

# Éltex Kft.

## Hungary, Business Services



### Key metrics

Scope credit ratios	2022	2023	Scope estimates	
			2024E	2025E
Scope-adjusted EBITDA/interest cover	110.9x	20.8x	10.2x	14.2x
Scope-adjusted debt/EBITDA	0.9x	2.3x	2.7x	2.1x
Scope-adjusted funds from operations/debt	100%	35%	33%	43%
Scope-adjusted free operating cash flow/debt	32%	-35%	10%	7%

### Rating rationale

The business risk profile (assessed at B+) is supported by: i) moderate service strength, with low churn rate and long-term customer contracts; ii) strong domestic market position, amongst the top 3 in industrial waste management; iii) well-diversified customer portfolio. The business risk profile remains constrained by the company's limited size in a global and European context, limited diversification in terms of activity and geographies and increasingly volatile EBITDA margin, operating profitability under pressure by lower demand in a more adverse business environment.

The financial risk profile (BBB-, revised from BBB) is supported by the strong debt protection (Scope-adjusted EBITDA interest cover consistently above 10x) and adequate liquidity, while being constrained by increasing leverage (result of the additional debt intake and deteriorating profitability) and volatile free operating cash flow generation.

### Outlook and rating-change drivers

The Stable Outlook incorporates Scope's expectations that i) key credit metrics over the next three years will develop in line with Scope's financial forecast, translating into a Scope-adjusted debt/EBITDA between 2x-3x, debt protection remaining above 10.0x and positive free operating cash flow generation; and ii) Éltex will remain top three in waste management in Hungary, while demand conditions gradually improve in the medium term.

The **upside scenario** for the ratings and Outlook is seen as remote, but could materialise if Éltex:

- Improved its business risk profile, while credit metrics do not deteriorate

The **downside scenario** for the ratings and Outlook is:

- Scope-adjusted debt/EBITDA above 3.0x

### Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
7 Nov 2024	Affirmation	BB-/Stable
7 Nov 2023	Affirmation	BB-/Stable
8 Nov 2022	Upgrade	BB-/Stable

### Ratings & Outlook

Issuer BB-/Stable  
Senior unsecured debt BB-

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### Related Methodologies

General Corporate Rating Methodology; October 2023

European Business and Consumer Services Rating Methodology; January 2024

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## Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"> <li>• Good financial risk profile defined by low leverage and strong EBITDA interest cover</li> <li>• One of the leaders in waste management in Hungary</li> <li>• Strong client base with medium-to-long-term contracts and high likelihood of contract renewals</li> <li>• No use of landfill (credit-positive ESG factor)</li> </ul>	<ul style="list-style-type: none"> <li>• Operating profitability under pressure by softer demand and increasing operating expenses</li> <li>• Small absolute size in a European and global context</li> <li>• Large exposure to industrial waste collection/recycling, which provides market potential but tends to be more volatile than municipal waste collection</li> <li>• Exposed to environmental risk regarding hazardous waste management (credit-negative ESG factor)</li> </ul>
Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>• Assumed remote at this point, could materialise if Éltex improved its business risk profile, while credit metrics do not deteriorate</li> </ul>	<ul style="list-style-type: none"> <li>• Debt/EBITDA sustained above 3.0x</li> </ul>

## Corporate profile

Founded in 1989 and headquartered in Hungary, Éltex Kft plays a prominent role in waste management. The company opened its first foreign plant in 1996.

Éltex specialises in state-of-the-art, efficient and complex waste-handling, hazardous and non-hazardous waste recycling, the transport and disposal of confidential documents, plastic manufacturing and electronic waste recycling, environmental protection consultation, and the import, export and transit of hazardous and non-hazardous waste.

The company handles all recyclable materials on site. If the volume of waste is very high, it builds an on-site waste handling area to house equipment and serve as storage.

In May 2024 Global Refuse Holding (rated BB-/Positive by Scope) has acquired 100% of the shares of Éltex, buying out the minority shareholders, becoming the sole owner. Consequently, Éltex has become a fully consolidated member of the Global Refuse Holding Group. The ultimate beneficiaries behind Global Refuse Holding are Equilor PE fund (80% direct ownership) and Figura Ferenc (20% indirect ownership).



## Financial overview

				Scope estimates		
Scope credit ratios	2021	2022	2023	2024E	2025E	2026E
Scope-adjusted EBITDA/interest cover	21.1x	110.9x	20.8x	10.2x	14.2x	19.3x
Scope-adjusted debt/EBITDA	1.5x	0.9x	2.3x	2.7x	2.1x	1.7x
Scope-adjusted funds from operations/debt	75%	100%	35%	33%	43%	54%
Scope-adjusted free operating cash flow/debt	41%	32%	-35%	10%	7%	15%
<b>Scope-adjusted EBITDA in HUF m</b>						
EBITDA	2,360	3,796	2,055	1,949	2,239	2,465
Operating lease payments	96	147	115	168	115	75
Recurring associate dividends received	0	36	18	0	0	0
Gains on asset disposal	25	0	0	0	0	0
<b>Scope-adjusted EBITDA</b>	<b>2,481</b>	<b>3,979</b>	<b>2,188</b>	<b>2,117</b>	<b>2,354</b>	<b>2,540</b>
<b>Funds from operations in HUF m</b>						
Scope-adjusted EBITDA	2,481	3,979	2,188	2,117	2,354	2,540
less: (net) cash interest paid	-118	-36	-105	-207	-166	-132
less: cash tax paid per cash flow statement	-37	-219	-150	-59	-86	-106
Other non-operating changes before FFO	379	-48	-178	0	0	0
<b>Funds from operations (FFO)</b>	<b>2,705</b>	<b>3,676</b>	<b>1,755</b>	<b>1,851</b>	<b>2,102</b>	<b>2,302</b>
<b>Free operating cash flow in HUF m</b>						
Funds from operations	2,705	3,676	1,755	1,851	2,102	2,302
Change in working capital	278	-771	-362	387	-165	-113
Non-operating cash flow	0	1,097	385	0	0	0
less: capital expenditure (net)	-1,407	-2,686	-3,454	-1,500	-1,500	-1,500
less: lease amortisation	-86	-129	-93	-148	-100	-65
<b>Free operating cash flow (FOCF)</b>	<b>1,490</b>	<b>1,187</b>	<b>-1,769</b>	<b>590</b>	<b>337</b>	<b>624</b>
<b>Net cash interest paid in HUF m</b>						
Net cash interest per cash flow statement	108	18	83	187	151	122
add: interest component, operating leases	10	18	22	20	15	9
<b>Net cash interest paid</b>	<b>118</b>	<b>36</b>	<b>105</b>	<b>207</b>	<b>166</b>	<b>131</b>
<b>Scope-adjusted debt in HUF m</b>						
Reported gross financial debt	3,279	3,196	5,110	5,332	4,606	3,897
less: cash and cash equivalents <sup>1</sup>	0	0	-517	-761	-582	-465
add: asset retirement obligations	62	33	0	0	0	0
add: operating lease obligations	260	440	449	370	234	144
Corporate guarantees	0	0	0	680	680	680
<b>Scope-adjusted debt (SaD)</b>	<b>3,601</b>	<b>3,669</b>	<b>5,042</b>	<b>5,621</b>	<b>4,938</b>	<b>4,256</b>

<sup>1</sup> 30% cash on the balance sheet assumed permanent and accessible, starting from 2023. No cash netting applied prior to 2023.

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**Environmental, social and governance (ESG) profile<sup>2</sup>**

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)

**Credit-positive and credit-negative ESG factors**

Éltex’s work in waste management has direct ESG impacts. The company directs its waste to the circular economy and create resource efficiencies through the addition of value-adding treatment processes. It acquires waste from the cleanest sources, which are production lines. Handling all recyclable materials on site is beneficial both environmentally and economically. Éltex also has a zero-landfill policy (credit-positive ESG factor).

Nevertheless, as hazardous waste recycling accounts around 10% of total sales on average, Éltex is exposed to environmental risk (credit-negative ESG Factor).

We note the limited predictive power of the forecasts provided by the management (YE2023 results significantly below the management plan received in October 2023). This factor significantly reduces visibility and might lead to a quick deterioration of the credit metrics (credit-negative ESG Factor).

<sup>2</sup> 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+****Industry risk profile: BB**

Éltex is active in the waste management sector, which we classify as belonging to the business services industry. Éltex is an asset-heavy service company, which employs mostly non-specialized workforce. This subsector of the industry is defined by medium cyclical nature, medium market entry barriers and low substitution risk, leading to a BB industry risk rating. We highlight the more cyclical nature of the waste management segment compared to other non-discretionary business services, with demand correlating with the development of the economic cycle.

**Strong market position in the shrinking domestic market**

While revenues of Éltex remained relatively stagnant in 2023 (around HUF 34.3bn) we anticipate a decrease of revenues in 2024 towards HUF 29bn. As a result of the pro-cyclical nature of the business segment, the amount of waste generated directly correlates with the output volumes, thus affecting the issuer's revenues. The revenue decrease is the result of the lower demand for waste management from end markets (most notably from automotive and battery manufacturing segments) rather than the loss of market share or increased competition.

Since July 2023, all waste management activities of packaging waste and municipal waste is handled by a subsidiary of Hungarian Oil and Gas Company MOL, MOHU MOL. This activity is carried out by MOHU MOL with the involvement of subcontractors. Éltex remains on the key subcontractors in the industrial segment for MOHU MOL. The volatility in end-market demand is somewhat offset by Éltex's role as a subcontractor in the waste concession, the structure of the concession waste management system providing a reliable revenue stream.

According to Éltex, its main competitors in Hungary are Alcufer Kft. (which focuses on metal waste), MEH Zrt. (which mainly collects metal waste and paper waste), FCC magyarorszag Kft. (a multinational foreign company whose main business is landfill), and Saubermacher Mo. Kft. (an Austrian company whose main business is landfill). In terms of revenue, Éltex has ranked among the top three waste management companies in Hungary for the last four years at least. Éltex considers itself a regional medium-size company and is the market leader in terms of volume of treated waste. While Éltex's revenue has been increasing rapidly in recent years, it remains fairly small compared to the world leader, Veolia.

The market share of the company benefits from the strong customer base of well-known groups such as P&G, Bosch and Samsung. Éltex maintains medium- and long-term partnerships with them (of between five and 15 years) and has medium-term contracts with them (between two and five years). Regarding the smaller clients, the average contract length is 3.5 years while the total length of business is 7.5 years on average. Due to its medium- and long-term partnerships, we can expect the contracts to be easily renewed, which supports the company's market position.

The company holds all the necessary permits to operate. There are three types of permits: i) national; ii) site-specific; and iii) specific permits for activities regulated by EU and Hungarian laws.

Permits are also required for the trading, treatment, transport, manufacturing, recycling and recovery of both non-hazardous and hazardous waste, as well as for the operation of waste treatment plants in each location. Each plant owned or rented by Éltex has a site permit, a waste-handling permit and a recycling permit. Éltex's health and safety executive team ensures permits are regularly renewed. Éltex was the second company in Europe to obtain R2 certification, which is the highest industry-wide standard for recycling electrical equipment in a sustainable manner.

Limited diversification in terms of services and geographies, but well diversified customer portfolio

Éltex’s revenue and EBITDA is not diversified in terms of sources. Indeed, all of its revenue comes from recycling and secondary raw material (including in non-waste wholesale). Nevertheless, it is worth noting the good diversification of the services it provides. We note the increase of the contribution from the waste services both in term of revenue and EBITDA in 2023 – this is related to the subcontracted activities for MOHU MOL.

Diversification is also limited in terms of geographies, as more than 75% of net revenue and EBITDA was recorded in Hungary in 2023, in a very similar proportion to 2022. The remaining is recorded within Europe. This makes Éltex’s business model more vulnerable to negative macroeconomic shocks, such as a currency devaluation, or an increase in domestic interest rates.

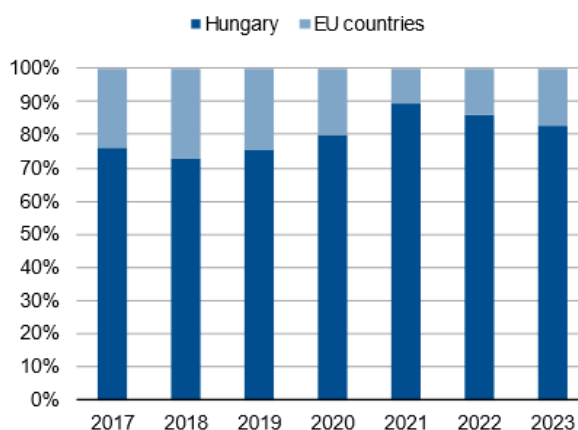
Éltex’s top five clients account for 33% of net revenue in 2023, showing significantly improved diversification compared to 2022 (when top five clients accounted for around 60% of the net revenue). This is the result of the lower concentration on battery manufacturers. Additionally, the customer base remains strong, consisting mostly of well-known multinationals and domestic subsidiaries of global companies.

Figure 1: Revenue breakdown per segment (%)



Sources: Éltex, Scope (estimates)

Figure 2: Revenue breakdown per geographies (%)



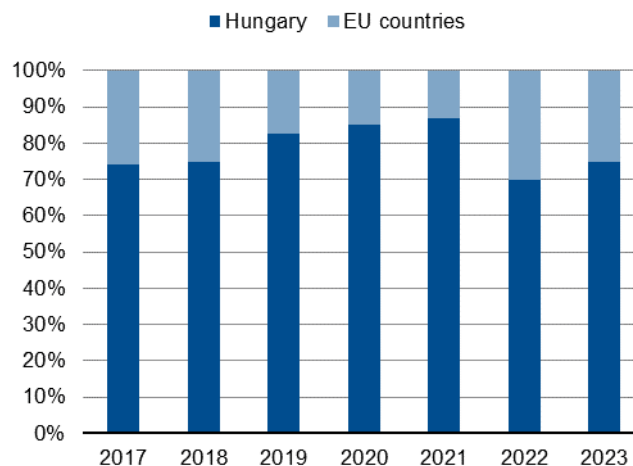
Sources: Éltex, Scope (estimates)

Figure 3: EBITDA breakdown per segment (%)



Sources: Éltex, Scope (estimates)

Figure 4: EBITDA breakdown per geographies (%)

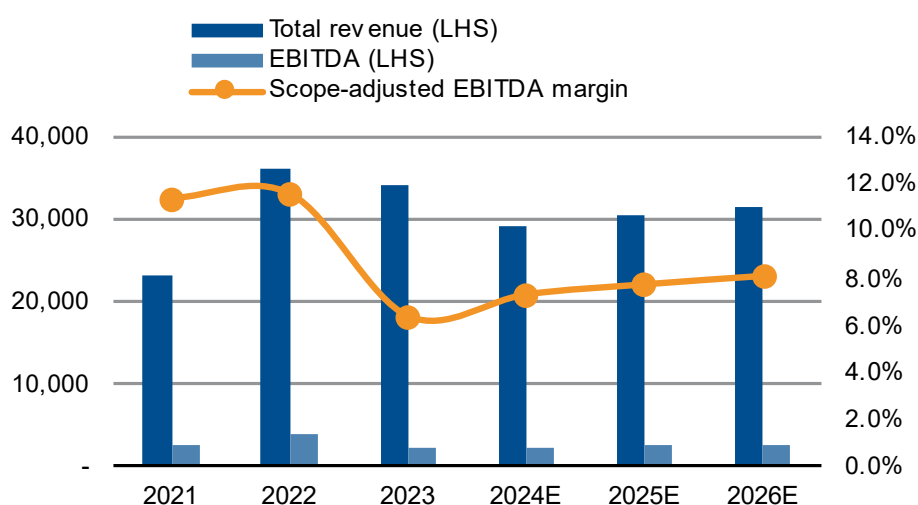


Sources: Éltex, Scope (estimates)

### Operating profitability under pressure

Éltex's Scope-adjusted EBITDA margin has increased significantly over the last few years, remaining above 10% until 2022. This changed from H2 2023, in line with the economic slowdown in certain segments, lower demand and increasing operating costs. The EBITDA margin has deteriorated to 6.3% in 2023 (2022: 11.6%), reflecting the more unfavourable market conditions and showing significant volatility. Profitability is expected to gradually improve in the future, driven by the stimulated demand resulting from higher domestic GDP growth and increasing volumes of generated waste. However, this improvement is expected to be incremental, with the EBITDA margin only reaching 8% by 2026.

**Figure 5: Development of total revenue, EBITDA (HUF m) and Scope-adjusted EBITDA margin (%)**



Source: Éltex, Scope estimates

### Moderate service strength

The service strength of Éltex is assessed as moderate. Generally, waste management companies have a relatively weak brand strength and basic service quality, with multiple companies performing a very similar service, the main comparative advantage being price. Éltex operates on the market of industrial waste management, where, unlike in the household segment, there is no regional monopoly.

Churn rate is medium, with relatively low cost of changing between service providers. Éltex's service strength benefits from its strong market position (top 3 in Hungary) and medium/long-term partnerships with international well-known groups.

### Financial risk profile: BBB-

### Good leverage metrics, despite the additional debt intake

The financial risk profile (BBB-, reassessed from BBB) is supported by strong credit metrics. Leverage, measured by Scope-adjusted debt/EBITDA, has been between 1x and 2.5x historically. The additional debt intake in 2023, coupled with a significant deterioration in the EBITDA margin year-on-year, has led to an increase in leverage, as measured by debt/EBITDA, to above 2.0x (2023: 2.3x). This is expected to increase further in 2024, reaching close to 3.0x. Going forward, the amortisation of the financial debt (approximately HUF 700 million per year) and the forecasted improving profitability are expected to result in a positive shift in leverage, improving below 2.0x by 2026.

### Debt protection benefitting from favorable interest rates

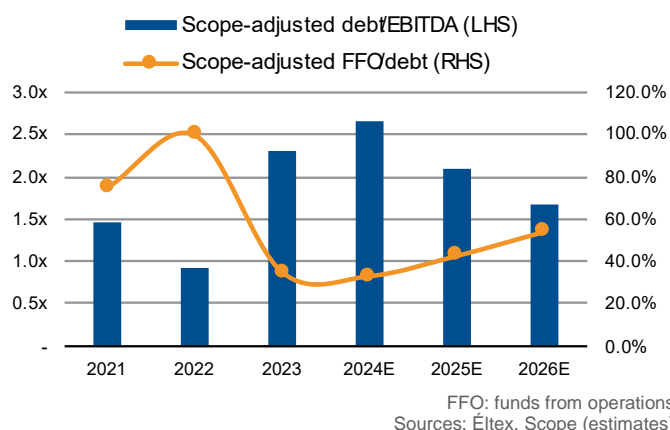
Debt protection, measured by the Scope-adjusted EBITDA interest cover, benefits from the favourable interest rate of the existing debt (a Central Bank of Hungary bond with a coupon of 3.5% and the new, EUR denominated investment credit with an interest rate of 3%). Scope-adjusted interest (including net interest and the interest component of the

operating leases) is expected to increase above HUF 200m in 2024, followed by a gradual decrease, in line with the debt amortization. Scope-adjusted EBITDA interest cover is forecasted to remain above 10.0x in the medium term.

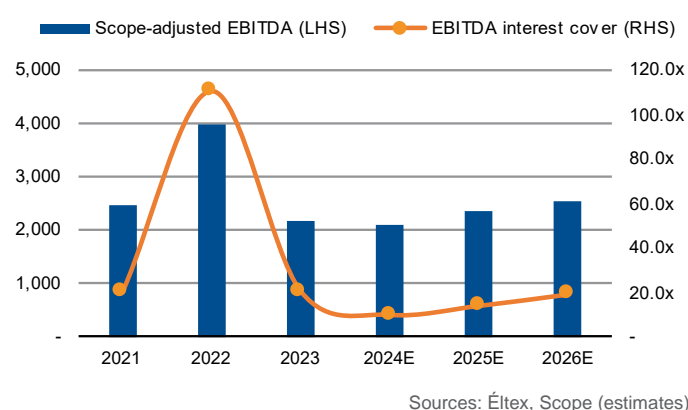
### Volatile cash flow cover

Free operating cash flow has shown significant volatility in the previous years, influenced mainly by the CAPEX. For 2024, we forecast HUF 1.5bn of CAPEX, in line with the management projection. Beyond 2024, we expect free operating cash flow generation to be consistently positive, effected by the improving EBITDA generation and lower CAPEX (forecasted at a similar level to 2024, at HUF 1.5bn).

**Figure 6: Scope-adjusted debt /EBITDA (x) and Scope-adjusted FFO/debt (x)**



**Figure 7: Scope-adjusted EBITDA (HUF m) and EBITDA interest coverage (x)**



### Adequate liquidity

Liquidity is adequate, as sources (HUF 1.7bn cash as of YE2023) and HUF 584m free operating cash flow forecasted for 2024 fully cover the uses (short term debt of HUF 1.2bn). Going forward liquidity is expected to stay above 200%, benefitting from the positive free operating cash flow generation. The bond amortization is expected to start from 2024, with a tranche of HUF 490mn payable yearly.

We highlight that Éltex's senior unsecured bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 2.45bn) if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 30 days). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is 2 notches. We therefore see no significant risk of the rating-related covenant being triggered.

Balance in HUF m	2024E	2025E	2026E
Unrestricted cash (t-1)	1,724	2,536	1,939
Open committed credit lines (t-1)	730	730	730
Free operating cash flow	590	337	624
Short-term debt (t-1)	1,378	727	709
<b>Coverage</b>	<b>&gt;200%</b>	<b>&gt;200%</b>	<b>&gt;200%</b>

### Long-term debt ratings

#### Senior unsecured debt rating: BB-

We expect an 'above-average' recovery for senior unsecured debt, such as the HUF 2.45bn bond issued under the Hungarian National Bank's programme. Despite the above-average recovery, we refrain from granting an uplift as the assessment is very sensitive to applied advance rates, especially the one related to tangible assets. Additionally, the issuer's ability to raise additional external debt, ranking above the senior unsecured debt, might affect the recovery rate significantly. Thus, this recovery





expectation translates into a BB- rating for the senior unsecured debt category, in line with the issuer rating.

Our recovery expectations are based on an anticipated liquidation value in a hypothetical default scenario at the end of 2026. Short-term and long-term debt (excluding the bond issue) raised from financial institutions, undrawn committed medium- and long-term facilities as well as payables rank higher than senior unsecured debt in terms of repayment.



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