17 August 2023

Corporates

Bonafarm Group
Hungary, Consumer Products

BB STABLE

Key metrics

Scope credit ratios	2021	2022	Scope estimates 2023E	Scope estimates 2024E
Scope-adjusted EBITDA/interest cover	243.6x	Negative	38.9x	43.5x
Scope-adjusted debt/EBITDA	2.4x	0.9x	1.5x	1.6x
Scope-adjusted funds from operations/debt	41%	117%	61%	59%
Scope-adjusted free operating cash flow/debt	16%	1%	Negative	Negative

Rating rationale

The rating action reflects Scope's view that Bonafarm's credit metrics can be maintained on the very good level attained in 2022, despite its ambition to significantly upscale capital expenditures. The rating action is driven by the group's exceptional operating performance in 2022 followed by good H1 2023 results, with Scope-adjusted EBITDA up by 80.7% in 2022 compared to 2021 and a related decrease in Scope-adjusted debt/EBITDA to 0.9x from 2.4x. While the performance in 2022 was an outlier due to the volatile input prices (which the company managed well), Scope projects leverage to stay below 2x in the medium-term (excluding M&A), underpinning Scope's view of a better financial risk profile and hence the rating upgrade.

The ratings are driven by i) two of the group's brands, Pick and Sole-Mizo, being among Hungary's most valued, as market leaders in processed pork and milk; ii) the group's high vertical integration and counter-cyclical business units; iii) solid profitability (Scope-adjusted EBITDA margin of 11.3% in 2022, up from 7.8% in 2021; expected to normalise to around 7.5%); and iv) continuously strong parent support.

The rating is held back by the group's M&A strategy and its slow deployment of capex for a new processed meat production plant of subsidiary Pick Szeged. Bond financing was secured in 2019 for originally budgeted capex. The plant's construction is not yet fully contracted, making cost overruns likely given the soaring construction costs in Hungary. This may cause Scope-adjusted debt/EBITDA to increase by up to 0.5x, at most, depending on the cost overruns (payable in early 2026) and how these are funded.

Outlook and rating-change drivers

The Outlook is Stable, reflecting good management of both inflation and the volatile market, the further rescheduled capex, and the group's flexible financial and investment strategies and, hence, some expected volatility in credit metrics. The Stable Outlook reflects Scope's expectation that Bonafarm can tackle inflation and maintain margins as well as execute capex plans while keeping Scope-adjusted debt/EBITDA below 3.5x.

A positive rating action is possible if Scope-adjusted free operating cash flow/debt can be sustained above 5% following the execution of the capex plan and production ramp-up while keeping Scope-adjusted debt/EBITDA below 3.0x.

A negative rating action could be warranted by i) Scope-adjusted funds from operations/debt decreasing towards 15%; and/or ii) Scope-adjusted debt/EBITDA increasing towards 4x. The latter could be caused by more debt taken on due to i) higher construction costs; ii) a slow production ramp-up; iii) a significant change in market input prices; iv) weaker pricing power in main segments due to further delays in modernisation that weaken market share; and/or v) M&A.

Ratings & Outlook

Issuer	BB/Stable
Senior unsecured debt	BB

Analyst

Barna Gáspár
+49 30 278913 25
b.gaspar@scoperatings.com

Related Methodologies

Corporate Rating Methodology, July 2022

Consumer Products Rating Methodology, November 2022

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

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

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
17 Aug 2023	Upgrade	BB/Stable
23 Aug 2022	Outlook change	BB-/Stable
17 Sep 2021	Outlook change	BB-/Positive
21 Sep 2020	Affirmation	BB-/Stable

Rating and rating-change drivers

Positive rating drivers

- Strong market position in Hungary in consumer products (processed meat and milk) and agriculture enabling pricing power
- Vertically integrated group covering full process chain: agriculture including animal feed and livestock, pork meat and milk processing and winery
- Ownership of two of the most valuable Hungarian consumer products brands (Pick and Sole-Mizo)
- Strong parent support exemplified by equity increases and loans exceeding HUF 50bn in 2016-2022; further HUF 8.8bn planned in the next three years

Negative rating drivers

- EBITDA vulnerable to market prices – especially for animal feed, the fluctuating ZMP index (German slaughter pigs index), milk, energy and labour – and external shocks such as drought and disease
- Slow execution of investments to replace old technologies in meat processing while construction prices soar in Hungary, mitigated by higher-than-expected subsidy and owner's equity contribution and possibility to postpone strategic capex in other operating areas
- Higher production-related headcount than peers' in both milk and meat processing due to delayed investments, low automation and production being situated at multiple locations
- Possible moderate fluctuation in credit metrics due to large capex not yet contracted and M&A activity

Positive rating-change drivers

- Return of Scope-adjusted free operating cash flow/debt above 5% following executed investment strategy and production ramp-up
- Scope-adjusted debt/EBITDA forecasts remain below 3.0x

Negative rating-change drivers

- Scope-adjusted debt/EBITDA increasing towards 4x through debt to cover higher construction costs, slow production ramp-up, significant market input price changes, loss of pricing power in main segments and/or M&A and/or
- Scope-adjusted funds from operations/debt decreasing towards 15%, e.g. due to significant further delay in modernisation of production facilities exemplified by shrinking market share and/or margins, or higher operating costs

Corporate profile

Bonafarm Group, which consists of Bonafarm Zrt. And its fully consolidated subsidiaries, is Hungary's largest fresh food producer, with a broad, diversified product portfolio. The group is vertically integrated, with activities ranging from crop production and large-scale animal husbandry to the production of wholesale food products under both its own brands and private labels. Bonafarm Zrt. Is the parent company of eight separate business units (five in agriculture and three in the food industry). Its three main operating groups are called Agriculture, Food Industry, and HQ & Administration (BonOffice Ltd, Bonafarm Zrt.). Agriculture includes Bóly Group (crop and seed production, pig and dairy cattle breeding), Dalmand Co. (crop and seed production, pig breeding), Fiorács Ltd. (crop production, pig breeding), Agroprodukt Group (crop and seed production, pig and dairy cattle breeding), and Bábolna Takarmány Ltd (fodder production). Food Industry includes Pick Szeged Co. (processed meat production), Sole-Mizo Co. (milk processing) and Csányi Pincészet Co. (wine). The group is fully controlled by renowned businessman and banker Dr Sándor Csányi through holding company Bonitás 2002 Zrt.

In June 2023, the shares of Bonitás 2002 Zrt. were transferred to a Csányi family trust named Unity Asset Manager Foundation for generational change purposes. Ownership interests in Bonafarm Group can be only inherited within the Csányi family; therefore, the family's support and the business' family-run nature remain supportive to the rating.

The group does not include the other interests of Dr Sándor Csányi such as MCS Slaughterhouse (pig slaughterhouse), Hungerit (chicken production) and KITE (agricultural integrator). The group looks to expand organically and inorganically while keeping the business within the family.

Financial overview

			Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	243.6x	Negative	38.9x	43.5x	47.1x
Scope-adjusted debt/EBITDA	2.4x	0.9x	1.5x	1.6x	1.4x
Scope-adjusted funds from operations/debt	41%	117%	61%	59%	70%
Scope-adjusted free operating cash flow/debt	16%	1%	-36%	-55%	10%
Scope-adjusted EBITDA in HUF m					
EBITDA	19,993	36,132[1]	24,565	26,532	28,129
Scope-adjusted EBITDA	**19,993**	**36,132**	**24,565**	**26,532**	**28,129**
Funds from operations in HUF m					
Scope-adjusted EBITDA	19,993	36,132	24,565	26,532	28,129
less: (net) cash interest paid	-82	1,001	-632	-611	-597
less: cash tax paid per cash flow statement	-147	-696	-507	-728	-631
Change in provisions	115	3,568	-251	-238	-226
Funds from operations	**19,879**	**40,005**	**23,176**	**24,955**	**26,674**
Free operating cash flow in HUF m					
Funds from operations	19,879	40,005	23,176	24,955	26,674
Change in working capital	-3,100	-19,730	8,288	4,800	-5,342
less: capital expenditure (net)	-9,030	-19,770	-44,994	-52,658	-17,514
Free operating cash flow	**7,749**	**505**	**-13,530**	**-22,902**	**3,818**
Net cash interest paid in HUF m					
Net cash interest per cash flow statement	-82	1,001[2]	-632	-611	-597
Net cash interest paid	**-82**	**1,001**	**-632**	**-611**	**-597**
Scope-adjusted debt in HUF mm					
Reported gross financial debt	53,674	50,050	45,878	44,448	43,162
less: cash and cash equivalents	-25,448	-35,884	-23,088	-2,441	-4,985
add: non-accessible cash[3]	20,000	20,000	15,000	-	-
Scope-adjusted debt	**48,226**	**34,166**	**37,790**	**42,007**	**38,177**

[1] Reported EBIT and EBITDA include some non-cash items. In 2022, a one-off write-off on intangible assets was performed as part of EBITDA, which we excluded as it is a non-cash item.
[2] Interest received on cash deposits and on investments in Hungarian sovereign bonds
[3] Cash earmarked for capex

Table of Content

Environmental, social and governance (ESG) profile

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)

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

Circular economy in focus

Bonafarm is Hungary's largest vertically integrated consumer products and agricultural company. It has substantial investments in farming and livestock production. Production is from crops to processed food, which contributes to the circular economy. Group entities have started developing and implementing ESG principles, which is visible in the group's environmental footprint. The agricultural and livestock leg is rather modern (save for further investments in crop irrigation) while the processed food plants are rather old and need significant investment, which has been under planning for several years.

Family ownership drives decision-making

The Csányi family keeps a hands-on approach on strategic decisions.

Pick Szeged was one of the first issuers in the Hungarian Bond for Growth programme through its 2019 bond issuance (HUF 27bn, 2% fixed yearly coupon) to quickly secure long-term cheap financing. The proceeds are earmarked for building a new, integrated processed meat products facility (current facility built in the 1970s). The issuance was done very early, while the greenfield investment was in planning. Pick Szeged's management composition has since somewhat changed and the investment remains in the planning phase 3.5 years after the bond issuance, indicating slow decision-making. In the meantime, construction prices in Hungary increased in by up to 60%.

Scope views Bonafarm's ESG strategy as credit neutral.

Business risk profile: BB+

The moderate business risk profile assessment reflects the group's market leadership in Hungary, good diversification, moderate profitability and brand strength.

Blended industry risk profile: A-

As a vertically integrated agribusiness and commodity foods manufacturer, Bonafarm Group primarily generates revenues from the sourcing and distribution of crops, food, animals and their products as well as their inputs, and the processing, distribution and marketing of commodity food products. We used a blended approach to assign the industry risk profile, with roughly two-thirds of total sales and EBITDA relating to fast-moving (processed meat and milk products) consumer goods (Industry risk of A) and the remainder from agribusiness (BBB). With low substitution risk (food is non-discretionary), the overall industry risk profile is A-.

High cyclicality

Non-discretionary products normally have low cyclicality. However, the strong supply swings for agribusiness and commodity food products introduce significant volatility to both costs and prices, resulting in volatile revenues and EBITDA. Both expected (crop forecasts) and unexpected events (bad weather, diseases and government import restrictions) can lead to volatility, with supply shortages (increasing prices) and supply gluts (decreasing prices) leading to price volatility well in excess of more general price changes. For these reasons, we consider industry cyclicality to be high.

High entry barriers

Barriers to entry are high. This reflects the need to purchase appropriate land, construct specialised infrastructure and hire qualified personnel. Animal husbandry also involves significant time lags between breeding livestock and processing the resulting milk and meat products, as well as capital costs to establish adequate processing capacity. Costs for generating specialised infrastructure and changing products to align with demand are also substantial. Unemployment continues to be low among farmers and animal breeders in Hungary, making it difficult to find qualified personnel. Additional market barriers are intellectual property rights (trademarks, proprietary recipes for milk and meat products) and genetics (specialised, proprietary and high-productivity breeds).

Low substitution risk

Substitution risks are low, although agricultural commodity products can be easily substituted (either via imports or alternative domestic sources). Since Bonafarm Group is the largest vertically integrated (plot to plate) agribusiness and commodity food manufacturer in Hungary, other suppliers cannot offer the same scale and product coverage. Hence, vertical integration and the resulting control over final products (processed meat and milk products) limit substitution risks, as consumers are unlikely to accept differences in price, taste and consistency. The group also provides the necessary value chain certification for non-GMO products that cannot be easily reproduced with alternative inputs.

Core market of Hungary hit by inflation and dispute with EU

Bonafarm's main market is Hungary. Our public finance rating for Hungary is BBB/Stable. The country's economic growth after the Covid-19 pandemic is being challenged by record-high inflation, a weakening local currency, delays in receiving certain EU funds and the related dispute on rule of law, and labour shortages due to an ageing workforce and wage pressure. These are affecting the government's ability to provide investment grants and develop infrastructure in the country. Bonafarm has been benefitting greatly from the agricultural subsidies, investment subsidies and tax reliefs. For the existing investments, a subsidy was secured and tax reliefs applied during the investment phase, meaning the dispute with the EU regarding funds does not affect our base case.

Soaring food prices result in shrinking market even for the strongest players

In 2022, revenues increased 24.1% compared to 2021, while the food consumer price increased 44.8% and agricultural producer price by 41.4%. In 2023, inflation in the first half was around 20% and the Hungarian Statistics Office expects it at around 20% for the full year.

Price caps and weak local currency benefit the group

Hungary imposed price caps on basic food through 2022 and until August 2023 on certain basic food products. Among this is 2.8%-fat content UHT milk, which is Bonafarm's only price-capped product; retailers chose the cheapest suppliers to minimise losses. At the same time, a weak forint made imported products more expensive, putting Bonafarm in a good position serve the local market and make profits in all its product categories.

Consumer turning towards cheap, private-label products

The rising inflation has eroded purchase power and decreased retail volumes in H2 2022, which has continued into 2023. In this challenging environment, consumers are opting for cheaper products with less added value, meaning more cold cuts instead of salami in the case of Pick Szeged, and more price-capped milk and private labels. Some shift in consumer preference towards healthier alternatives may also be playing a role in the decreasing volumes. For Bonafarm, this means revenue growth at below inflation and that profitability will shrink in 2023-24.

Lower volumes and consumer preferences have resulted in a change in product mix at Pick Szeged and a certain reduction in variable costs due to automation and the use of fewer workers to adapt to the lower retail volumes.

Bonafarm to remain market leader in milk and meat processed products

Overall, we expect the group to further expand in agriculture (especially animal husbandry) and milk processing. We also expect it to defend its top position in processed products despite losing some ground.

Strong vertical integration is a comparative advantage

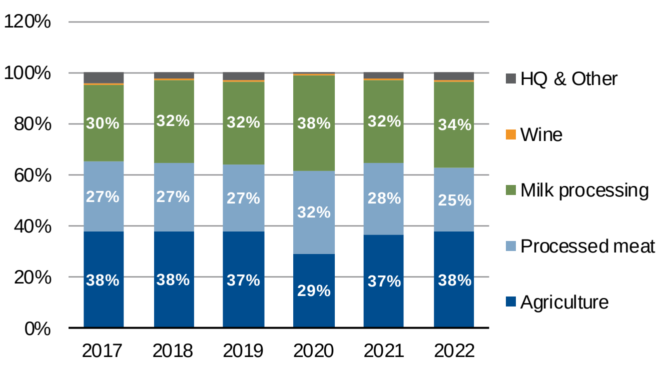
Bonafarm Group profits from strong vertical integration. However, access to key markets (China, Japan) is still an issue after an African Swine Fever outbreak resulted in import restrictions on Hungarian pork. The effect was seen on the results of pig slaughterhouse MCS Vágóhíd, a strategic partner owned by dr. Sándor Csányi but not part of Bonafarm Group. The slaughterhouse's profitability stabilised in 2021, albeit it is still rather low.

Concentration on Hungary, looking to expand in the CEE

For an agribusiness and consumer products entity, the company is well diversified. It is geographically diversified within Hungary and export sales are moderate at less than a quarter of total revenues (mainly to Germany and Romania).

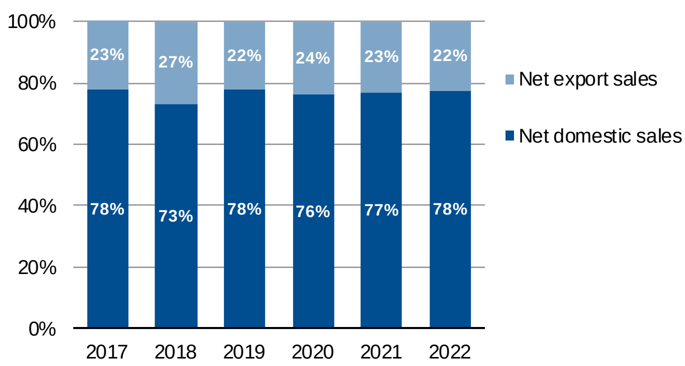
Product diversification (Figure 1) in 2021 was dominated by processed meat and milk production, at around 60% of total revenues. Market diversification (Figure 2) shows the relatively moderate international position of revenues (consolidated) with relatively stable development.

Figure 1: Product diversification (sales, % of total)



Source: Bonafarm

Figure 2: Market diversification (sales, % of total)



Source: Bonafarm

Good customer diversification

Bonafarm Group's customer base is highly diversified for a consumer product company, encompassing all relevant retail chains in Hungary thanks to high domestic demand for its brands. This also limits concentration risk. Bonafarm Group plans to expand distribution channels for future growth, especially for dairy. Export markets are increasing in importance, and Bonafarm Group is concentrating on key growth markets in neighbouring countries.

Exceptional profitability in 2022 to normalise above historical levels

EBITDA margins are moderate, at 5%-6% during 2015-2018 and above 7% in 2019-2021, including during the Covid-19 pandemic years. EBITDA is volatile, mainly due to changes in non-controllable costs such as labour and input costs. In 2022, the Scope-adjusted EBITDA margin reached the extraordinary level of 11.3% due to i) low input prices resulting from agricultural integration, which the group has leveraged on greatly; ii) the weak Hungarian forint that enabled the issuer to undercut imported products and increase volumes and generate good profitability on price-capped milk; and iii) strong pricing actions across segments.

In H1 2023 EBITDA was HUF 15.3bn with a margin of 7.5% (-7.3% compared to nominal EBITDA of H1 2022), while Scope estimates full year EBITDA in 2023 around at around HUF 25bn with a margin of 7.5% (much below 2022 nominal EBITDA, although +22% compared to 2021).

Slow execution of investments allowed competitors to gain market share

Bonafarm Group is one of the largest employers in Hungary, with a headcount of more than 6,300. However, its ratio of revenue to headcount is half that of main competitors in processed meat and milk. The seemingly low efficiency is mostly due to its old production technology (also with modernisation delayed), facilities being situated in multiple locations, and the manual nature of some production processes (salami). In agriculture, the group uses highly efficient, state-of-the-art technologies, especially in crop production and livestock breeding.

The main domestic competitor of Bonafarm Group's milk-processing subsidiary, Sole-Mizo, is Alföldi Tej, which since 2020 has almost caught up to Sole-Mizo in terms of domestic revenue, with HUF 78.6bn in 2022, but lacks a strong export leg (Sole-Mizo sells HUF 40bn a year of exports). In 2022, Alföldi Tej was loss making on EBIT and had a minimal EBITDA margin.

Another competitor, Mecom Group (owned by Smithfield), acquired smaller production sites in Hungary in 2021 (Csabai brand, mainly sausage and non-moulded salami) and Slovakia's largest meat-processing plant with the well-known Humenné brand. Should Mecom Group be successful in Hungary, it could try to grab market share in the discounted private labels where Pick Szeged competes. However, the strong brand of the Pick Szeged's moulded salami should help to protect market share. Further delays in the issuer's investment in its meat processing may also make it vulnerable to more-efficient competitors.

Strong brands enable pricing power in Hungary

In Hungary, both Pick and Sole-Mizo brands have high brand awareness and are known for high quality. This leading position enables premium pricing for salami and certain milk products, which the group is using well in negotiations with retailers, and is despite the better operating efficiency at most competitors. We see the sustained market leadership by both sales and brand as key to Bonafarm keeping its pricing power and volumes.

Financial risk profile: BB-

The moderate financial risk profile is based on the heavy investment phase with negative Scope-adjusted free operating cash flow/debt, coupled with reasonable leverage metrics with Scope-adjusted debt/EBITDA ratio projected below 2x. This leverage alone would be rather low but we have also considered possible volatility up to 3.5x due to M&A considerations and uncertainties in capex overruns and their funding.

We have taken a more conservative view on the financial risk profile instead of adjusting separately for financial policy due to the volatile metrics. We overweighted the financial risk profile because the major capex planned in 2019 still has not been contracted despite the soaring construction costs. Furthermore, the group's financial policies ensure large headroom between covenants (net debt/EBITDA below 4x) and actual figures (net debt/EBITDA of 1-2x), giving space to increase leverage moderately.

Financial risk assumptions

Our key financial assumptions are i) no major restructuring of the group; ii) strategic capex (above depreciation) of HUF 76bn net of subsidies during 2023-2025; iii) continuity of management; iv) organic top-line sales growth at below inflation of 3% in 2023 (against 20% inflation), due to changes in product portfolio towards low value-added and private label products combined with shrinking demand, then 5% a year; v) wage growth in Hungary at close to inflation; vi) no major agribusiness-related event (e.g. drought, disease); vii) investment plans executed as presented; and viii) continuity of financial policy, especially in terms of no dividends and no new large debt issuances.

Large covenant headroom

Bonafarm Group secured HUF 44.7bn of financing (EUR 140m) provided by a consortium of CIB Bank Zrt. (member of Intesa Group) and Raiffeisen Bank Zrt. The loans are guaranteed by Bonafarm Group. The covenants are i) an equity ratio of at least 30%; ii) indebtedness of up to 4x; iii) two-year average net operating cash flows of at least HUF 9bn; iv) annual debt service coverage ratio of at least 1.05x; and v) total assets to shareholder equity of at least 45%. In 2022 all covenants were fulfilled with good headroom.

Strong deleveraging due to increasing profitability and slow deployment of capex

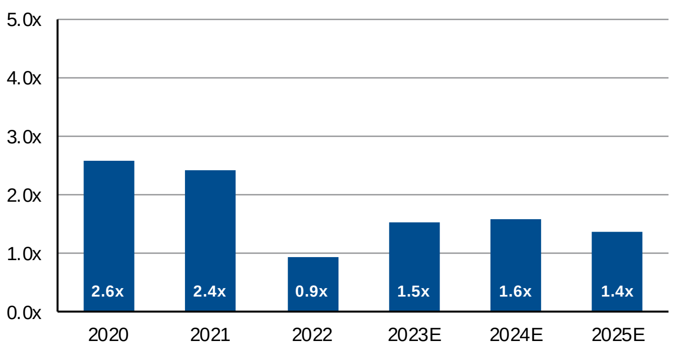
Leverage measured by Scope-adjusted debt/EBITDA has been decreasing since 2017 from 3.7x to 0.9x as of 2022. This was due to 62% sales growth while the EBITDA margin increased from 5.7% to 11.3% and EBITDA from HUF 11.3bn to HUF 36.1bn. The year 2022 was an outlier due to the exceptional performance in agriculture. We expect the EBITDA margin to normalise to 7.5%-8.0%. These leverage metrics include the initial budget for the processed meat products facility via restricted cash and investment cash flow, but cost overruns may push up leverage by 0.3x-0.5x in 2026, depending on how they are financed and how well construction prices are negotiated.

No upcoming refinancing risk

The financing structure includes low amortisation and high balloon or bullet facilities. The issued HUF 27bn bond is only repayable at maturity in 2029 which provides great cash flow headroom.

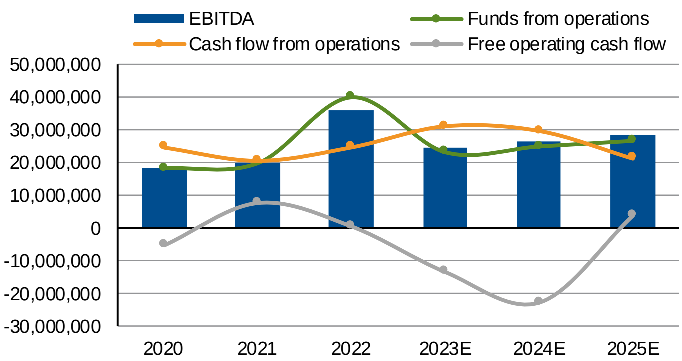
Scope-adjusted funds from operations/debt has improved since 2017 from 25% to 41% in 2021 and 117% in 2022, due to improving EBITDA margins and low agricultural input prices thanks to the group's well-integrated operations. We expect Scope-adjusted funds from operations/debt to exceed 60% in the medium term.

Figure 3: Scope-adjusted debt/EBITDA leverage over time



Source: Bonafarm, Scope estimates

Figure 4: Cash flow overview showing large investments



Source: Bonafarm, Scope estimates – in HUF th

Strong interest cover coupled with improving cash flow headroom

EBITDA/interest cover has always been strong. The Hungarian central bank's regime of low interest rates combined with state-subsidised financing opportunities has allowed

Bonafarm Group to contract debt with an average interest rate of 1.3% (calculated for 2022 on the drawn exposure). 80% of committed financing facilities have fixed interest rates. Hence, we expect the double-digit base rate in Hungary to have no major impact, with the group interest rate remaining below 2%, providing excellent debt protection.

Soaring construction costs are offset by increased state subsidy and equity increase

With the acquisition of large production sites in need of modernisation as well as an efficiency and capacity expansion, Scope-adjusted free operating cash flow/debt became negative in 2017 and will again be negative once the Pick Szeged investment kicks in.

Adequate liquidity

Liquidity coverage is volatile and rather low in 2024-25 due to the negative free operating cash flow induced by capex, some of which can be delayed or financed for the long term. Historically Bonafarm had a strong liquidity coverage above 6x.

The company has a HUF 7.3bn overdraft facility that is mainly unused and a small factoring facility at Sole-Mizo (fully consolidated subsidiary), also unused, which, based on their long record of being extended, results in adequate liquidity.

Cash pooling is undertaken across the group. MCS Slaughterhouse (not a group entity) has had limited access to the cash pool since 2022.

Balance in HUF m	2023E	2024E	2025E
Unrestricted cash (t-1)	35,884	23,088	2,441
Open committed credit lines (t-1)	7,350	7,350	7,350
Free operating cash flow	-13,530	-22,902	3,818
Short-term debt (t-1)	4,282	4,282	4,282
Coverage	**6.9x**	**1.8x**	**3.2x**

Supplementary rating drivers: +1 notch

Neutral financial policy

Bonafarm Group's financial policy continues to aim for a strong expansion of core businesses (primarily Pick Szeged) and organic growth overall. The Pick Szeged investment focuses on strategic modernisation and the expansion and replacement of a production plant built in the 1970s. We view financial policy as largely prudent as management is committed to keeping net debt/EBITDA at a maximum of 3.5x; loan covenants allow up to 4x.

Parent support: one-notch uplift for investing HUF 50bn in five years

Dr. Sándor Csányi had been for a long time Hungary's richest individual; currently he is second and has several executive positions at blue-chip companies as well as assets across different industries. Forbes magazine estimated his wealth in 2021 at HUF 420bn (around EUR 1.2bn). Dr Csányi fully controls Bonafarm Group through Bonitás 2002 Zrt. and has supported the group significantly with equity and owner loans since its inception. Equity increases in 2016-2022 amount to more than HUF 50bn and for 2023-25 Dr. Csányi plans to invest a further HUF 8.8bn in owner's loans and equity.

The direct ownership was transferred into a family trust, without any change in the family ownership model.

Therefore, we maintain the one-notch uplift for parent support, reinforced by the recent equity increases.

Long-term debt ratings

Senior unsecured debt rating: BB

Bonafarm's subsidiary Pick Szeged Zrt. issued a HUF 27.0bn senior unsecured bond unconditionally and irrevocably guaranteed by the parent company, Bonafarm Zrt. (ISIN: HU0000359336, issued in December 2019), through the Hungarian Central Bank's Bond Funding for Growth Scheme. The only bond issuance within Bonafarm Group was done at the Pick Szeged level, while Bonafarm Group has other senior unsecured debt ranking pari passu in the form of payables.

The senior unsecured bonds issued by Pick Szeged rank below the HUF 23bn senior secured bank debt of Bonafarm Group. Bonafarm Group has a strong asset base. However, due to the outdated meat-processing plant and the assets under construction to replace the plant, Scope has applied a high discount on assets. As a result, we expect an 'average' recovery for outstanding senior unsecured debt in a hypothetical default scenario in 2025.

Bond proceeds are earmarked for the new meat processing plant, which is in preparatory phase, and for general group financing purposes. The bond proceeds have been set aside as cash and in Hungarian sovereign bonds until construction starts. The bond has a tenor of 10 years and a fixed coupon of 2.0%. Bonds have bullet repayment. We note that Pick Szeged's senior unsecured bond issued under the Hungarian Central Bank's bond scheme has accelerated repayment clauses. The clauses require Pick Szeged to repay the nominal amount (HUF 27bn) in case of rating deterioration (two-year cure period for a B/B- rating, immediate repayment after the bond rating falls below B-, which could have default implications). In addition to the rating deterioration covenant, soft covenants include those addressing a cross default (with the senior secured club facilities agreement having a financial covenant of a net debt/EBITDA of 4.0x, mitigated by the large headroom to actual figures) and a change of control.

We have upgraded the rating on Bonafarm's senior unsecured debt to BB from BB-, which is in line with the issuer rating and is based on the full consolidation of Pick Szeged in Bonafarm and the parent's unconditional and irrevocable guarantee on Pick's debt.

Appendix: Peer comparison (as at last reporting date)

	Bonafarm Zrt.	Kometa 99 Zrt.	Baromfi Coop Kft.	Naturtex Kft.	HELL ENERGY Magyarország Kft.
Issuer rating with Supplementary Rating Drivers	BB/Stable	B+/Stable	BB-/Stable	B+/Stable	B+/Stable
Last reporting date	31 December 2022	31 December 2021	31 December 2021	31 December 2021	31 December 2021
Business risk profile	BB+	BB-	BB	B+	BB+
Financial risk profile	BB-	B+	BB-	B+	B
Scope-adjusted EBITDA/interest cover	Negative	12x	16x	13x	18x
Scope-adjusted debt/EBITDA	0.9x	6.1x	3.9x	5.8x	6.1x
Scope-adjusted funds from operations/debt	117%	14%	24%	15%	16%
Scope-adjusted free operating cash flow/debt	1%	-7%	-19%	-10%	-22%
Supplementary rating drivers					
Parent support	+1	-	-	-	-

Sources: Public information, Scope

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

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

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com