

BioEnergie Taufkirchen GmbH & Co. KG

Monitoring Note



Scope
Ratings

Corporate profile

BioEnergie Taufkirchen GmbH & Co. KG (BET) operates a biomass cogeneration plant in Taufkirchen, a community near Munich, Germany. The power plant generates (1) heating for about 8,000 residential and commercial customers and (2) electricity. While the heat generated is fed into the company-owned district heating network, which has a total length of roughly 43 km, the electricity is fed into the existing power grid. The company generates around 70% of revenues from selling heat and around 30% from selling electricity. BET issued a senior secured corporate bond in 2013 with a volume of EUR 15m and a coupon of 6.5% that matures in July 2020.

Ratings

Corporate Rating	BB-
Outlook	Stable
Senior Secured Debt Rating	BBB-

Rating Rationale

The **BB- issuer rating** primarily reflects BET's quasi-monopoly as a producer of district heating and operator of the local district heating grid in Taufkirchen and nearby communities. Despite the potential volatility of feedstock prices, e.g. combustibles, the company generates robust and plannable operating cash flows, which are ample to cover scheduled investments in the biomass power plant and the expansion of the heating grid. Nevertheless, the rating is largely constrained by BET's limited corporate outreach in terms of size and diversification.

The company's rather weak financial risk profile, which is characterised by Scope-adjusted leverage ranging between 5-6x and an EBITDA interest coverage ranging between 2-3x, also constrains the rating. Furthermore, the company's liquidity, including access to credit lines and a shareholders' guarantee, sufficiently covers upcoming debt maturities over the next 2.5 years, in Scope's view. Bolstered by the expectation of positive free cash flows, key credit metrics are anticipated to improve slightly over the next few years, whilst, however, remaining at a level which is commensurate with the current rating. Scope expects that the company is likely to refinance the EUR 15m senior secured corporate bond in July 2020 by a new bank loan.

Scope's **BBB- rating for the EUR 15m senior secured corporate bond (6.5% 2013/2020)** of BET reflects the strong collateralisation of the bond with recoverable assets. With a collateral package that comprises material parts of its district heating network, easements, a biomass cogeneration plant, and a liquidity reserve, Scope considers the recovery prospects of BET's senior secured bond to be very good (significant overcollateralisation), which finds positive expression in the instrument's BBB-rating.

Outlook

The Outlooks are Stable. The Outlook reflects Scope's expectation that deleveraging will continue and that EBITDA interest coverage will remain at a stable 2-3x. The rating is very much constrained by the company's size and outreach. A lower rating would be warranted in the case of a significant worsening of BET's EBITDA interest coverage to below 2.0x.

Analysts

Sebastian Zank, CFA
+49 30 27891 225
s.zank@scoperatings.com

Back-up analyst

Timo Schilz
+49 30 27891 254
t.schilz@scoperatings.com

Related publications

Scope affirms BBB- bond rating of BioEnergie Taufkirchen; CICR at BB-; Outlooks Stable, 5 July 2016

Scope affirms BBB- bond rating of BioEnergie Taufkirchen; CICR assigned at BB-; Outlooks stable, 7 July 2015

Updated Rating Report 2015, July 2015

Scope Ratings affirms Corporate Bond Rating of BioEnergie Taufkirchen GmbH & Co. KG at BBB-; Stable Outlook, 9 July 2014

Scope assigns a rating grade of BBB- to the corporate bond of BioEnergie Taufkirchen GmbH & Co. KG., 9 July 2013

Scope Ratings AG

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com



Bloomberg: SCOP

Rating drivers

Positive	Negative
<ul style="list-style-type: none"> Position as a quasi-monopoly for district heating in Taufkirchen and surrounding communities 	<ul style="list-style-type: none"> Size and scope: high dependency on one service territory
<ul style="list-style-type: none"> Investment security provided by strongly regulated market for district heating and electricity from renewable energy 	<ul style="list-style-type: none"> Exposure to volatile price developments for biogenic and fossil combustibles
<ul style="list-style-type: none"> Robust profitability despite volatile feedstock prices – as reflected in an EBITDA margin between 25-35% – given flexible and diversified material sourcing 	<ul style="list-style-type: none"> Key person risk
<ul style="list-style-type: none"> Flexible pricing model for district heating and direct marketing of generated electricity 	<ul style="list-style-type: none"> Concentration risk in company's supplier structure
<ul style="list-style-type: none"> Significant overcollateralisation of senior secured corporate bond as well as an additional liquidity reserve 	<ul style="list-style-type: none"> Financial risk profile weaker than business risk profile primarily as a result of high leverage

Rating-change drivers

Positive	Negative
<ul style="list-style-type: none"> A higher rating is remote due to the company's size and scope 	<ul style="list-style-type: none"> Deterioration in the company's key credit metrics as measured by an EBITDA interest coverage consistently below 2.0x
	<ul style="list-style-type: none"> Significant deterioration in the value of collateral package backing BET's EUR 15m corporate bond

Table 1 – Financial overview

			Scope estimates		
Scope credit ratios	2015	2016	2017E	2018E	2019E
EBITDA/interest cover (x)	2.5	2.6	2.7	2.5	2.5
Scope-adjusted debt/EBITDA (x)	5.8	5.7	5.0	5.0	4.7
Free cash flow/Scope-adjusted debt (%)	8%	5%	8%	9%	8%
Liquidity	>100%	>100%	>100%	>100%	>100%
Cash flows	EUR m		EUR m		
EBITDA	4.0	4.0	4.2	3.9	3.8
Interests	1.6	1.5	1.5	1.5	1.5
Operating cash flow	3.4	3.0	2.6	2.3	2.1
Investing cash flow (net)	1.4	1.9	0.8	0.5	0.5
Dividends	0.3	0.3	0.3	0.3	0.3
Discretionary cash flow	1.6	0.7	1.5	1.5	1.3
Scope-adjusted debt	EUR m		EUR m		
Gross financial debt	24.4	23.1	22.6	20.7	19.0
Deduct: cash, cash equivalents	2.1	1.7	2.7	2.2	1.8
Cash not accessible	1.0	1.0	1.0	1.0	1.0
Scope-adjusted debt (SaD)	23.4	22.4	20.9	19.4	18.2

Sources: BET, Scope expectations



Scope Ratings AG

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

London

Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 203-457 0 4444

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Madrid

Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Paris

21 Boulevard Haussmann
F-75009 Paris

Phone +33 1 53 43 29 89

Milan

Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

info@scoperatings.com

www.scoperatings.com

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