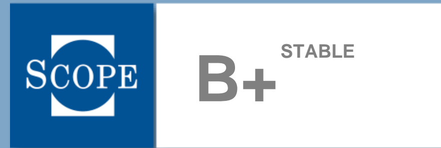
21 December 2021

Corporates

Kometa 99 Zrt.
Hungary, Consumer Products



Corporate profile

Kometa 99 Zrt (Kometa), established in 2000 and owned by the Pedranzini and Ruffini families, is one of Hungary's largest meat processing companies, ranking among the top three in pork processing. The company operates in Kaposvár, in one of the most modern and efficient processing plants in Central Europe. All production processes (slaughtering, butchering, meat-processing and packaging) occur under one roof, including a recently established byproduct processing plant.

Activities are divided into two segments: meat, and processed products (PP). The meat segment (roughly 80% of volumes sold) sells unprocessed meat including fresh, frozen, modified atmosphere packaging (MAP) and food service industry products. The PP segment sells a variety of pork and poultry products, including cold cuts, ham, salami and sausages. Clients operate in food retail, hospitality and meat processing.

Kometa exports to over 30 countries, and exports accounted for 43% of sales in 2020. Italy is the company's main export market, followed by Croatia, Slovenia and Germany.

Key metrics

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
EBITDA/interest cover (x)	3.7x	6.3x	6.6x	4.0x
Scope-adjusted debt (SaD)/EBITDA	10.0x	3.6x	3.9x	4.4x
Scope-adjusted funds from operations/SaD	7%	23%	21%	17%
Free operating cash flow (FOCF)/SaD	-18%	-5%	-33%	-23%

Rating rationale

Scope has assigned Kometa a first-time issuer rating of B+/Stable. Scope has also assigned a rating of B+ to the senior unsecured debt category.

The rating reflects Kometa's high indebtedness and negative free cash flow generation amid its ongoing expansionary capex plan. Additional constraints include its limited size, concentration on the domestic market despite a growing export share, and a competitive, low-margin business that is both highly dependent on livestock prices and subject to pressure from large food retailer customers. Conversely, the rating is supported by Kometa's increasingly strong position as a pork processor in Hungary and in some export markets (also in specific poultry categories), its wide portfolio of pork products, and the resilient demand for meat, even during the Covid-19 pandemic. In addition, the 'everything under one roof' concept enables the company to achieve operational cost savings compared to peers, especially when increasing its scale, while investments towards ESG (including the by-products plant) support the sustainability of the emerging Kometa brand. Liquidity is deemed adequate based on the assumption that the HUF 4.0bn of short-term credit lines will be automatically renewed as per historical trend.

Kometa is planning to issue a HUF 12bn (approx. EUR 33m) green bond under the Hungarian National Bank's Bond Funding for Growth Scheme during Q1 2022. Based on the indicative terms provided to us, the bond's tenor is 10 years with 10% of its face value subject to amortisation in 2027, 10% in 2028, 10% in 2029, 10% in 2030, 10% in 2031 and the remaining 50% in 2032. The coupon, expected at 4%, will be fixed and payable on an annual basis. Funds from the bond will be used mainly for investments to expand production capacity and replacing around HUF 2bn of existing long-term loans.

Ratings and Outlook

Corporate rating B+/Stable

Senior unsecured rating B+

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Related Methodologies

Corporate Rating Methodology, July 2021

Rating Methodology: Consumer Products, September 2021

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Bloomberg: RESP SCOP

Outlook and rating-change drivers

Stable Outlook

The Outlook is Stable and reflects our expectation that leverage, as measured by Scope-adjusted debt (SaD)/EBITDA, will remain below 4.5x over the next 18 months during the ongoing capex plan. The plan aims to nearly double capacity within a few years. At the same time, although EBITDA margins are dependent on volatile livestock prices, these margins are projected to gradually benefit from a higher share of PP in the portfolio. The Outlook assumes that short-term credit lines are regularly rolled over.

Rating upside

The rating could be revised upwards if SaD/EBITDA decreased to around or below 3.5x on a sustained basis. This could happen if Kometa materially increased its EBITDA following a quick ramp-up in capacity and grow its market shares and brand strength in export countries (especially in the PP segment).

Rating downside

The rating could be revised downwards if SaD/EBITDA rose above 5.0x. This could be driven by delays or a budget overrun in the capex programme, increases in capacity not compensated for by adequate growth in export markets, or a sustained, large increase in livestock prices not offset by adjustments to sales prices.

Rating drivers

Positive rating drivers	Negative rating drivers
• Third largest pork processor in Hungary, with a stronger domestic position in selected categories such as MAP packaged meat and cold cuts • Ability to generate operational cost savings vs peers based on the 'everything under one roof' concept • Extensive diversification across pork products, with 'everything under one roof' concept providing flexibility to switch between types of production based on market trends • Resilience of the consumer food sector, as demonstrated during the Covid-19 pandemic • No major concentration risk regarding customers or suppliers, with affiliate livestock breeders Zito and Triagro increasing their role as suppliers (vertical integration) • Adequate cash interest cover and liquidity • Sustainability of brand, as demonstrated by investment in environment (own wastewater, byproducts plant, new boiler) and corporate social responsibility	• High leverage to persist in the medium term amid expansionary capex plan • Small absolute size, although plans to double this within the medium to long term • Competitive industry: despite good positioning in some product categories, bargaining power is still limited, especially with large international food retailers • Weak free operating cash flow to continue for the next few years due to massive capex plan from 2021 • Limited inherent profitability of the meat business, with around 75% of sales coming from the lower-margin meat segment (compared to PP segment) • Historically volatile margins, driven by livestock prices, though volatility is reduced somewhat by improving product mix and changing negotiating terms, especially on the purchase side • Brand awareness adequate domestically but limited internationally, though planned investments in marketing should improve brand strength • More than 50% of sales in Hungary, with the rest concentrated on a few export countries (Italy, Croatia, Germany, Slovenia) • Asset concentration in one plant

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• SaD/EBITDA sustained at around or below 3.5x	• SaD/EBITDA sustained above 5.0x

Financial overview

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
EBITDA/interest cover (x)	3.7x	6.3x	6.4x	4.0x
SaD/EBITDA	10.0x	3.6x	3.9x	4.4x
Scope-adjusted funds from operations/SaD	7%	23%	21%	17%
Free operating cash flow/SaD	-18%	-5%	-35%	-23%
Scope-adjusted EBITDA in HUF m	**2019**	**2020**	**2021E**	**2022E**
EBITDA	889,708	2,696,262	2,902,267	3,876,496
Operating lease payments in respective year	104,331	109,822	115,602	121,382
less: disposal of fixed assets	13,664	(711)	-	-
Scope-adjusted EBITDA	1,007,703	2,805,373	3,017,869	3,997,878
Scope-adjusted funds from operations in HUF m	**2019**	**2020**	**2021E**	**2022E**
EBITDA	889,708	2,696,262	2,902,267	3,876,496
less: (net) cash interest as per cash flow statement	(254,669)	(423,350)	(450,363)	(967,081)
less: cash tax paid as per cash flow statement	-	(46,185)	(39,128)	(28,831)
add: depreciation component, operating leases	86,296	90,838	95,618	100,374
less: disposal of fixed assets	13,664	(711)	-	-
Scope-adjusted funds from operations	734,999	2,316,854	2,508,395	2,980,958
SaD in HUF m	**2019**	**2020**	**2021E**	**2022E**
Reported gross financial debt	9,486,360	9,541,529	11,151,392	17,154,074
less: hybrid bonds	33,052	37,073	-	-
less: cash and cash equivalents	-	-	-	-
add: pension adjustments	-	-	-	-
add: operating lease obligations	369,952	389,423	409,919	430,415
Other (contingencies)	140,000	140,000	140,000	140,000
SaD	10,029,364	10,108,025	11,701,311	17,724,489

Business risk profile: BB-

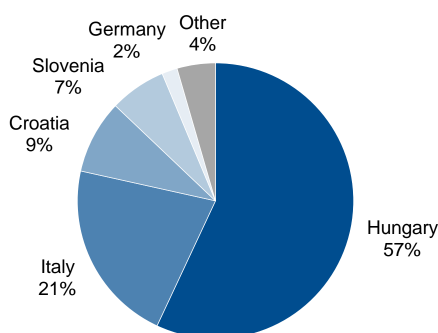
Industry risk profile: A

In view of Kometa's business model, we have used our non-durable consumer product methodology. Kometa acquires livestock and meat from suppliers (which breed and feed the animals) and then proceeds to slaughter, process and package the final product. The industry risk profile of non-durable consumer products is rated A based on the low cyclicality of food products and medium barriers to entry. Required capital investment is generally moderate, while attaining adequate economies of scale and establishing customer bases are more difficult. Substitution risk is deemed low, reflecting the generally non-discretionary nature of food products.

Increasing capacity

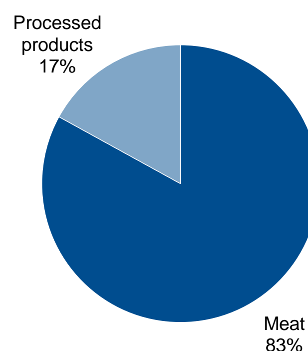
Kometa has a production capacity of 1m pigs for slaughtering and processing. Its meat segment has a capacity of 80,000 tonnes/year (planned to increase by 50% to 120,000 tonnes/year in the long term), and its PP segment has a capacity of 17,000 tonnes/year (planned to increase by 200% to 50,000 tonnes/year). With around 750 employees and around EUR 155m of revenues in 2020, Kometa is one of the largest employers in the Hungarian counties of Japosár and Somogy (reflected by the municipality participation in the shareholder structure), yet still small in an international context. Its capex plan aims to double capacity within four to five years.

Figure 1: Geographical split of sales (2020)



Source: Scope estimates

Figure 2: Revenue split by product segment (2020)



Source: Kometa

Product mix moving towards higher PP share

Management expects revenues to grow by 12.5% p.a. until 2023, to around HUF 86bn, with the share of export sales outpacing that of domestic sales. In particular, growth in the PP segment (compound annual growth rate for 2020-23: 18.6%) is expected to outpace that for meat (11.8%), as the company will focus on increasing its exposure in higher-margin PP markets, particularly Italy, Germany and Spain.

Top-three pork processor in Hungary

Kometa has been growing faster than peers in recent years and now ranks third in Hungary in terms of pork volumes sold. Of the other top-three companies, Pick focuses on the PP segment, where it dominates in the traditional Hungarian winter salami product category, while Hungary Meat operates in the meat segment.

Leader in domestic packaged meat (MAP)

Overall, market shares are best assessed by considering specific product categories. Within the meat segment, Kometa dominates domestically in MAP meat, with around 70% of the Hungarian market. This category is still relatively underpenetrated, as it makes up only around 20% of total meat sales (in line with Kometa's other core export markets). For comparison, MAP products have significantly higher penetration in Scandinavia (above 90%), Germany and the UK (both above 60%). These figures point to the growth potential of this category in Hungary. It is worth noting that MAP (along with the food service industry) is one of the two highest-margin product categories in the meat segment.

Strong position in domestic cold cuts; moderate in other product categories

Within the PP segment, Kometa is present in several categories. Kometa's highest domestic market share is in cold cuts (above 20%). Other product categories rank materially lower.

Increasing market positioning abroad

Abroad, the issuer's overall market position is more limited, with some exceptions for specific products (for example, roasted turkey breast ham in Italy). Kometa is planning to expand in its Italian and German markets (it signed a large contract with German retailer Edeka in 2021) and sell PP products in Spain, while growing its MAP business in Croatia and Slovenia.

Size and pressure from large international discounters still constrain market positioning

Overall, the market share assessment factors in the company's small absolute size, the competitive nature of its business and the margin pressure from large food retailer customers. This is partly offset by Kometa's strong positioning in specific (and promising) product categories. We believe the company can improve its market positioning once it expands production and establishes itself more in Hungary and abroad.

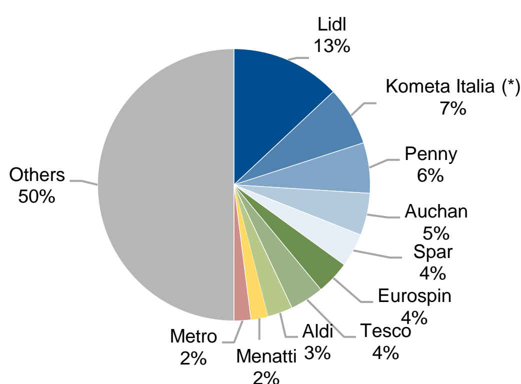
Around 50% reliance on domestic sales

Exports make up an increasingly significant proportion of sales (43% in FY 2020 vs 25% in FY 2013). MAP products sales got a boost domestically from the Covid-19 pandemic but exports to Italy declined due to disruptions in demand from the hospitality sector. Without the pandemic, we would expect export sales to be around 50% of total sales. However, although Kometa exports to over 40 countries, sales are concentrated in a small number of those export markets.

Reopening of Asian markets could be highly beneficial

Export licences are in place or applied for in all the world's major markets for pork products, particularly in Asia, which stopped imports following a swine flu outbreak in 2019. Once Asian markets reopen, they may absorb a large amount of products (e.g. belly, pork legs, Japanese sausages) that are being temporarily diverted into the domestic market.

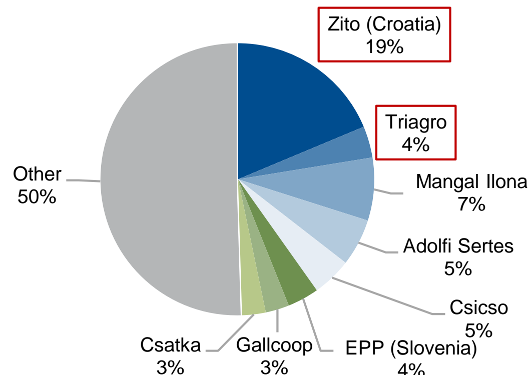
Figure 3: Top customers



(*) Kometa Italia distributes to over 200 hospitality industry clients in Italy.

Source: Scope estimates

Figure 4: Top suppliers



Source: Scope estimates

Key role of large international food retailers

The customer base is diversified and includes several hundred partners, but large international food retailers have a key place. Other clients include small domestic retail chains, meat processors and wholesalers serving the hospitality industry. The top 10 customers account for around 40% of sales, with the largest being Lidl at 13%, Penny at 6% and Auchan at 5%. In Hungary, customer concentration is noticeable in the meat segment: Lidl (25%) and Penny (14%) together account for around 40% of sales and the top five clients account for over 60%. The PP segment has a more granular customer base, with the top five clients accounting for around 45% of sales. The customer structure abroad is quite diversified.

Control over largest livestock supplier; diversified on the rest

Livestock and meat are the key raw materials. The company has yearly contracts with suppliers, and livestock prices are based on weekly market data from Germany (ZMP). Kometa has over 150 suppliers, with the top eight accounting for around 50% of raw materials in 2020. The largest supplier was Zito (Croatia). Kometa acquired 50% of its meat operations in 2021, consisting of four new meat processing plants. Zito is expected to cover around 30% of Kometa's livestock supplies in the future, reducing price volatility.

In-house spice mixer saves on procurement costs

Amongst auxiliary materials, the company recently bought technology to mix spices for all its products. Now it only needs to source the raw spices. This achieves relative cost savings and less dependence on procurement.

Highly diversified, flexible pork production

One of Kometa's major strengths is its ability to produce a large variety of pork products and use every part of the animal except the blood. The company distinguishes among a dozen product groups within the meat segment (including MAP, pre-cooked, frozen, half-carcass, guts set, waste bone, food service industry, industrial fats, byproducts) and even more within the PP segment (including ham, salami, oven-baked hams, sausages, Parisian sausage, Vienna sausage, cold cuts, pork cheeses, bacon, boiled knuckles). Nails and fur, along with other meat waste, are processed in the byproducts facility to produce meat powder and industrial lard, mostly for the pet food industry.

Poultry complements product mix in PP

In addition to pork, Kometa sells processed poultry products, which are not slaughtered in-house. The poultry category has been gradually increasing in importance and is estimated to reach nearly 10% of sales in the medium term.

Partial vertical integration benefits production flexibility

Partial vertical integration between the meat and PP segments, along with the fact that the company produces a wide range of products within the same plant, provides advantages over competitors in terms of flexibility, since it can switch production between different products to follow market demand. Owning the spice-mixing technology also adds flexibility in switching between different types of production.

Distribution mostly via food retailers

Kometa's distribution channels are rather concentrated, with around two-thirds distributed to food retailers. Yet there is a wide variety within this group: primarily large international discounters (especially for the meat segment), hypermarkets and cash and carrys (especially for the PP segment), but also local retail chains. The remainder comprises meat processors and distributors to the hospitality sector. Online sales are not currently present.

Assets concentrated in one location

Asset concentration in one plant is partially constraining to the overall diversification score. While running everything under one roof does provide cost benefits, a catastrophic event in the Kaposvár plant could disrupt the business.

Livestock price volatility is a major driver of profitability

Overall, purchase of livestock covers a large part of the cost structure at over 60% of revenues (aggregate cost of goods sold: around 85% of revenues). Prices are contracted on a weekly basis in the meat segment but are negotiated less frequently in the PP segment (three to four times a year). Product segmentation, along with a strategic alliance with suppliers Zito and Triagro, helps reduce price volatility. Thanks to a new pricing policy, around 86% of the procurement budget is now covered by an annual framework agreement that fixes prices within a certain range. However, for this to represent an effective hedge, Kometa also needs its major clients (e.g. Lidl) to adhere to a similar contract. In fact, margin pressure from large food retailers is high on the customer side, and Kometa is not able to fully pass on cost increases in a timely manner.

Meat segment has lower margins but shows less volatility

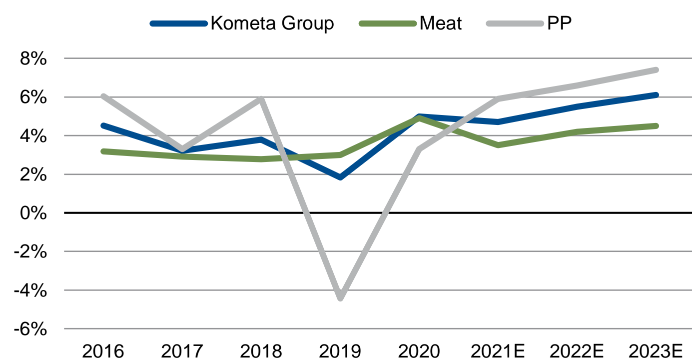
The meat segment has lower margins than the PP segment but has been less volatile in recent years because it adjusts more quickly to livestock prices. This is also explained by the shorter expiration of meat products (days or weeks) vs PP products (months). The meat business shows some seasonality, with the period between October and April being the strongest. In line with the general food industry, demand is resilient and the company

saw a material increase in MAP volumes sold during the pandemic. Conversely, exported PP suffered during the pandemic, especially in Italy, where sales are more dependent on the hospitality channel. Kometa is mostly a price taker, with exposure to foreign exchange changes being mostly limited to euros. Foreign exchange gains/losses have impacted P&L by up to 1% of revenues during the past five years.

Margins to increase from product mix and scaling effect

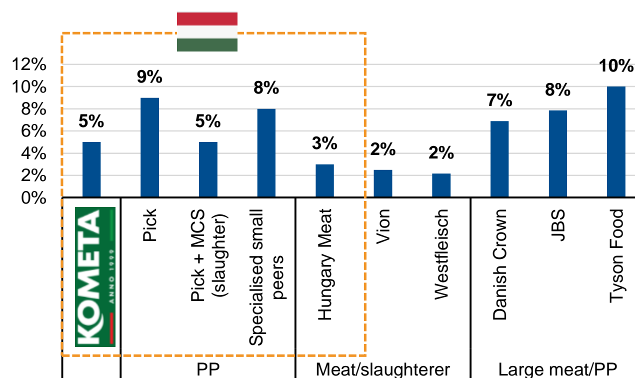
EBITDA margins have been impacted in recent years primarily by volatility in the PP segment. 2020 was a positive year for the meat segment, with the pandemic driving demand for higher-margin MAP. Overall, the group EBITDA margin is expected to decrease in 2021 due to higher livestock prices not being fully passed on to customers, a weaker product mix in the meat segment (i.e. a lower share of MAP) and a higher headcount from the new capex plan. Afterwards, a growing share of PP in the portfolio mix, coupled with growing capacity, will lead to a gradual progression in the EBITDA margin. Forecasted at around 6% in 2022, this will more than offset the higher costs associated with the expansion plan.

Figure 5: EBITDA margins



Source: Scope estimates

Figure 6: Peer comparison of EBITDA margins



Source: Scope estimates

Profitability margins are adequate based on product mix

Overall, Kometa's profitability is adequate based on its product mix, considering that slaughtering constitutes a drag on profitability. Here, Kometa is in line with Pick (including its unconsolidated slaughterhouse MCS) even though Pick has a higher share of PP. Kometa's profitability outperforms peers' levels in the lower-margin meat (and slaughterhouse) segment, while it understandably underperforms against specialised PP peers and large international players, which have higher economies of scale and stronger brands.

Having everything under one roof brings operating cost savings

It is not entirely feasible to compare margins against those of local peers given the different product mixes and business models. Nevertheless, the 'all under one roof' concept and newer technology do provide Kometa with operating cost advantages. In addition, Kometa benefits from materially lower personnel and logistics costs, which can be leveraged if production capacity were to increase as planned. Additionally, the byproduct processing plant built in 2019 (currently running at less than 50% capacity, and no other local meat peer has one) is expected to generate HUF 600m-700m in surplus revenue per year while eliminating the external service costs of waste removal and disposal.

Potential to leverage margin by increasing capacity

The advantage in operating efficiency is partly offset, however, by the company's broad product range, which constrains overall capacity utilisation versus focusing on one standardised process. We believe margins could reach towards 10% if the company can expand capacity and increase its product mix towards PP while strengthening its brand.

Emerging brand in export markets

Kometa's brand is still emerging. It is positioned in the 'good value (quality) for money' category and tries to attract a younger target group (compared to more traditional brands

such as Pick) while focusing on sustainability. The brand is well-known in Hungary but less so in its export markets. Acquiring Menatti (expected in 2022) would allow Kometa to obtain the 'Made in Italy' label.

Kometa-branded products at 85% of sales

Private label products are usually provided to supermarkets as part of a commercial offer including branded products in the PP segment. Products sold through private labels only accounted for 15% of sales in 2020.

Increasing marketing spend

Kometa has materially increased its advertising spending through the years, including in relative terms, from 0.4% of revenues in 2014 to around 1% (expected) in 2021. This is below the level of large international food companies and more comparable to that of local peers.

Financial risk profile: B+

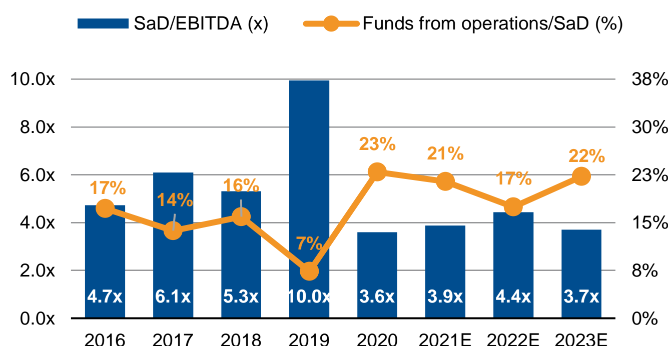
Planned HUF12bn green bond in 2022

Kometa is planning to issue a HUF 12bn (approx. EUR 33m) green bond under Hungary's Bond Funding for Growth Scheme during Q1 2022. The indicative terms include a bond tenor of 10 years with 10% of its face value subject to amortisation in 2027, 10% in 2028, 10% in 2029, 10% in 2030, 10% in 2031 and the remaining 50% in 2032. The coupon, expected at 4% (although our model factors in a more conservative 5%, based on market trends), will be fixed and payable on an annual basis. Funds from the bond will be used mainly for investments to expand production capacity and replacing around HUF 2bn of existing long-term investment loans.

Green bond to replace the existing investment loans at better conditions

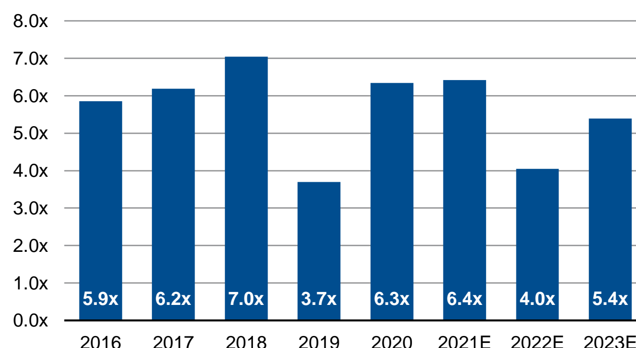
In 2021, Kometa financed a transaction aimed at refinancing its existing credit lines (including overdrafts, factoring and the working capital line) and existing investment loan and adding an extra HUF 9.5bn (distributed over time) to fund the expansionary capex programme. The increase in SaD in 2021 is only moderate (around HUF 2bn) since the loan was scheduled to be disbursed gradually as the project advanced based on four independent yearly phases of construction. The upcoming green bond in Q1 2022 is intended to replace the long-term investment loan and lead to cheaper funding costs, a more comfortable amortisation structure, and the removal of pledges on brand and technology.

Figure 7: Scope-adjusted leverage metrics



Source: Scope estimates

Figure 8: EBITDA interest cover (x)



Source: Scope estimates

Leverage to remain below 4.5x over the next few years

In the past years, Kometa has grown significantly, requiring increasing capex, which has kept leverage high with a SaD/EBITDA of above 4.0x, except in 2020 when it decreased to 3.6x. The new capex plan started in 2021 is expected to increase SaD/EBITDA only moderately to around 4.0x, while the planned green bond issuance of HUF 12bn is expected to have an immediate impact since all proceeds would be received at once. Based on this, leverage is expected to further deteriorate towards 4.5x in 2022 but will gradually improve thanks to growing EBITDA. All in all, we expect SaD/EBITDA to stay

below 4.5x over the next two years. Although the funds from operations/SaD metric, expected to fluctuate around 20% over the forecasted period, would indicate a slightly better leverage scoring, it is important to consider the generally low interest level and the implied EBITDA volatility. Additionally, we need to consider the uncertainties related to the risk of significant expansion costs overruns, also amid prices trending higher; such risk is partially mitigated by the brownfield nature of the project and the independence of individual investment phases (at least under the original plan in 2021).

Interest cover to remain strong, but bottom out in 2022

Apart from 2019 when EBITDA plunged due to the Asian swine flu, EBITDA interest cover has been generally strong at above 6.0x and is expected to be maintained. However, even though the upcoming green bond should bear a more favourable coupon and recurring bank fees will be lower, absolute interest expenses will materially increase due to the higher amount of debt. This will lead to interest cover bottoming out to around 4.0x in 2022E before recovering towards 6.0x.

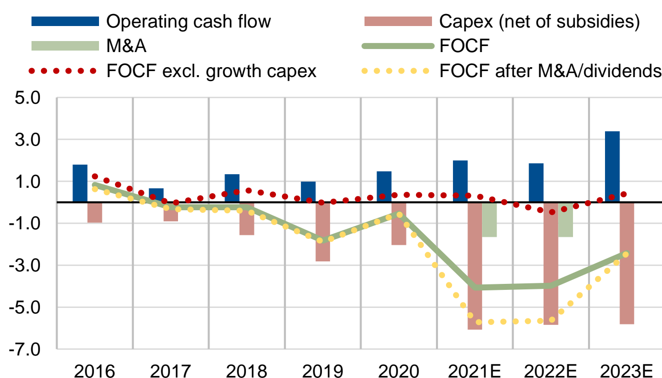
Expansionary capex to burden free cash flow generation

Due to the relatively low profitability margins, cash flow generation has generally been moderate and impacted by volatile swings in working capital. Kometa's rapid growth has resulted in generally high capex needs that has absorbed a large part of free operating cash flow (FOCF), even surpassing it in some years (for example, in 2019 when the byproducts plant was built). Due to the large expansionary capex plan started in 2021, yearly capex, projected at HUF 8bn-9bn per year, will be well above FOCF for the next few years, even discounting for the effect of state subsidies of around HUF 3bn per year.

FOCF/SaD around zero after excluding growth capex

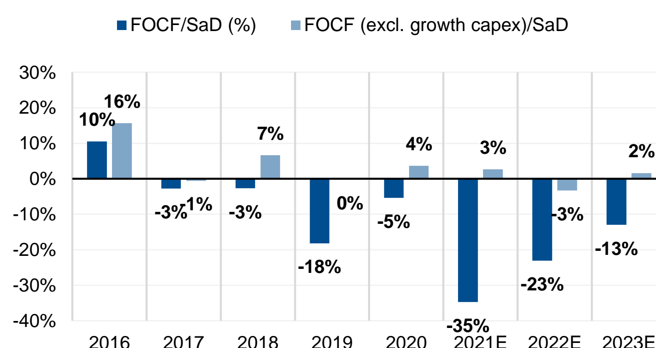
Consequently, cash flow cover based on FOCF/SaD is estimated to be deeply negative for 2021-23. A more meaningful analysis would be to adjust FOCF by excluding the impact of growth capex. Such an approach leads to a minimal cash flow cover metric of around zero.

Figure 9: Cash flow sources and uses



Source: Scope estimates

Figure 10: Cash flow cover



Source: Scope estimates

Committed credit lines of HUF 8.0bn are mostly utilised

Total available credit lines amount to HUF 8.0bn and include a HUF 2.0bn overdraft plus HUF 2.0bn of factoring lines, which both have a one-year tenor (common in Hungary). The overdraft line is guaranteed at 50%. The other credit line is a HUF 4.0bn working capital line (three-year tenor, expiring in December 2023) that is 75% guaranteed. Over the past several years, Kometa has regularly renewed these lines.

Adequate liquidity based on renewal of credit lines

Liquidity is considered adequate. Kometa benefited from cash and equivalents of HUF 313m as of December 2020 (HUF 410m as of December 2019), in addition to HUF 167m of unused committed credit lines. Cash reserves as well as undrawn credit lines are expected to gradually increase thanks to the refinancing transaction in 2021 and the planned bond issuance in 2022. The green bond will support liquidity since it will only start amortising after five years, while the current investment loan agreement has involved small repayments from early on. Based on our assumptions, cash reserves

alone are enough to cover the scheduled amortisation of the existing investment loan and the working capital line expiring in December 2023, although we consider highly likely that this credit line will be rolled over as it has happened in the past.

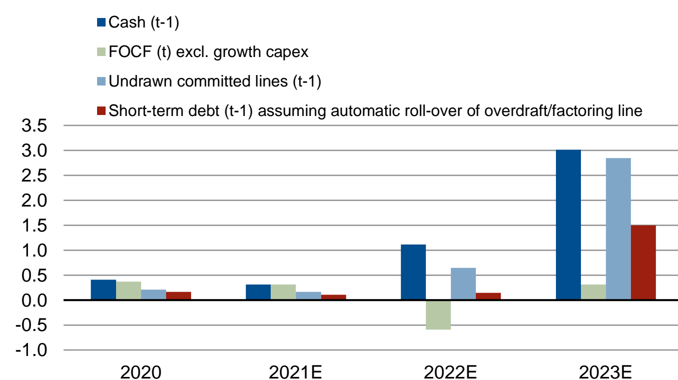
Adjusted liquidity ratio to remain above 200%

All in all, we expect a liquidity ratio maintained at above 200%. If we had to mechanically consider these credit lines within our calculation, we would consider liquidity inadequate as the ratio would fall below 50% in 2021-22. However, even assuming no roll-over on short-term lines, the liquidity ratio is expected to be above 110% from 2023.

Growth capex excluded from FOCF for liquidity analysis

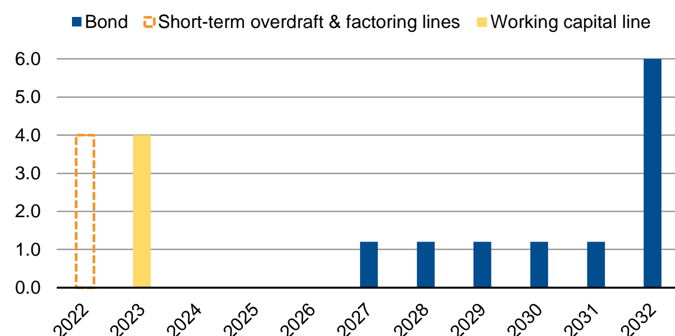
Our liquidity analysis considers FOCF after maintenance capex (i.e. excluding growth capex). If we had included growth capex, liquidity ratios would turn negative. Moreover, our liquidity analysis excludes the impact of the planned HUF 1.65bn acquisition of Menatti (expected in 2022 at the earliest). As outlined by management, this acquisition will be timed to accommodate the liquidity situation, likely happening beyond 2022. Nevertheless, its inclusion would have not materially changed our liquidity assessment.

Figure 11: Liquidity sources vs short-term debt (HUF bn)



Source: Scope estimates

Figure 12: Expected debt maturity schedule (HUF bn)



Source: Scope estimates

Compliance with financial covenants expected

A set of financial covenants is attached to the existing investment loan (to be tested from December 2022), including a total debt/EBITDA ratio of below 6x and a debt service coverage ratio of above 1.25x. While we expect Kometa to remain in compliance with such covenants, we also expect that the covenants will be replaced with the standard covenants under the Bond Funding for Growth Scheme.

Supplementary rating drivers

Financial policy

The approach towards discretionary spending is deemed conservative: management pursued only a few small acquisitions of established business partners in the past years and distributed only limited dividends to the minority municipality shareholder.

Parental support

We assume no impact from parent support, although the founding families and majority shareholders have shown a commitment to growing the business.

Corporate structure

As in the past, the majority shareholders are the Pedranzini family (54% stake via Komfin) and the Ruffini family (17% stake via Ruf Carni). HUF 5bn in equity was injected in 2021 when MFB (18%) and Zito (7.7%) entered the shareholder structure. This was accompanied by a partial exit of the other (historical) minority shareholder, the city of Kaposvár, which reduced its stake to around 4%. The equity participation from Zito is part of a strategic partnership under which Kometa simultaneously bought 50% (JV structure) of Zito's meat processing activities in Croatia. Kometa owns 51% of consolidated subsidiary Kometa Italia Srl (which is 37% owned by Giacomo Pedranzini and 12% by the Ruffini family's Sicpa S.r.l.) and 24% of Triagro Kft (accounted at equity). Kometa España and Kometa Deutschland are being established and will be 100% consolidated.

ESG factors

Kometa has invested more than the local average in pursuing ESG targets, both in terms of environmental and corporate social responsibility, supporting the sustainability of the brand. Having its own water-treatment plant and byproducts plant supports environmental and circular economy goals and benefits operating efficiency but are not yet material enough to have a rating impact.

Long-term debt ratings

Future senior unsecured rating of B+

We expect an ‘average’ recovery for the future senior unsecured debt, such as the above-mentioned green bond, in a hypothetical default scenario based on liquidation value. We assume that the debt will rank below the existing HUF 8bn of senior secured bank debt, with the overdraft and working capital line benefiting from inventory and receivables as collateral. The recovery scenario also assumes that the pledges on brand and technology under the existing investment loan will be removed upon refinancing. The assumptions on the recovery analysis are indicative.

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