Aranynektár Kft. (Fulmer)
Hungary, Consumer Products

SCOPE | B STABLE

Key metrics for Fulmer GmbH Magyarországi Fióktelepe (Fulmer Hungarian Branch)

Scope credit ratios	FY 2022	FY 2023	Scope estimates FY 2024E	Scope estimates FY 2025E
Scope-adjusted EBITDA/interest cover	Net interest income	60x	19x	12x
Scope-adjusted debt/EBITDA	1.1x	2.8x	2.6x	2.5x
Scope-adjusted funds from operations/debt	97%	35%	36%	35%
Scope-adjusted free operating cash flow/debt	Neg.	Neg.	9%	-1%

Rating rationale

Aranynektár's rating continues to be determined by the credit quality of its sister company Fulmer Hungarian Branch (Fulmer).

Fulmer's business risk profile (assessed at B, down from B+) is weak due to low and volatile profitability, low customer diversification and low revenue (below EUR 20m) and market share. The lower assessment factors in general economic developments which also results in a limited impact of the strong industry risk profile.

Fulmer's financial risk profile (assessed at BB+, unchanged) is good due to its increased but still good leverage at end-FY 2023 with Scope-adjusted debt/EBITDA of 2.8x (up from 1.1x YoY) and its resilience shown through adequate liquidity and strong cash flow as food inflation hit 40% in FY 2023 fueled by steep energy price and wage increases. Scope-adjusted EBITDA/interest cover remains strong in the forecasted period and is not under pressure as the drawn debt is fixed-rate. We expect cash flow cover to remain low and under pressure given capex plans for FY 2024, which constrains the rating.

We have applied one notch down to the rating for governance and structure under supplementary rating drivers.

Outlook and rating-change drivers

The Stable Outlook is based on increasing but still good leverage after completing the HUF 2bn capex programme started in 2020, some loss of export volumes and an inflation shock on the EBITDA margin. The Outlook incorporates the assumption that Fulmer's Hungarian branch will at least maintain its current financial metrics as input prices normalise and demand is predictable for the next 12 months.

A positive rating action is remote but could be granted if Fulmer Hungarian Branch recovered its EBITDA margin to a level of at least 10% but below historical performance, increased Scope-adjusted free operating cash flow/debt above 10% and reduces dependence on certain customers while also grows significantly in revenues and improves governance (reporting to capital markets, management size and completes generation change).

A negative rating action could be taken if Scope-adjusted debt/EBITDA increased well above 4x on a sustained basis, e.g. due to a greater-than-expected drop in profitability, significant volume loss or larger-than-anticipated net capex.

Ratings & Outlook

Issuer	B/Stable
Senior unsecured guaranteed bond rating	B+

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Related Methodologies

General Corporate Rating Methodology; October 2023

Consumer Products Rating Methodology; November 2023

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Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
9 Nov 2023	Affirmation	B/Stable
9 Nov 2022	Affirmation	B/Stable
16 Dec 2021	Outlook change	B/Stable

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Moderate geographical diversification • Development of a branded label, albeit gradual • Strong EBITDA interest cover • Resilient business operations	• Small group size increases vulnerability to externalities • Strong exposure to a single customer • Large share of private labels weighing on profitability • Complex structure and high key person risk (ESG factor: credit-negative) • High historical variations in net working capital expected to continue putting pressure on liquidity

Positive rating-change drivers	Negative rating-change drivers
• Increase in EBITDA margin to at least 10% • Free operating cash flow/debt above 10% • Reduced dependence on key customers • Improvement in transparency and scale of activities and enlarged management capabilities	• Scope-adjusted debt/EBITDA well above 4x on a sustained basis

Corporate profile

Aranynektár Kft. packages honey for its sister company Fulmer Hungarian Branch, a Hungarian honey processing company. Both entities are owned either directly or indirectly by Ferenc Takács. As an integrated contractor, Aranynektár generates revenue fixed in advance by Fulmer to cover its operating expenses and produce a margin. The raw material (honey) is collected mainly from Hungary which is complemented by honey sourced from special regions like the Black Forest, from South America and depending on geopolitical considerations, partially from Ukraine.

Financial overview (Fulmer)

				Scope estimates	
Scope credit ratios[1]	**FY2021**	**FY 2022**	**FY 2023**	**FY 2024E**	**FY 2025E**
Scope-adjusted EBITDA/interest cover	30x	Net interest income	60x	19x	12x
Scope-adjusted debt/EBITDA	1.1x	1.1x	2.8x	2.6x	2.5x
Scope-adjusted funds from operations/debt	87%	97%	35%	36%	35%
Scope-adjusted free operating cash flow/debt	65%	-38%	-66%	9%	-1%
Scope-adjusted EBITDA in HUF '000					
EBITDA	1,302,620	1,199,216	468,476	532,569	544,943
Other items					
Scope-adjusted EBITDA	**1,302,620**	**1,199,216**	**468,476**	**532,569**	**544,943**
Funds from operations in HUF '000					
Scope-adjusted EBITDA	1,302,620	1,199,216	468,476	532,569	544,943
less: (net) cash interest paid	-43,970	133,679	-7,871	-28,025	-47,000
less: cash tax paid per cash flow statement	0	0	0	-14,831	-14,237
add: dividends from associates	0	0	0	0	0
Funds from operations	**1,258,650**	**1,332,895**	**460,605**	**489,713**	**483,706**
Free operating cash flow in HUF'000					
Funds from operations	1,258,650	1,332,895	460,605	489,713	483,706
Change in working capital	-90,738	-645,415	-744,416	-92,518	-115,189
Non-operating cash flow	-4,630	-7,622	-39,757	-39,757	-39,757
less: capital expenditure (net)	-226,321	-1,203,994	-556,692	-237,236	-346,060
Free operating cash flow	**936,961**	**-524,136**	**-880,260**	**120,203**	**-17,300**
Net cash interest paid in HUF '000					
Net cash interest per cash flow statement	43,970	-133,679[2]	7,871	28,025	47,000
Net cash interest paid	**43,970**	**-133,679**	**7,871**	**28,025**	**47,000**
Scope-adjusted debt in HUF '000					
Reported gross financial debt	1,449,321	1,369,201	1,332,346	1,372,272	1,372,272
less: cash and cash equivalents[3]	2,261,613	1,631,204	710,988	765,422	598,122
add: non-accessible cash	-2,261,613	-1,631,204	-710,988	-765,422	-598,122
Scope-adjusted debt	**1,449,321**	**1,369,201**	**1,332,346**	**1,372,272**	**1,372,272**

[1] Accounting year ends 31 May
[2] Interest received on high cash balance
[3] No netting of cash applied for this rating category

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Environmental, social and governance (ESG) profile[4]

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)

Focus on environmental footprint, but governance is impaired by small management and limited reporting

Aranynektár and Fulmer do not have a dedicated ESG strategy. The production facility is under expansion, with new buildings and modernisation from a relatively old technological base. Energy efficiency measures are a priority to manage the increasing cost base. Own solar energy production limits the group's environmental footprint and will be further extended.

Governance is similar to that of many small family business: management, accounting and controlling are limited, and decision making is flat and mostly driven by the owner, entailing some key person and management risk. Generation change is ongoing which should replace the current very manual bookkeeping and planning processes. Still we flag key person risks related to the current management team.

The bond was structured in quite a complex manner as the main revenue is generated by Fulmer whereas the bond was issued by the sister company Aranynektár, which derives all its revenue from Fulmer. As such, debt protection at the level of Aranynektár is largely dependent on a seamless integration of the company within the group and an uninterrupted relationship to the guarantor Fulmer.

[4] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: B

Symbiotic relationship between FHB and Aranynektár

Due to the close relationship between Aranynektár and Fulmer, we have performed a credit quality assessment of the latter. Although Aranynektár is the issuing entity, the debt servicing obligations lie with Fulmer because the intercompany loan matches the bond features issued by Aranynektár to Fulmer. As a consequence, and due to the co-dependency between the two entities and the guarantee provided by Fulmer for the bond issued in 2020, our rating focuses on the credit quality of Fulmer rather than that of Aranynektár.

Industry risk profile: A

Aranynektár packages honey for Fulmer and is therefore a B2B services company. The credit quality of Aranynektár is fully dependant on that of Fulmer. We assess the honey business of Fulmer within the non-durable consumer products industry, which has low cyclicality and medium barriers to entry because it buys raw honey, packages it and sells it to retailers, and demand is not really cyclical or even countercyclical as proven during the Covid-19 pandemic. We therefore apply the non-durable consumer products industry risk assessment of A. However, in light of Fulmer's limited outreach and generally significant vulnerability to key customers and economic developments, the industry risk profile is not deemed to provide support to the rated entity's business risk profile.

Weak market positioning detrimental to the rating

Fulmer is strong in Hungary but weak in Europe, with market shares estimated at close to 20% and 5% respectively. The company plans to boost brand recognition by increasing the number of its own labels (currently at one-third of sales according to management). Fulmer's small size constrains the rating because it implies vulnerability to unexpected externalities as seen in FY 2023. Fulmer is a small consumer products producer company which has a significant size in its niche market.

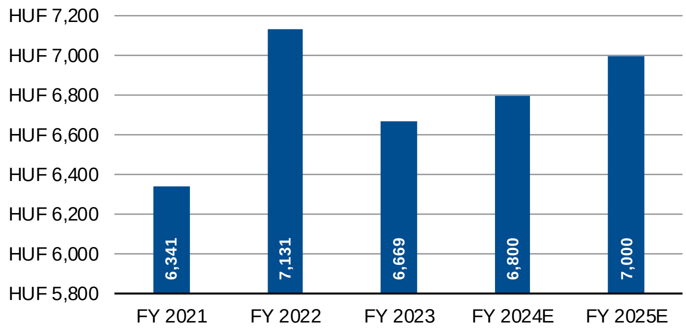
Small consumer products producer, large in its niche market

Fulmer's top line is very small for a consumer products company, with a revenue of EUR 15m-20m.

The decrease in revenues in 2023 (-6.5% YoY) is due a significant drop in the price of honey following the cancellation of customs from Ukraine, which lowered agricultural input prices. In Western European markets, there was no volume loss. In Saudi Arabia, the volume of premium honey sold was halved YoY, which hindered revenue and profitability in FY 2023. The lost volume was sold in Hungary and Western Europe but without the premium margin.

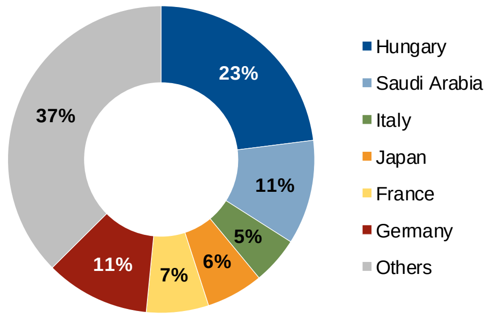
The slight decrease in revenue is also due to the high base during the Covid-19 pandemic, when honey consumption was high domestically. However, in a high inflationary environment, honey is a premium product and consumer demand has decreased. The order intake for Christmas 2023 and Easter 2024 has been secured, and enough raw honey has been purchased and stocked to fulfil the orders.

Figure 1: Fulmer's revenue (HUF m)



Sources: Aranynektár, Scope estimates

Figure 2: Fulmer's geographical outreach in FY 2023



Sources: Aranynektár, Scope estimates

Good customer and supplier diversification

Fulmer is well diversified in terms of geographical reach. In FY 2023, 23% of its total sales were in Hungary and the rest abroad. Exposure to Europe is significant at over 50% of sales excluding Hungary. Fulmer also sells regularly to Saudi Arabia, Japan and the United States. It has had a stable relationship with LIDL for a few years but this relationship poses a customer concentration risk with close to half of revenues generated from this single customer. Buyer profiles are somewhat inconsistent, with high variations in a customer's or country's share of total sales through the years. Exports to Saudi Arabia, for example, jumped from nil in FY 2020 to 20% of revenue in FY 2022 before decreasing to 11% in FY 2023.

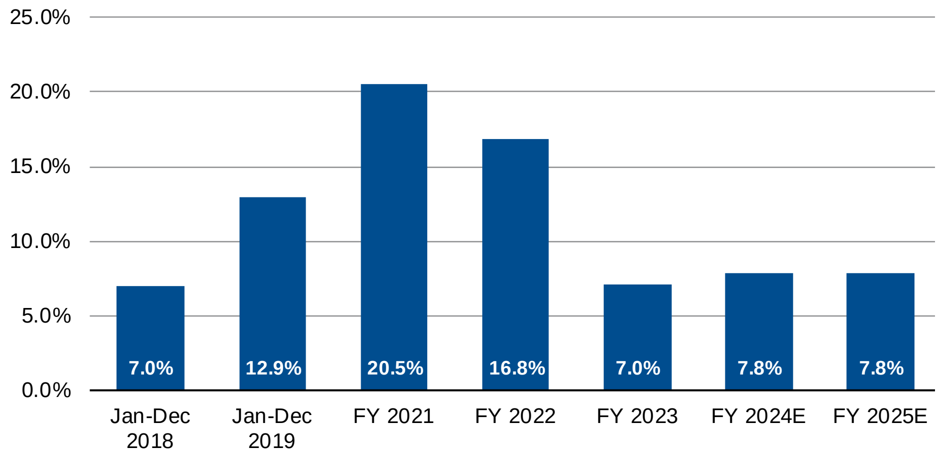
Fulmer has a broad supplier base spread across Europe and beyond. To complement Hungarian honey, the company has also set up activities in Ukraine and Russia, from which raw honey export to Europe is very favourable. The recently established entities in Russia and Ukraine are also owned by Mr Takács and operate outside of the rated entity, therefore do not pose direct risk to Fulmer or Aranynektár. However, this could create supply chain issues or lost investments on the owner's side.

Low diversification due to mono-product focus

Fulmer's mono-product focus is detrimental to the rating given that a poor harvesting year could heavily impact revenue once inventory is depleted. This is somewhat mitigated by the build-up of raw honey inventories for up to one full season in FY 2023, therefore a bad agricultural year can be mitigated.

Lower profitability on medium-term

Figure 3: Fulmer's profitability (Scope-adjusted EBITDA margin)



Sources: Aranynektár, Scope estimates

In FY 2023 Scope-adjusted EBITDA margin was 7.0%, which is a strong decrease compared to 16.8% in FY 2022. This profitability level is average for the Hungarian consumer products market, but also shows good navigation through the cost inflation as many food producers suffered losses in Q4 2022.

We expect profitability to increase slightly to around 7-8%, but to remain in single digit area due to partial loss of a Middle Eastern market and inflationary pressure. The expectation for FY 2024 is underpinned by lower honey and energy prices than in FY 2023, current yearly contracts with retailers and better automation as a result of significant capital expenditure in the past two years.

Financial risk profile: BB+

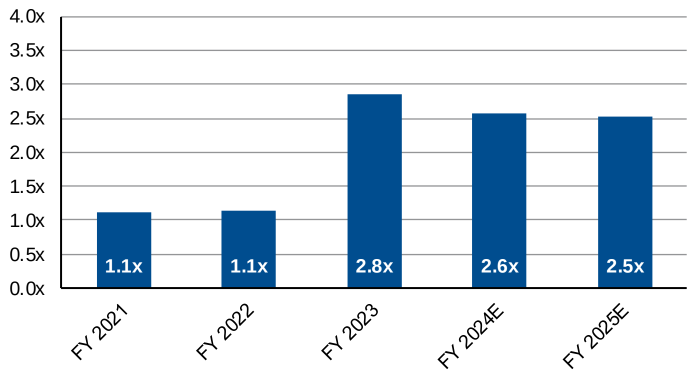
Assumptions and history

Aranynektár issued a HUF 1.0bn bond in 2020 that matures in 2030. It has a fixed coupon, which is highly advantageous in the current interest rate environment, and is guaranteed by Fulmer. Aranynektár transferred the proceeds to Fulmer via an intercompany loan designed to align with the bond's features (including coupons, repayment schedule and maturity). As Aranynektár's cash generation limits its ability to repay the coupons and the bond, Fulmer will pay the interest and repay the bond to Aranynektár, which will in turn repay bondholders.

Changing the end of the fiscal year had a positive effect on metrics

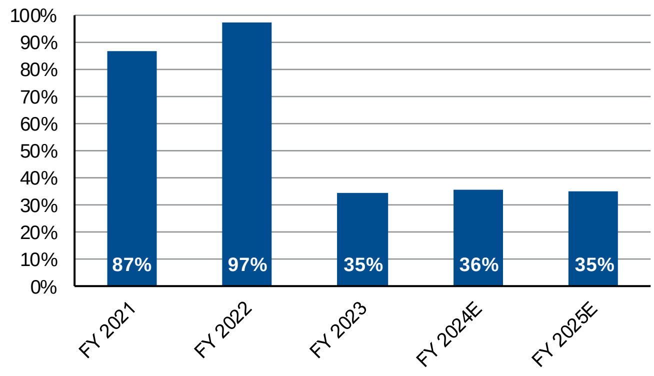
In 2020, Aranynektár and Fulmer changed the end of their fiscal year from December to May, in line with the honey production cycle. Inventories at the end of May are significantly lower than at the end of December. This means the financials look slightly better in May given how inventory affects net working capital (cash balance, Scope-adjusted debt/EBITDA).

Figure 4: Evolution of Scope-adjusted debt/EBITDA



Source: Aranynektár, Scope estimates

Figure 5: Evolution of Scope-adjusted funds from operations/debt



Source: Aranynektár, Scope estimates

Leverage increased due to deteriorating profitability

Scope-adjusted debt/EBITDA increased to 2.8x in FY 2023 (net leverage of 1.3x) from 1.1x in FY 2022 (net cash position) due to a significant reduction in Scope-adjusted EBITDA to HUF 0.5bn (-60% YoY) and flat gross debt of HUF 1.3bn. Current leverage is still in line with the rating category. We expect leverage to remain in the range of 2.5x-3.0x in the next two years as we do not expect significant improvement of EBITDA, while working capital is projected rather flat and no significant capex plans or debt issuances for the next two years are envisaged.

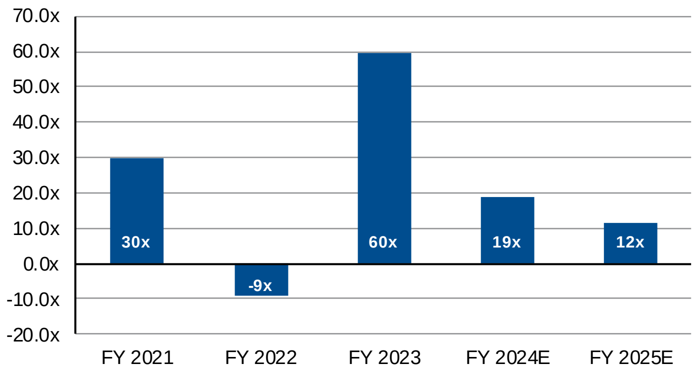
By refinancing short-term debt with the bond issued in 2020, the company has decreased its short-term funding requirements to maintain operations. We have not applied cash netting because we consider that current cash levels will not last as the multi-phase capex programme is ongoing.

Scope-adjusted funds from operations/debt has been very strong historically but decreased to 35% in FY 2023 from 97% in FY 2022. We expect Fulmer to maintain at least the current level in the next two to three years as input prices have normalised, raw materials have been secured and the pressure from wage inflation is mitigated by automation, especially in the flagship product packaging line (honey with honeycomb).

Strong EBITDA/interest cover

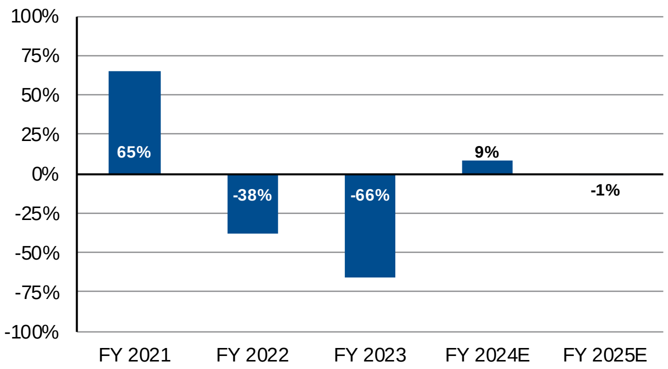
We expect EBITDA/interest cover to remain strong. The issued bond has a yearly fixed coupon of 3.5% and the issuer has a EUR 1.3m revolving credit facility for working capital that is mostly unused. Current working capital financing is euro-denominated and has a natural hedge in place due to high export sales. EBITDA/interest cover is therefore not expected to be under pressure amid soaring HUF interest rates. Furthermore, with current deposit rates well above the bond coupon, the interest cover was exceptionally strong in FY 2022-FY 2023 due to interest received. In the forecast for FY 2024-FY 2025, minimal interest received was assumed but the metric remains strong with values forecasted well above 10x.

Figure 6: Evolution of Scope-adjusted EBITDA/interest cover



Source: Aranynektár, Scope estimates

Figure 7: Evolution of Scope-adjusted free operating cash flow/debt



Source: Aranynektár, Scope estimates

Negative free operating cash flow to normalise as investments are completed

The ongoing capex programme, which aims to expand production capabilities and raw material storage, is complemented by an energy transition package. This has been causing negative free operating cash flow, which is detrimental to the rating.

In FY 2023, Scope-adjusted free operating cash flow/debt was negative at -66% compared to -38% in FY 2022. The drop in FY 2023 is due to lower profitability and a HUF 0.7bn increase in working capital (raw honey stocked) coupled with the previously budgeted investment programme. We expect this metric to improve, based on close to flat working capital assumptions and low budgeted capex, but to remain volatile.

Adequate liquidity

Liquidity is adequate. The liquidity ratio has been above 200% in FY 2021-FY 2023 despite the negative free operating cash flow as the sources for inventory build-up and capex were secured via the bond issuance in 2020 and allowed Aranynektár to maintain a high cash balance, which decreased to HUF 0.7bn at end-FY 2023 as working capital expanded and investments were made. There is no significant short-term debt. As the bond will only mature in 2030, there is no upcoming large refinancing risk. Furthermore, the liquidity ratio calculation excludes the EUR 1.3m unused revolving credit facility because it is short term and uncommitted.

The high cash level was due to the HUF 1bn bond issuance that was spent in recent years. Cash is higher in May, at the end of the agricultural year, than the average during the year. This means that there is strong seasonality in the liquidity coverage, causing volatile liquidity metrics. Therefore, no notching was considered despite a good coverage ratio.

Balance in HUF '000	FY 2024E	FY 2025E
Unrestricted cash (t-1)	710,988	765,422
Open committed credit lines (t-1)[5]	-	-
Free operating cash flow (t)	120,203	-17,300
Short-term debt (t-1)	160,074	200,000
Coverage	**>200%**	**>200%**

Headroom to ratings-related covenant is limited

We note that Aranynektár's senior unsecured guaranteed bond issued under the Hungarian Central Bank's bond scheme has an accelerated repayment clause. The clause requires Aranynektár to repay the nominal amount (HUF 1.0bn) in case of a rating deterioration of the bond rating below B+ (two-year cure period for a B/B- rating, repayment in 15 days after the bond rating falls below B-, which could have default implications).

A single notch deterioration of the bond rating could have default implications; however this would require the financial risk profile to deteriorate to B from BB+ which we consider unlikely in the foreseeable future. Therefore we consider the headroom satisfactory.

Due to volatility of credit metrics which could happen for business reasons (low customer diversification - loss of anchor customer, small size), the BB+ financial risk profile only provides little support to the overall standalone credit assessment which stands at B+.

Supplementary rating drivers: - 1 notch

We applied a negative one-notch adjustment to the standalone credit assessment for governance and structure under supplementary rating drivers due to i) the complexity of the bond issuance, the intercompany loan and the transfer pricing structure; and ii) the small management team entailing some key person risk in finance functions and highly manual accounting and planning processes (ESG: credit-negative governance factors).

Long-term debt rating

Senior unsecured guaranteed bond rating: B+

We have affirmed the B+ rating on the senior unsecured bond issued by Aranynektár which is guaranteed by Fulmer. We calculated an 'above-average' recovery following a hypothetical default in FY 2025 and therefore maintain one notch of uplift on the assigned issuer rating.

In April 2020, Aranynektár issued a HUF 1.0bn senior unsecured bond (ISIN: HU0000359559) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond proceeds were used to expand working capital and capex. The bond has a tenor of 10 years and a fixed coupon of 3.5%. Bond repayment is bullet with the full notional payable in 2030 at maturity. In addition to the rating deterioration covenant, bond covenants include a list of qualitative covenants, among others cross default and change of control.

[5] While the company has a EUR 1.3m unused revolving credit facility, we have not taken it into account due to its short-term and uncommitted nature.

Appendix: Peer comparison (as at last reporting date)

	Aranynektár Kft. (Fulmer)	HELL ENERGY Magyarország Kft.	Kometa 99 Zrt.	Bonafarm Zrt.	Abroncs Kereskedőház Kft
Issuer rating	B/Stable	B+/Stable	B+/Stable	BB/Stable	BB-/Stable
Last reporting date	31 May 2023	31 December 2022	31 December 2022	31 December 2022	30 June 2023
Business risk profile	B	BB+	BB-	BB+	B+
Financial risk profile	BB+	B	B+	BB-	BB
Scope-adjusted EBITDA/interest cover	60x	18x	12x	Negative	9.2x
Scope-adjusted debt/EBITDA	2.8x	6.1x	6.1x	0.9x	3.9x
Scope-adjusted funds from operations/debt	35%	16%	14%	117%	20%
Scope-adjusted free operating cash flow/debt	-66%	-22%	-7%	1%	-27%
Supplementary rating drivers					
Parent support	-	-	-	+1	-
Governance & structure	-1	-	-	-	-

Sources: Public information, Scope

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