Research Update:

France-Based Cable Manufacturer Nexans Outlook Revised To Stable On Inorganic Growth; 'BB+/B' Ratings Affirmed

February 27, 2024

Rating Action Overview

- French cable manufacturer Nexans plans to use its financial flexibility to acquire Italy-based cable manufacturer La Triveneta Cavi with a mix of debt and cash on hand.
- We understand that the acquisition will be EBITDA margin accretive and will offer additional diversity into the less volatile and cash generative low voltage business.
- At the same time, Nexans' S&P Global Ratings-adjusted funds from operations (FFO) to debt will decline to about 35%-40% in 2024, pro forma for the acquisition, before improving to about 45% in 2025, compared with our adjusted FFO to debt of 52.7% in 2023 and 77.1% in 2022, and our prior expectations that the company would maintain an FFO-to-debt ratio sustainably above 50%.
- We therefore revised our outlook on Nexans to stable from positive and affirmed our 'BB+/B' issuer credit ratings. We also affirmed our 'BB+' issue rating on Nexans' senior unsecured notes; the recovery rating remains unchanged at '3', indicating 65% recovery prospects (rounded estimate) in the event of a default.
- The stable outlook on Nexans reflects our expectation that the company's adjusted EBITDA margins will remain at or above 7%, while S&P Global adjusted FFO to debt will quickly return to about 45% in 2025 as the company focuses on strengthening its balance sheet after the acquisition of La Triveneta Cavi.

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Rating Action Rationale

Italy-based low and medium voltage cable manufacturer La Triveneta Cavi will strengthen Nexans' low voltage portfolio and offer positive free operating cash flows (FOCF). Based on the limited information available, we understand that La Triveneta Cavi achieved sales of about €800 million in 2023 and we anticipate that the target will be EBITDA margin accretive for Nexans. In addition, based on company's disclosure, about 90% of La Triveneta Cavi sales are on low-voltage cable for various applications. The remaining 10% is medium voltage on solar. In addition, typically the low voltage cable business presents a cash flow profile that is relatively more stable and predictable than the high-voltage project business, whose cash flow dynamics are relatively more exposed to the advance payment and thereby lumpy. This will offer some additional diversification to Nexans' cash generation, in our view. As a result, while we see the acquisition as incrementally positive for Nexans' business risk profile, Nexans has less diversification and somewhat lower profitability, mainly because of its metallurgy business, as well as weaker cash flow generation than its main European peer, Prysmian SpA.

The acquisition of La Triveneta Cavi will likely temporarily weaken Nexans' credit metrics. As a result of the acquisition, Nexans' S&P Global Ratings' pro forma adjusted FFO-to debt-ratio will decline in 2024 to about 35%-40% when taking into account 12 months contribution of La Triveneta Cavi in Nexans' EBITDA, from 52.7% in 2023 and 77.1% in 2022. We anticipate that Nexans will focus on deleveraging in 2024-2025, through net debt reduction and EBITDA growth, strengthening hereby the company's balance sheet. As a result, we expect FFO to debt to improve to about 45% by year-end 2025, which is a level that we see commensurate with the 'BB+' rating.

We understand that the final closing of the acquisition could take place in May or June this year and that the deal is subject to customary antitrust approvals. The acquisition price has been secured with a back-up facility that the company expects to refinance in the market or with bank debt. Nexans' operating performance continues to improve with S&P Global Ratings-adjusted EBITDA reaching 7.0% in 2023 and expected to further improve from 2024 as the less profitable project will gradually cease to be dilutive for its EBITDA.

Nexans' operating performance has improved, thanks to progress made in its transformation plan. The plan focuses on electrification and achieving higher and more stable cash flows. Nexans' focus on markets, driven by secular trends like electrification and decarbonization, has resulted in higher and more sustainable margins and cash generation. The group's strategic goal is to become a pure electrification player, which includes disposing its nonelectrification business where it has a less competitive position and reduced pricing power. After delivering strong credit metrics in 2022, the group continued with good operating performance in 2023, as evidenced by a solid S&P Global Ratings-adjusted EBITDA generation of €547 million slightly improving from €538 million in 2022, translating in a 7% S&P Global adjusted EBITDA margin (6.4% in 2022).

FOCF in 2023 was materially supported by advance payments on jumbo projects, while Nexans' expansionary projects will lead to materially increased capital expenditure (capex). Similar to other peers operating in the same sector, Nexans' capacity expansion plans have significantly increased the company's capex profile over the last couple of years and especially in 2023 and we expect noteworthy capex investments in 2024. In 2023, Nexans invested €377 million in capex representing 4.8% of sales. For 2024 we currently anticipate capex at about €370 million (4.3% of sales). This compares with €298 million in 2022 (3.6% of sales) and €206 million (2.8% as a percentage of sales) in 2021. In 2025, the company's capacity expansion, mainly related to the new submarine vessel should be completed. Hereafter, we anticipate a normalization of capex at about €300 million per year. Nexans reported working capital inflows of €263 million in 2023, up from €103 million in 2022, and the company's S&P Global Ratings-adjusted FOCF reached €158 million in 2023. In our base case for 2024, we forecast somewhat lower FOCF of about €100 million-€150 million, mainly due to increasing interest costs, still elevated capex, and significantly lower working capital inflows.

Outlook

The stable outlook on Nexans reflects our expectation that the company's adjusted EBITDA margins will remain at or above 7% while S&P Global Ratings-adjusted FFO to debt will quickly return to sustainably above 45% in 2025 as the company continues to focus on strengthening its balance sheet after the acquisition of La Triveneta Cavi.

Downside scenario

We could downgrade Nexans if the company encounters major hiccups in delivering its projects, affecting both its level of profitability and cash generation, or if Nexans privileges further material debt-funded acquisitions. Under such scenarios we would likely see its FFO to debt to decrease to sustainably below 30%.

Upside scenario

Positive rating pressure could materialize if the company strengthens its balance sheet and profitability profile so that it can sustain under any market circumstances a S&P Global Ratings adjusted FFO to debt of well above 45%. An upgrade will also hinge on company building a positive track record in keeping a balance sheet commensurate with an investment grade rating.

Company Description

France-based Nexans is the world's second-largest cable manufacturer, with about €7.8 billion of revenue and an S&P Global Ratings-adjusted EBITDA of €547 million in 2023 (adjusted EBITDA margin of 7.0%). The group has around 28,500 employees and is present in 41 countries. It operates through five divisions: Generation and Transmission, Distribution, Usage, and Industry and Solutions.

- Generation and Transmission (formerly known as High Voltage and Projects representing approximately 12% of 2023 sales). It covers end markets, such as offshore wind farms, land high voltage, and smart solutions for the oil and gas sector (direct electric heating and subsea heating cables).
- Distribution (formerly known as Territories representing about 18%). It covers cables for the energy distribution networks managed by the electricity suppliers;
- Usage (formerly known as Building representing about 26%). It corresponds to all Building cabling systems.
- Non-Electrification (Industry and Solutions; about 27%). It provides support to original equipment manufacturers (OEMs) and industrial infrastructure projects, offering customized cabling and connection solutions. It also covers the transportation, automation, renewables (solar and wind power), resources (oil and gas and mining), and high-tech (nuclear and medical) end markets.
- Other activities (about 16%). It captures the wire rods, electrical wires, and winding wire production businesses.

Quiñenco S.A. (one of Chile's largest investment holding companies) is currently the largest shareholder of Nexans, with about 19.3% of equity (as of February 2024) held through two subsidiaries, Invexans Limited (U.K.) and Tech Pack (Chile). Free-Float stands at 77%.

Our Base-Case Scenario

Assumptions

- For the eurozone, GDP growth of 0.8% in 2024 and 1.5% in 2025. In the U.S., GDP growth of 1.5% in 2024 and 1.4% in 2025; and for China, 4.6% in 2024 and 4.8% in 2025.
- Sales growth in 2024 by about 9.5% driven by resilient demand in the industrial segment and the acquisition of La Triveneta Cavi, and 9.1% in 2025, reflecting full-year consolidation of La Triveneta Cavi, and the recovery of demand in Distribution and Usages.
- Adjusted EBITDA margin improving to 8.1% in 2024 and 8.2% in 2025, continuing to receive support from the implementation of the transformation plan and decline in restructuring expenses, but also a better level of profitability for the new projects.
- Slight inflows from changes in working capital of €50 million in 2024 and €75 million in 2025, supported by stricter working capital management.
- Capex of €370 million in 2024, of which about €150 million is strategic capex related to further investments in the new cable-laying vessel. From 2025, we expect fewer strategic investments, bringing total capex down to €300 million per year.
- Dividend of €2.30 per share will be proposed by the board at the annual general meeting in 2024, for a total dividend payment of €101 million, corresponding to a payout ratio of 40%. We assume a 10% growth in cash dividend paid from 2025.
- Spending on mergers and acquisitions, mainly driven by La Triveneta Cavi acquisition, which is planned to close in June 2024. We expect €50 million of acquisition spending per year from 2025.

Key metrics

Nexans S.A.--Forecast summary

Industry sector: Electrical equipment

	--Fiscal year ended Dec. 31--					
(Mil. €)	**2020a**	**2021a**	**2022a**	**2023a**	**2024f**	**2025f**
Revenue	5,979	7,374	8,369	7,790	8,528	9,308
EBITDA	291	522	538	547	689	768
Less: Cash interest paid	(45)	(41)	(43)	(74)	(93)	(103)
Less: Cash taxes paid	(46)	(47)	(114)	(107)	(105)	(133)
Funds from operations (FFO)	200	434	381	366	491	532
Capital expenditure (capex)	225	206	298	377	370	300
Free operating cash flow (FOCF)	185	147	211	158	121	300
Dividends	4	32	54	93	101	111
Discretionary cash flow (DCF)	181	105	125	59	11	179

Nexans S.A.--Forecast summary (cont.)

Industry sector: Electrical equipment

	--Fiscal year ended Dec. 31--					
(Mil. €)	**2020a**	**2021a**	**2022a**	**2023a**	**2024f**	**2025f**
Debt (reported)	1,215	931	1,206	1,213	1,559	1,559
Plus: Lease liabilities debt	105	116	110	132	132	132
Plus: Pension and other postretirement debt	276	204	118	132	132	132
Less: Accessible cash and liquid Investments	(1,042)	(872)	(1,034)	(982)	(738)	(844)
Plus/(less): mainly litigation and factoring	94	101	94	199	200	198
Debt	648	480	494	694	1,285	1,177
Adjusted ratios						
Debt/EBITDA (x)	2.2	0.9	0.9	1.3	1.9	1.5
FFO/debt (%)	30.9	90.4	77.1	52.7	38.2	45.2
Annual revenue growth (%)	(11.2)	23.3	13.5	(6.9)	9.5	9.1
EBITDA margin (%)	4.9	7.1	6.4	7.0	8.1	8.2

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. f--Forecast.

Liquidity

The short-term issuer credit rating is 'B'. We view Nexans' liquidity as strong, based on our expectation that sources of liquidity will exceed uses by more than 1.5x over the next 12 months and remain above 1.0x over the subsequent 12-month period. We expect liquidity sources will exceed liquidity uses even if forecast EBITDA declines by 30%.

We think Nexans has well-established relations with banks and demonstrates prudent liquidity management, with sizable cash balances and an undrawn revolving credit facility (RCF).

We estimate that Nexans principal liquidity sources as of Dec. 31, 2023, include:

- Our assumption of about €980 million in cash, when excluding about €150 million that we consider not immediately available.
- Full availability under the €800 million RCF maturing in October 2028.
- Cash FFO of about €400 million-€430 million in 2024 and about €480 million-€520 million in 2025.
- Working capital inflow of about €45 million-€55 million in 2024 and about €65 million-€85 million in 2025.

We estimate that principal liquidity uses as of the same date include:

- Debt maturities of about €588 million in 2024 and no maturities in 2025.
- Intra-year working capital swings of up to €400 million per year.
- Capex of about €360 million-€380 million in 2024 and about €290 million-€310 million in 2025.
- Annual dividend payments of about €100 million in 2024 and about €110 in 2025.

Covenants

In October 2022, Nexans amended the RCF by increasing the size to €800 million from €600 million:

- Gearing ratio: The consolidated net debt to equity ratio (including non-controlling interests) must not exceed 1.20x.
- Leverage ratio: Consolidated debt is capped at 3.2x consolidated EBITDA.

In our opinion, the group has ample headroom given its relatively low leverage.

Issue Ratings - Recovery Analysis

Key analytical factors

- The senior unsecured notes (comprising the €400 million notes due in April 2028 and €200 million notes due in April 2024) are rated 'BB+' with a '3' recovery rating. The ratings are based on our expectation of 50%-70% recovery (rounded estimate of 65% capped) in the case of a payment default.
- The recovery rating on the facilities is supported by limited priority ranking debt, which encompasses factoring as well as local facilities, while it is constrained by the notable quantum of pari-passu unsecured debt.
- Our hypothetical default scenario stems from a severe global recession in key markets, tightening credit markets, and significant contraction in demand due to an overall economic slowdown.
- We value the group as a going concern, given its strong brand and strong competitive position.

Simulated default assumptions

- Year of default: 2029
- Jurisdiction: France

Simplified waterfall

- Emergence EBITDA: €386.3 million.
- Minimum capex at 2.5% based on our expectation of future capital expenditure.
- Standard cyclicality adjustment of +5%.
- Implied enterprise value multiple: 5.0x.
- Gross enterprise value at default: €1,932 million
- Net enterprise value after administrative costs (5%): €1,835 million
- Estimated priority debt: €253 million

- Estimated senior unsecured debt: 1,583 million
- Recovery expectations: 50%-70%; rounded estimate: 65% capped

Note: All debt amounts include six months of prepetition interest accrued and assumed 85% drawn on the RCFs.

Ratings Score Snapshot

Issuer Credit Rating	BB+/Stable/B
Business risk:	Fair
Country risk	Intermediate risk
Industry risk	Intermediate risk
Competitive position	Fair
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bb+
Modifiers:	
Diversification/Portfolio effect	Neutral (No impact)
Capital structure	Neutral (No impact)
Financial policy	Neutral (No impact)
Liquidity	Strong (No impact)
Management and governance	Neutral (No impact)
Comparable rating analysis	Neutral (No impact)
Stand-alone credit profile:	bb+

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook 2024: Capital Goods, Jan. 9, 2024
- Tear Sheet: Prysmian SpA, Oct. 10, 2023
- Southwire Co. LLC, July 28, 2023
- Research Update: Italy-Based Cable Manufacturer Prysmian SpA Rated 'BBB-'; Outlook Stable, June 6, 2023
- Research Update: Nexans Outlook Revised To Positive On Successful Transformation And Strong Credit Metrics; 'BB+/B' Ratings Affirmed, Feb. 15, 2023

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Nexans S.A.		
Issuer Credit Rating	BB+/Stable/B	BB+/Positive/B
Senior Unsecured	BB+	BB+
Recovery Rating	3(65%)	3(65%)

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