

Thursday, 16th May 2024

modefinance Corporate Credit Rating (Solicited) for
EARTH ENERGY S.R.L.: B1 (First issuance)

modefinance published the Solicited Corporate Credit Rating of EARTH ENERGY S.R.L. on the website (<http://cra.modefinance.com/en>) and the rating assigned to the entity is B1 (First issuance). The analysis revealed that the company has an adequate economic-financial situation with average capability of repaying financial obligations and it is little affected by adverse economic scenarios.

Earth Energy S.r.l. (hereinafter also referred to as "EE"), based in Monza, has been active in the energy sector since 2009 where it markets natural gas. In 2024 it aims to enter the electricity sector as well. The Company sells directly to wholesalers who in turn resell to private consumers, particularly focusing on users of gas for heating. EE is active in all major European markets, also providing environmental certification systems. The Company management consists of professionals with proven experience in the energy sector.

Key Rating Assumption

The Company EARTH ENERGY S.R.L. presents an overall adequate economic and financial situation. In 2023, the turnover recorded a further increase of +23% YoY, benefiting primarily from the price increase. Operating margins and net income are also growing, and ensure satisfactory profitability indicators. Adequate management of expenses results in a financially balanced situation. The management of the monetary cycle and the relationship between incoming and outgoing payments are also appreciable. On the solvency front, EE registers an improvement in leverage ratio, which although suffers the low degree of capitalization. However, financial debt remains sustainable. In 2023, the Company effectively managed its core business, generating positive operating cash flow, also thanks to the decrease in accounts receivable positions. In addition, the Company increased its cash and cash equivalents by the recourse of new financial debt.

The Company has an administrative body with a collegial form, composed of managers with a long experience in the energy sector. The Board is flanked by an auditor. EE presents a clear group structure, with ownership traceable to the CEO, Mr. Carlo Maria Bagnasco, who exercises it through a holding company.

Compared to the reference peer group, Earth Energy is positioned well above the 50th percentile in terms of size and profitability, while its solvency positioning is below the median. The peer group expresses solvency levels close to sufficient, along with adequate financial balance and an appreciable profitability performance.

The energy sector in Italy is of considerable strategic importance and has undergone strong and important changes due to recent geopolitical tensions. In the last months, however, the situation seems to have normalized, with a partial reduction in commodity prices. The macroeconomic outlook for Italy projects a deceleration in growth for 2024, with consumption and investment affected by the high interest rates. In the medium to long term, however, inflationary pressure is expected to slow down, with benefits for both GDP growth and public debt sustainability. Macroeconomic forecast data could be revised upwards.

Sensitivity Analysis

In the following table, the addressing factors, actions or events that could lead to an upgrade or a downgrade are summarized:

Action	Description of the addressing factors, actions or events
Upgrade	<ul style="list-style-type: none"> • Increase in turnover, also thanks to the trade of electricity; • Increase of the capital endowment, with positive effect on solvency indicators; • Appointment of a Board of Statutory Auditors; • Improvement of the macroeconomic and geopolitical conditions, with positive impact on the economic growth. <p>In the case these conditions are met, the rating could upgrade to A3.</p>
Downgrade	<ul style="list-style-type: none"> • Sharp decline in operating margins and net income; • Deterioration in solvency indicators; • Decline in liquidity and cash flows; • The unstable macroeconomic and geopolitical environment impact the global economic growth <p>If these conditions were to occur, we can expect a downgrade to B1-.</p>

IMPORTANT

The present Corporate Credit rating is issued by modefinance under EU Regulation 1060/2009 and following amendments.

The present rating is solicited and is based on both private and public information. The rated entity and/or related third parties have provided all private information used. modefinance had access to some accounts and other relevant internal documents of the rated entity and/or related third parties. Solicited and unsolicited ratings issued by modefinance are of comparable quality, as the solicitation status has no effect on methodologies used. More comprehensive information on modefinance Corporate Credit Ratings are available at: <http://cra.modefinance.com/en>

The present Corporate Credit Rating is issued on MORE Methodology 2.0 and Rating Methodology 1.0. A comprehensive description of both methodologies, as well as information on modefinance Rating Scale and Mappings, is available at <http://cra.modefinance.com/en/methodologies>.

For information on historical default rates of modefinance Corporate Credit Ratings please refer to ESMA Central Repository: <https://cerep.esma.europa.eu/cerep-web/> and ESMA European Rating Platform https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_radar.

modefinance refers to default as a company under bankruptcy, or under liquidation status, or under administration or for which missed payments on a financial obligation are officially recorded.

The quality of the information available on the rated entity and used to determine the present rating was judged by modefinance as satisfactory. Please note that modefinance does not perform any audit activity and is not in a position to guarantee the accuracy of any information used and/or reported in the present document. As such, modefinance can accept no liability whatsoever for actions taken based on any information that may subsequently prove to be incorrect.

The present credit rating was notified to the rated entity in order to identify potential factual errors, as prescribed by the CRA Regulation.

No amendments were applied after the notification process.

Modefinance did not provide any ancillary services to the entity. Modefinance ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities.

The rating action issued by modefinance was performed independently. The analysts, members of the rating team involved in the process, modefinance Srl and its members and shareholders do not have any conflicts of interest in relation to the Rated Entity and/or Related Third Parties. If in the future a potential conflict of interest is identified in relation to the persons reported above, modefinance Ratings will provide the appropriate information and if necessary the rating will be withdrawn.

The present Credit Rating is an opinion of the general creditworthiness that modefinance issues on the rated entity, and should be relied upon to a limited degree. The issued rating is subject to an ongoing monitoring until withdrawal.

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