Corporate and Corporate Bond Rating
BioEnergie Taufkirchen GmbH & Co. KG
Germany, Renewable Energy

SCOPE Scope Ratings

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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 generated heat is fed into the company-owned district heating network, which has a total length of roughly 41km, 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.

Rating

Corporate Issuer Credit Rating:	BB-
Outlook:	Stable
Corporate Bond Rating:	BBB-
Outlook:	Stable
Sector:	Renewable Energy
Monitoring:	yes

Analysts

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Rating Rationale

The rating affirmation is based particularly on BET's positive operating performance in line with expectations, improved EBITDA margin, and its continuous deleveraging and improvement in its fixed charge coverage.

Scope Ratings ('Scope') affirms the BBB- rating of the EUR 15m senior secured corporate bond (6.5% 2013/2020) of BET. The instrument rating is based on a Corporate Issuer Credit Rating ('CICR') of BB-. The ratings reflect BET's quasi-monopoly as a producer of district heating in Taufkirchen, and nearby communities, in Germany. Moreover, the rating incorporates the business model's robustness, which stems strongly from the regulated sale of district heating and electricity. As a result, BET generates robust and plannable operating cash flows despite its small size and strong dependence on only one service territory.

Moreover, the ratings incorporate the company's continuous deleveraging in terms of Debt/EBITDA (6.1x in 2014 versus 6.7x in 2013), as well as the solid fixed charge cover of measured as an EBITDA fixed charge cover of 2.5x in 2014 versus 2.4x in 2013. Scope expects further improvement in key financial measures in 2015 and 2016, driven by the company's scheduled debt reduction and positive Free Cash Flows. However, the ratings are largely constrained by the strong dependence on one service territory and the lack of equity base.

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 strong (significant overcollateralisation), which is reflected positively in the instrument's rating of BBB-.

Outlook

The Outlooks are Stable. The rating is strongly constrained by the company's size and scope. A lower rating would be warranted in case of deterioration of the company's equity base or a significant worsening of the company's leverage above 7.0x or its EBITDA fixed charge coverage below 2.0x.

Rating Drivers

Positive
Position as a quasi-monopoly for district heating in Taufkirchen and surrounding communities
Investment security provided by strongly regulated market for district heating and electricity from renewable energy
Continuous improvement in operating performance with a 33.9% EBITDA margin in 2014 and a solid fixed charge coverage
Flexible pricing model for district heating and direct marketing of generated electricity
Significant overcollateralisation of senior secured corporate bond as well as an additional liquidity reserve

Negative
Size and scope: high dependency on one service territory
Lack of equity base
Exposure to volatile price developments for biogenic and fossil combustibles
Key person risk
Concentration risk in company's supplier structure

Financial overview

	2012	2013	2014	2015E	2016E
P&L Statement (TEUR)					
Revenues	10,099	12,224	10,593	12,422	13,453
EBITDAR (adjusted)	4,054	3,966	4,195	4,155	4,767
EBITDA (adjusted)	4,054	3,966	4,195	4,155	4,767
EBIT (adjusted)	1,697	1,327	1,356	1,729	2,327
Net interest expense	-1,085	-1,610	-1,664	-1,608	-1,550
Net result	608	-297	-314	94	652
Balance sheet (TEUR)					
Gross financial debt	17,873	26,684	25,432	23,879	22,738
Lease-adjusted financial debt	17,873	26,684	25,432	23,879	22,738
Cash and marketable securities	1,895	1,746	1,642	1,477	2,553
Net financial debt	15,978	24,938	23,790	22,402	20,185
Cash Flow Statement (TEUR)					
Funds flow from operations (FFO)	2,966	2,342	3,363	2,521	3,091
Changes in Working Capital	-137	-317	504	133	75
Operating Cash Flows	3,103	2,659	2,859	2,388	3,017
Capex	-2,647	-5,811	-1,711	-1,000	-800
Free Cash Flow (FCF)	456	-3,152	1,148	1,388	2,217
Key Financial ratios					
Gross margin	60.6%	55.6%	65.1%	58.3%	59.8%
EBITDAR margin	33.8%	28.2%	33.9%	32.3%	34.3%
EBITDA margin	33.8%	28.2%	33.9%	32.3%	34.3%
FCF margin	4.5%	-25.8%	10.8%	11.2%	16.5%
Lease-adjusted Debt/EBITDAR	4.4x	6.7x	6.1x	5.7x	4.8x
Lease-adjusted Net Debt/EBITDAR	3.9x	6.3x	5.7x	5.4x	4.2x
Debt/EBITDA	4.4x	6.7x	6.1x	5.7x	4.8x
Net Debt/EBITDA	3.9x	6.3x	5.7x	5.4x	4.2x
EBITDAR fixed charge coverage	3.7x	2.4x	2.5x	2.6x	3.1x
EBITDA interest charge coverage	3.7x	2.4x	2.5x	2.6x	3.1x
Liquidity	80.5%	106.1%	313.7%	635.4%	604.2%

Source: BioEnergie Taufkirchen GmbH & Co. KG, Scope estimates

Rating Change Drivers

Positive
Significant deleveraging

Negative
Significant deterioration in value of collateral package backing BET's EUR 15m corporate bond
Continuous, adverse weather conditions leading to significantly lower sales of district heat
Adverse margin developments stemming from significant cost increases for biogenic combustibles
Further distortion of equity capital stemming from net losses

Business Risk Profile

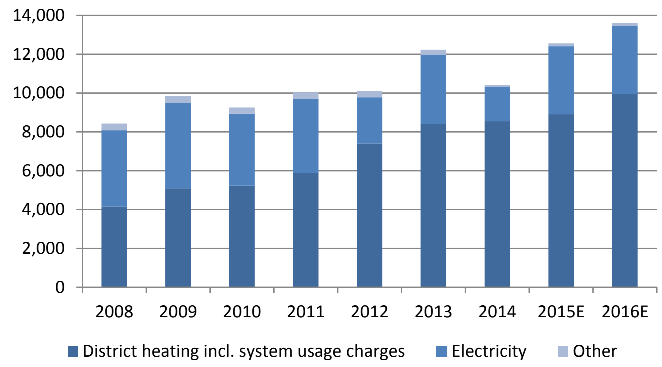
Very small independent power producer with quasi-monopolistic market position

With an annual EBITDAR of EUR 4.2m in 2014 and a power plant capacity of 32 MW_{th} and 5 MW_{el}, BET is a very small, alternative independent power producer ('IPP'). Despite its size, BET holds a quasi-monopoly in a market with high entry barriers due to the company-owned district heating network of roughly 41km in Taufkirchen, and nearby communities, in Germany. This network ensures sales in district heating. In addition, BET can stabilise its business model through the guaranteed sale of electricity under the German Renewable Energy Act ('Erneuerbare-Energien-Gesetz' - EEG). Scope considers the sales and margins resulting from BET's strong market position as very solid and predictable, and resilient to external shocks.

Very low diversification

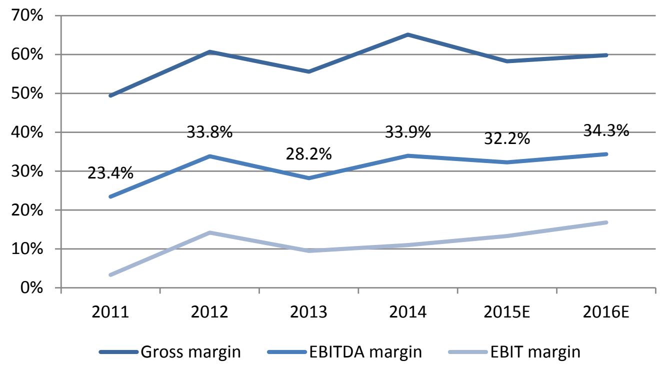
Being a single power plant operator in one service territory, BET bears high risk of operational disruptions. However, Scope does not see the company's low geographical and asset diversification as a major negative credit driver due to its quasi-monopolistic position mentioned earlier.

Figure 1 – Revenue split (KEUR)



Source: BET, Scope Ratings

Figure 2 – Development of margin



Source: BET, Scope Ratings

Improved profitability

As a biomass power plant operator with a high portion of variable costs from sourcing renewable combustibles (such as wood, biogas) but also oil and gas, the company is exposed to stronger fluctuations than other IPPs that operate wind, hydro or solar power plants. Nevertheless, BET displays comparably robust margins (33.9% EBITDA margin in 2014 versus 28.2% in 2013). Due to the increased sourcing of geothermal energy and favourable price developments for combustibles as well as slight price increases for district heating, Scope expects the company's EBITDA margin to remain above 30% in the next two years.

Financial Risk Profile

High leverage typical for IPPs but moderate fixed charge coverage

Despite the company's low equity capitalisation and high leverage (Debt/EBITDA) of 6.1x in 2014 (Net Debt/EBITDA 2014: 5.7x), Scope does not see significant existential risks due to the company's recoverable asset base. With an improved EBITDA, continued amortisation of bank loans and no significant investment needs, Scope expects BET to further improve its leverage to 4.8x in 2016. BET's EBITDAR fixed charge was moderate at 2.5x in 2014, and is expected to improve to 3.1x in 2016.

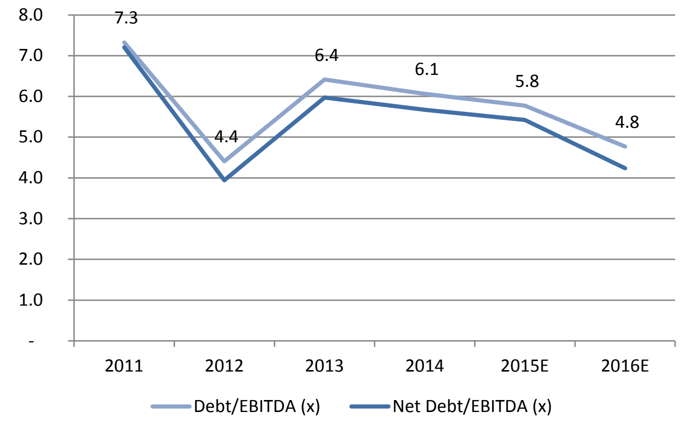
Positive free cash flows going forward

Major investment projects, such as the further expansion of the company-owned, local heating network, were finalised in 2013. Free cash flows turned positive to EUR 1.3m in 2014 (2013: EUR -3.2m). Considering the company's small size, operating cash flows are likely to sufficiently cover planned investments over the next two years. Hence, Scope expects the company to use free cash flows to improve its debt position.

Solid liquidity and no short-term refinancing needs

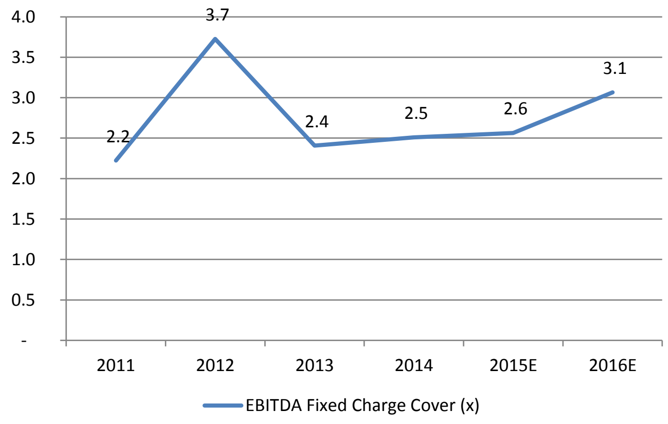
BET's liquidity is regarded as strong as it can sufficiently cover scheduled short-term debt positions in 2015 (liquidity well above 100%). Furthermore, the company has no significant refinancing needs by 2020 when the EUR 15m senior secured corporate bond matures.

Figure 3 – Development of BET's financial leverage



Source: BET, Scope estimates

Figure 4 – Development of BET's fixed charge coverage



Source: BET, Scope estimates

Senior secured corporate bond

EUR 15m corporate bond strongly benefits from overcollateralisation

BET's EUR 15m senior secured corporate bond (6.5% 2013/2020) is rated BBB-, based on the BB- Corporate Issuer Credit Rating. The corporate bond is secured by ample collateral, which comprises easements, material parts of a biomass cogeneration plant and as well as material parts of the company-owned district-heating network (over 16km). In this context, Scope rates highly the value of BET's district heating network given its position as a quasi-monopoly. In addition, the corporate bond is secured through a liquidity reserve in trust. Scope notes that the corporate bond strongly benefits from overcollateralisation even after the application of valuation discounts which is reflected in the assigned instrument rating.

Outlook

Outlooks: Stable

The Outlooks are Stable. The CICR is strongly constrained by the company's size and scope. A lower rating would be warranted in case of deterioration of the company's equity base or a significant worsening of the company's leverage above 7.0x or its EBITDA fixed charge coverage below 2.0x.

Regulatory disclosures

Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

Rating prepared by

Sebastian Zank, Lead Analyst

Rating committee responsible for approval of the rating

Olaf Tölke, Committee Chair

Rating history

Date	Rating action	Rating
9 July 2014	Affirmation	BBB- Outlook Stable
9 July 2013	Initial	BBB- Outlook Positive

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

Information on interests and conflicts of interest

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Key sources of Information for the rating

☒ Website of the rated entity
☒ Valuation reports, other opinions
☒ Audited annual reports of the rated entity
☒ Current performance record of the rated entity
☒ Interview with the rated entity
☒ Detailed information provided on request
☒ Data provided by external data providers
☒ External market reports
☒ Press reports/other public information
☒ Bond Prospectus

Scope Ratings considers the quality of the available information on the evaluated company to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Methodology

The methodology applicable for this rating (Corporate Rating Methodology, Rating Methodology - European Alternative Energy Corporates) is available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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