the United States. The company has completed more than 200 projects worldwide.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
31 Jan 2025	New	BBB-/Stable

5. Financial overview (financial data in EUR m)

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	6.6x	5.5x	4.3x	2.9x	2.5x
Scope-adjusted debt/EBITDA*	0.5x	0.4x	1.6x	1.6x	1.9x
Scope-adjusted funds from operations/debt*	264%	219%	51%	51%	44%
Scope-adjusted free operating cash flow/debt*	299%	183%	40%	54%	41%
Liquidity*	>200%	>200%	>200%	>200%	>200%
Scope-adjusted EBITDA					
EBITDA	85	101	106	110	123
add: Operating lease payments	-	1	1	1	1
add: Recurring associate dividends received	7	5	6	6	6
less: Capitalised expenses	-	-	-	-	-
Finance cost - project finance	-32	-33	-33	-46	-61
Scope-adjusted EBITDA	**59**	**74**	**80**	**71**	**68**
Scope-adjusted funds from operations					
Scope-adjusted EBITDA[1]	92	107	113	117	130
less: Scope-adjusted interest	-14	-19	-26	-40	-52
less: cash tax paid	-13	-18	-23	-20	-21
Other non-operating charges before FFO	8	-	-	-	-
Scope-adjusted funds from operations (FFO)	**73**	**69**	**63**	**56**	**57**
Scope-adjusted free operating cash flow					
Scope-adjusted FFO	73	69	63	56	57
Change in working capital	9	-11	-13	5	-3
Non-operating cash flow	-	-	-	-	-
less: capital expenditures (net)	-	-	-	-	-
less: lease amortisation	0	-1	-1	-1	-1
Scope-adjusted free operating cash flow (FOCF)	**82**	**58**	**50**	**60**	**53**
Scope-adjusted net cash interest paid					
Net cash interest per cash flow statement	14	19	26	40	52
add: interest component, operating leases	-	-	0	0	0
Change in other items	-	-	-	-	-
Scope-adjusted net cash interest paid	**14**	**19**	**26**	**40**	**52**
Scope-adjusted debt					
Reported financial (senior) debt	150	176	248	324	349
less: cash and cash equivalents	-170	-195	-174	-264	-269
add: non-accessible cash[2]*	47	51	51	51	51
Scope-adjusted debt (SaD)	**27**	**32**	**125**	**111**	**130**

[1] Finance costs of project finance loans added back.
[2] We applied a 75% haircut to the cash held in the concession companies to reflect the 25% non-recourse addition in our leverage calculation.
* Values were amended on 17 March 2025 due to additional disclosures that impacted the cash in concessions, reducing the amount of non-accessible cash and, as a result, reducing the amount of debt.

6. Environmental, social and governance (ESG) profile[3]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit positive credit negative credit neutral

ESG factors have an overall neutral consideration

We have not identified any environmental, social or governance (ESG) considerations with a significant impact on GS Inima's credit quality.

GS Inima is a key player in the circular economy due to its core business of water management across the value chain. The company's applied technologies, such as reverse osmosis, will further enhance water management efficiency, which is key to maintaining its competitive position. From a social perspective, GS Inima provides the essential services of drinking water and desalination in countries facing water scarcity and infrastructure gaps.

[3] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BBB-

Industry risk profile: BBB

GS Inima's activities are focused on the concession business of water and wastewater treatment, acting in all phases of water projects, including design, construction, operation and financing of the infrastructure. The company develops projects under IWP (Independent Water Project), BOOT (Build, Operate, Own and Transfer), BOT (Build, Operate and Transfer), BOO (Build, Operate and Own) and PPP (Public Private Partnership) schemes related to environmental activities, integral water cycle and water desalination plants. Its business model includes construction activities, but only indirectly through its role as general contractor for own concession projects.

As a concessionaire, GS Inima is less susceptible to cyclical fluctuations, resulting in stable operating performance. Concession agreements make it difficult for potential competitors to enter the market, unlike for other construction activities. Substitution risk is low, reflecting the customers' dependence on concession-related activities and the length of concession contracts.

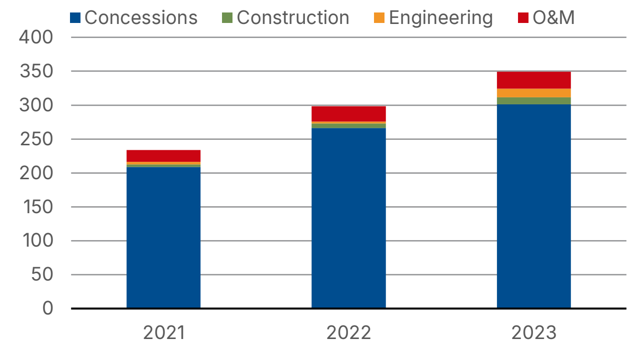
Unique market position
Activities fully focused on low-risk water concessions that...

GS Inima is a global specialist in the water concessions business segment. Water concessions provide stable and predictable cash flows over long periods and are resilient to economic cycles, with revenues largely indexed to inflation. GS Inima generates almost all of its EBITDA from its concession's portfolio, implying highly predictable cash flows, which supports the company's credit quality.

...partially mitigates its limited size from a sector perspective

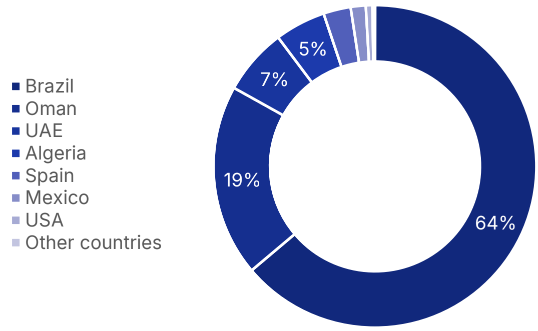
GS Inima is relatively small in terms of revenues (2023: EUR 349m; up 17% YoY) and reported EBITDA (2023: EUR 101m; up 19% YoY), compared to other concessionaires in the industry. However, its focus on the strategic business of water concessions gives it a unique market position, as concessionaires with long-term contracts typically benefit from a monopoly-like structure in their service territories and regulated revenues.

Figure 1: Revenue breakdown (EUR m)



Sources: GS Inima, Scope

Figure 2: Backlog breakdown by country, as of June 2024



Sources: GS Inima, Scope

Its portfolio of concessions also supports its market position and protects it from competition, as these contracts have an average remaining term of 25 years, reflecting low renewal risk exposure.

Peers in the water industry include Spain's FFC Aqualia S.A., Poland's Aquanet S.A. (owned by the city of Poznan), and Italy's Acea S.p.A. GS Inima is significantly smaller and less diversified than its peers, which manage large portions of electricity networks and waste services in addition to their water businesses.

Ranked top 10 in the desalination business

Despite its modest turnover, GS Inima is a leader in the water industry, particularly in the field of desalination, which plays a fundamental role in the supply of fresh water for human consumption in the face of increasing water scarcity. Since the 80's, GS Inima has been active in the field of reverse osmosis desalination, the most widely used technology today due to its low cost in terms of energy consumption. The company has developed more than thirty desalination plants with a total installed capacity of more than 1.8 million m^3/day, serving a total population of more than ten million inhabitants. GS Inima has been ranked among the top 10 desalination companies in 2022-2023.

GS Inima operates in a business that benefits from positive long-term underlying dynamics and is largely immune to short-term economic pressures. The company's water business model has a low risk profile as it provides essential water services to households and businesses.

Supportive long-term industry dynamics

While demand for water continues to show a structural decline in advanced economies, particularly in Europe, partly due to a more resource-conscious population, water scarcity due to climate change is supporting demand for water treatment facilities. In addition, GS Inima operates primarily in emerging markets, markets with fundamental water infrastructure gaps and positive population growth rates, factors that support the long-term dynamics of the industry and the strong trend toward urbanization and industrialization.

Water scarcity and increasingly stringent environmental regulations will also drive the industry, encouraging more efficient use of existing technologies, but also the adaptation of new services and technologies to facilitate water conservation in the context of climate change.

Geographical diversification is weak. Although the group is present on four continents, 46% of its 2023 revenue and 64% of its backlog as at June 2024 are linked to its main country of operation, Brazil. While the company is also present in other regions, notably Oman (19% of the backlog as of June 2024), the United Arab Emirates (7%), Algeria (5%), Spain (3%) and Mexico (2%), its concessions portfolio is mainly exposed to markets with higher sovereign risk and, in some cases, comparatively less developed regulatory frameworks.

High focus on emerging markets, particularly Brazil

The reliance on the Brazilian business, where the regulatory environment for the sanitation sector is relatively new and fragmented, is seen as a credit weakness. It comes at the cost of a high degree of dependence on political will, the regulatory framework and customer demand. However, the company's track record in the country (since 1995) provides some comfort in terms of the quality and predictability of water concession policy, while demand risk is largely mitigated by long-term contracts and the inability of customers to easily compare or switch between suppliers.

The high reliance on states and municipalities to implement sanitation standards under Brazil's federal government's National Sanitation Plan (Plansab) can lead to less transparency, increased likelihood of political influence, and uneven implementation across locations. However, we acknowledge that the regulatory framework is gradually being established to provide greater predictability and offer more transparency for companies in the sector.

Revenues generated on different continents, in markets with different demand structures and cyclical exposures, help to mitigate some of the risks associated with the group's exposure to only a few countries.

Although GS Inima's activities include operations in water management, treatment, desalination and industrial water, its business is entirely focused on water concessions, exposing it to a single segment. This is largely mitigated by GS Inima's focus on the water infrastructure business, which provides protected, stable cash flows. GS Inima has a solid portfolio of concessions with municipalities in various regions, mainly in Brazil, and acts as a public water utility through a concession bidding process. Water concessions, and in particular residential water demand, are characterized as a low-risk business that is completely insulated from the cyclical macroeconomic environment. This characteristic remains even in the face of extraordinary events such as the Covid-19 pandemic.

Weak segment diversification offset by resilient business model

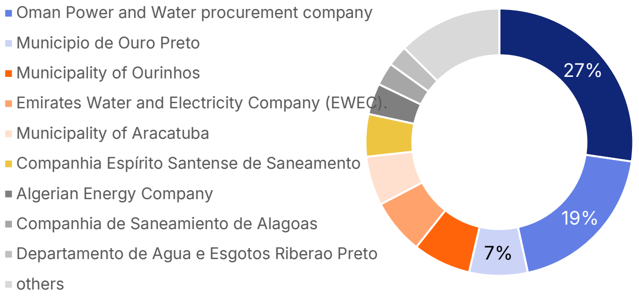
GS Inima's revenues are derived from a limited portfolio of multi-year contracts, primarily long-term concessions with public sector counterparties and, to a lesser extent, industrial customers. The three main customers account for 51% of the backlog as at end-June 2024.

High customer concentration, mitigated by sticky contracts

However, long-term contracts raise barriers to entry for new competitors. Municipalities and other industrial customers cannot easily compare or switch between suppliers. This inelastic demand acts as a "shield" around GS Inima's existing portfolio of contracts and the recurring revenues they generate, as evidenced by several contract renewals in recent years.

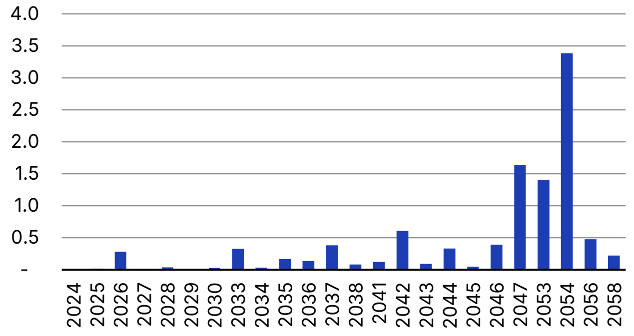
The credit quality of the customer portfolio is largely linked to sovereign risk. Weaker credit quality is largely mitigated by the existence of guarantees and deposits to ensure timely payment by customers.

Figure 3: Backlog breakdown by Customer, as of June 2024



Sources: GS Inima, Scope

Figure 4: Maturities of concessions (EUR bn)



Sources: GS Inima, Scope

Strong, stable profitability, with a concession life indicating protected future revenues

GS Inima’s Scope-adjusted EBITDA margin has been at around 30% over the past three years. The relatively high profitability indicates barriers to entry for competitors and points to continued profitability in the future. The company’s stable margin in recent years also reflects the stability of its non-cyclical business model.

Any potential pressure on margins is largely mitigated by indexation clauses, as most of the concessions have tariff structures that provide for contractual adjustments in line with inflation. Although tariff structures can be complex, they are typically designed to align costs with revenues. There are only a few cases where a tariff component is not indexed to inflation, but these contracts include a larger proportion of fixed O&M tariffs to offset any revenue risk. In addition, the projects are located in a country with relatively low inflation (Oman) and a currency pegged to the US dollar, which provides a more stable environment and better visibility on margins.

Profitability is also protected by the presence of energy pass-through clauses (99.8% of contracts as at end-June 2024), ensuring that the company is not exposed to energy price risk, and "take-or-pay" clauses for 100% of the contracted capacity, resulting in resilient and stable operating cash flows.

Overall, we believe that GS Inima will continue to demonstrate robust profitability, supported by its activities in regulated water activities, which enhance cash flow predictability. Over the next few years, we expect the Scope-adjusted EBITDA margin to be in the range of 20% and 25%, lower than in previous years, partly due to the higher proportion of revenue generated by construction activities, which temporarily dilutes the company's Scope-adjusted EBITDA margin. However, the margin will recover as the concessions enter the operational phase.

In addition, GS Inima benefits from an average concession term of 25 years as of June 2024, which provides good cash flow visibility. This indicates that future revenues are well protected by competitive barriers.

8. Financial risk profile: BBB-

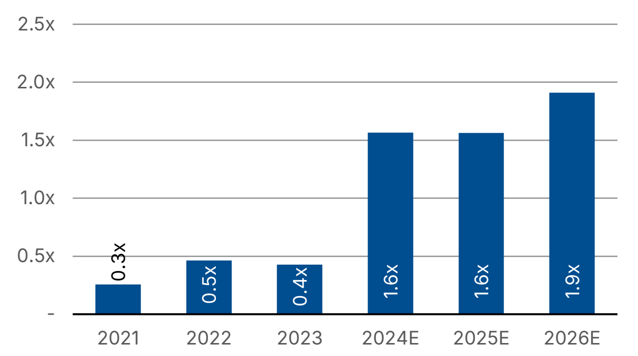
More than 70% of financial debt is non-recourse to the issuer

GS Inima has a solid financial position, with most of its cash and cash equivalents allocated to the concession project companies, with no restrictions on their transfer to the holding company or to the country subsidiaries once obligations under project finance agreements are met.

More than 70% of GS Inima's financial debt consists of project finance loans with no recourse to the issuer (with a weighted average maturity of 12 years). The remaining debt is mainly corporate debt used to finance operations. For the financial analysis, we focus on GS Inima's leverage on a recourse debt basis but recognises the relevance of the infrastructure business when considering leverage on a consolidated basis. We believe that the company would support the infrastructure projects in times of financial distress and reflect this with a 25% consolidation of non-recourse debt and cash.

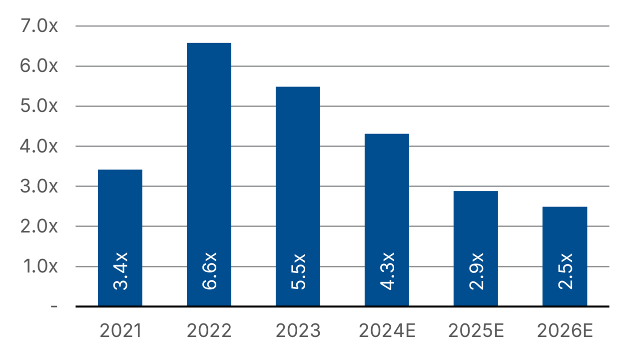
We forecast Scope-adjusted debt/EBITDA to remain at around 1.6x-2.0x, based on the expected steady growth in the company’s Scope-adjusted EBITDA in line with the increasing debt, due to the high visibility of future cash generation from existing operating concessions. However, volatility in this metric could arise from delivery delays and/or cost overruns on concession projects currently under construction.

Figure 5: Scope-adjusted debt/EBITDA



Sources: GS Inima, Scope

Figure 6: Scope-adjusted EBITDA/interest cover



Sources: GS Inima, Scope

Debt protection supported by positive stable operating cash flows

Debt protection, as measured by Scope-adjusted EBITDA interest cover, was robust and stood at 5.5x in 2023 (6.6x in 2022). Interest cover is expected to decline in the coming years on the back of a substantial leveraging with debt expected to rise to around EUR 900m by YE 2026 from EUR 398m as at YE 2023 to finance growth. This increase is mainly due to i) the addition of non-recourse project finance loans, and ii) the planned issuance of additional recourse senior debt to substitute current credit lines as well as an equity bridge loan to finance the ongoing construction of the Ghubrah III project in Oman.

However, interest cover is expected to remain between 2.5x to 3.0x supported by the company's protected business model with stable and predictable inflation-linked revenues (which provide a natural hedge) and the company's use of hedging and pre-hedging instruments (41% of the debt portfolio as at end-June 2024 is fixed-rate or hedged). The weighted average cost of debt was about 8% as at June 2024.

Strong cash generation resilient to revenue declines

Cash generation is strong, driven by GS Inima's business model focused on water concessions with limited obsolescence risk over the next few years. Water concessions offer resilient cash flows as the business is fully insulated from the cyclical macroeconomic environment (particularly in the case of household demand) and due to of the presence of a fixed tariff component that provides a minimum floor that ensures cash collection even in the absence of consumption. This characteristic is maintained even in the case of exceptional events such as the Covid-19 pandemic, where other types of concessionaires - such as transport infrastructure - were more affected.

Concession contracts usually require large up-front investments. As a result, any concession is tendered only if it is bankable, while investments are made only if financing, i.e. a project loan, has been signed and all conditions precedent have been met. The Company has continued its growth strategy in 2024 and has invested approximately EUR 300m in new concessions in the last three years, mostly financed by new debt issuances. This strategy is expected to continue, with a further EUR 600m of investments planned through 2026 (EUR 205m in 2024, EUR 330m in 2025 and EUR 140m in 2026). Our rating case does not assume any additional new concession projects.

We will monitor the group's expansion strategy, particularly with respect to activities and geographies that we consider to be a major deviation from its current footprint. And while we recognize that GS Inima has been relatively successful to date in exporting its expertise abroad, its international diversification entails some degree of execution risk and potential earnings dilution. The current credit metrics trajectory is also dependent on supportive financial policies, particularly with respect to debt and leverage trajectories, as well as shareholder remuneration.

Adequate liquidity

Liquidity is adequate, benefiting from unrestricted cash balances of EUR 95m and over EUR 100m cash equivalents available as of end-June 2024. We apply a 75% haircut to the cash held in the concession companies to reflect the 25% non-recourse addition in its leverage calculation.

Liquidity is further enhanced by EUR 20m of undrawn committed credit facilities[4]. These resources are sufficient to cover EUR 63m of short-term maturities (including EUR 27m in non-recourse debt) over the next 12 months to end-June 2025.

We expect GS Inima's liquidity to remain adequate even in the face of significant maturities. The company plans to refinance most of these maturities by tapping the bond market in the coming months. While this is not our base case, we understand that GS Inima could use available cash to repay or refinance its financial maturities if the market refinancing is not successful.

Table 1. Liquidity sources and uses (in EUR m)

	2024E	2025E	2026
Unrestricted cash (t-1)[5]*	144	123	216
Open committed credit lines (t-1)	20	37	37
Free operating cash flow (t)	50	60	53
Short-term debt (t-1)	83	102	24
Liquidity	**>200%**	**>200%**	**>200%**

Source: Scope estimates

9. Supplementary rating drivers: +/- 0 notches

We have made no rating adjustments related to peer group considerations, parent support, or governance and structure.

GS Inima is controlled by GS E&C, the engineering arm of GS Group, South Korea's fifth largest business conglomerate. We understand that GS Inima operates independently (operationally and financially) from its parent GS Group. GS Group provides financial support by not upstreaming dividends as well as a one-off equity contribution of EUR 80m to expand the business. Therefore, GS Inima was rated on a stand-alone basis.

[4] RCF availability has increased to EUR 37m as of year-end 2024.
[5] Includes cash and cash equivalents and applies a 75% haircut to the cash held in the concession companies to reflect the 25% non-recourse addition in our leverage calculation.
* Values were amended on 17 March 2025 due to additional disclosures that impacted the cash in concessions, reducing the amount of non-accessible cash and, as a result, reducing the amount of debt.

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