Stavmat Építőanyag Kereskedelmi Zrt. Hungary, Retail and Wholesale

STABLE
B

Key metrics

			Scope estimates	
Scope credit ratios	2022	2023	2024E	2025E
Scope-adjusted EBITDA/interest cover	40.3x	10.3x	5.9x	7.0x
Scope-adjusted debt/EBITDA	1.6x	4.2x	5.9x	5.1x
Scope-adjusted funds from operations/debt	58%	21%	14%	17%
Scope-adjusted free operating cash flow/debt	-27%	-27%	0%	0%

Rating rationale

The business risk profile is constrained by Stavmat's limited size and low diversification as it is exposed to a single product category and operates in a single country. Although the company is one of the leading wholesalers of construction materials for professional customers in Hungary, it operates on a fragmented market and thus faces strong competition, which limits its ability to set prices. In addition, the company's high dependency on the underlying construction market affects its operating profitability as its wide range of products belong to this cyclical goods category.

In 2024 credit metrics have deteriorated due to lower operating profitability as evidenced by Scope-adjusted debt/EBITDA increasing to 5.9x. Nevertheless, the financial risk profile continues to benefit from strong interest coverage as the debt portfolio has fixed, subsidised interest rates. Additionally, cash flow coverage is forecasted to significantly improve as it benefits from the company's moderate cash flow generation and reserved CAPEX plans for the next two years after the Dabas plant was completed in 2024.

Stavmat's financial policy has been flagged as aggressive.

Outlook and rating-change drivers

The Stable Outlook reflects our view that although the slowdown in the Hungarian construction market will continue to put pressure on credit metrics, leverage (as measured by Scope-adjusted debt/EBITDA) will not exceed 6x. The Outlook assumes a recovery in market conditions driven by the Hungarian government initiatives to simulate demand in the construction market which should support revenue and EBITDA growth of 5% and more than 45% per annum going forward, respectively. The Outlook further reflects that the issuer addresses refinancing risk well in advance.

The upside scenarios for the ratings and Outlook are (individually): 1) Scope-adjusted debt/EBITDA improving to well below 4x on a sustained basis; 2) A less aggressive financial policy is achieved, allowing the removal of the negative notch for financial policy with credit metrics developing along our rating case.

The downside scenario for the ratings and Outlook is: 1) Scope-adjusted debt/EBITDA deteriorates to 6x or above on a sustained basis.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
5 Dec 2024	Downgrade	B/Stable
7 Dec 2023	Outlook change	B+/Negative
13 Apr 2023	Outlook change	B+/Stable

Ratings & Outlook

Issuer	B/Stable
Senior unsecured debt	B+

Analyst

Vivianne Anna Kapolnai
+49 69 6677389 88
v.kapolnai@scoperatings.com

Related Methodologies and Related Research

General Corporate Rating Methodology; October 2023

Retail and Wholesale Rating Methodology; April 2024

ESG considerations for the credit ratings of retail corporates, November 2021

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 and rating-change drivers

Positive rating drivers	Negative rating drivers
• Leading wholesaler of construction materials for professional customers in Hungary • Strong interest coverage due to fixed interest rate on the (HUF 5bn) MNB bond issued in 2021 (issued before high interest rate environment) paired with the low fixed interest rate on the new HUF 840m loan • Cash flow cover expected to significantly improve in 2024 after the investment CAPEX phase is finished (in 2023 the paving stone factory was completed) • Adequate internal liquidity	• Highly leveraged company caused by the deterioration of profitability • Margins highly dependent on the construction industry cycle and cost of materials (over 90% of sales) • Limited revenue size • Concentration on small domestic market • Flagged financial policy due to distribution of reserves in 2020

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA improving to well below 4x on a sustained basis • A less aggressive financial policy is achieved, allowing the removal of the negative notch for financial policy with credit metrics developing along our rating case (individually)	• Scope-adjusted debt/EBITDA deteriorating to 6x or above on a sustained basis

Corporate profile

Stavmat Építőanyag Kereskedelmi Zrt. (Stavmat) is primarily a wholesaler of construction materials for professional use, with an approximate 10% leading position in the small Hungarian market and leadership in the industrial segment. Around 25% of sales are generated by retail consumers (private professionals). Stavmat owns 35 stores across Hungary and employs around 400 people. The company provides the full range of high-quality building materials and solutions for both outdoor and interior design work, renovation and house construction. In December 2016, Stavmat became part of IN Group, a Slovakian diversified construction group that trades building materials in Slovakia, the Czech Republic and Hungary.

Financial overview

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	40.3x	10.3x	5.9x	7.0x	8.5x
Scope-adjusted debt/EBITDA	1.6x	4.2x	5.9x	5.1x	4.4x
Scope-adjusted funds from operations/debt	58%	21%	14%	17%	20%
Scope-adjusted free operating cash flow/debt	-27%	-27%	0%	0%	2%
Scope-adjusted EBITDA in HUF m					
EBITDA	3,233	965	399	684	995
Operating lease payments	473	613	632	632	663
Other items[1]	544	301	300	200	100
Scope-adjusted EBITDA	**4,250**	**1,878**	**1,331**	**1,516**	**1,758**
Funds from operations in HUF m					
Scope-adjusted EBITDA	4,250	1,878	1,331	1,516	1,758
less: (net) cash interest paid	-105	-183	-227	-216	-207
less: cash tax paid per cash flow statement	-153	-15	-	-5	-15
Funds from operations (FFO)	**3,992**	**1,680**	**1,104**	**1,294**	**1,536**
Free operating cash flow in HUF m					
Funds from operations	3,992	1,680	1,104	1,294	1,536
Change in working capital	-700	-563	-24	-177	-282
less: capital expenditure (net)	-4,721	-2,645	-500	-550	-500
less: lease amortisation	-449	-582	-600	-600	-630
Free operating cash flow (FOCF)	**-1,878**	**-2,111**	**-20**	**-32**	**124**
Net cash interest paid in HUF m					
Net cash interest per cash flow statement	82	152	196	185	174
add: interest component, operating leases	24	31	32	32	33
Net cash interest paid	**105**	**183**	**227**	**216**	**207**
Scope-adjusted debt in HUF m					
Reported gross financial debt	5,000	5,840	5,683	5,515	5,347
less: cash and cash equivalents	-2,838	-1,665	-1,487	-1,287	-1,243
add: non-accessible cash	2,838	1,665	1,487	1,287	1,243
add: operating lease obligations	1,900	2,050	2,050	2,153	2,260
Other items[2]	37	67	67	67	67
Scope-adjusted debt (SaD)	**6,937**	**7,957**	**7,799**	**7,734**	**7,674**

[1] Other items include disposal gains of fixed assets and cash discounts.
[2] Other items include bank guarantees.

Table of Content

Environmental, social and governance (ESG) profile[3]

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 neutral ESG profile

In 2021, Stavmat issued a green bond as part of the National Bank of Hungary's Bond for Growth program to finance its pavement factory and established a green committee to monitor the company's progress in its ESG initiatives. The green bond commitments are primarily linked to the paving factory. With the completion of the factory, Stavmat has met the requirements outlined in the green bond. The company also has medium-term goals aligned with the UN Sustainable Development Goals, which it plans to accomplish by 2030, as well as the long-term goal to be carbon-neutral by 2050.

As a wholesaler, Stavmat is exposed to indirect reputational risk. For example, product or labour management that has a negative social impact may prompt buyer renegotiations due to consumer boycotts, affecting sales, margins and inventory value. Also, Stavmat's wide network of brick-and-mortar shops comes with an environmental footprint and will remain fundamental to its development. Like other wholesalers, Stavmat has to strike a balance between improving the energy efficiency of its large shops (comparable to hypermarkets) and increasing the flexibility of its space to incorporate additional distribution channels (e.g. click and collect).

The paving production plant, once operational, will expose Stavmat to the construction materials industry and its significant environmental footprint. Aside from the issues regarding the sustainability of raw materials, the production of construction materials regularly requires large amounts of energy and fuel, which often generate pollution and large amounts of waste (some of which is hazardous). These companies also face the risk that customers opt for more environment-friendly solutions and products.

[3] 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

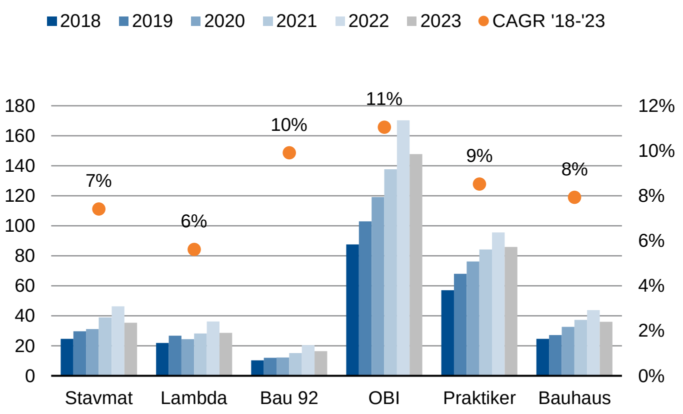
Stavmat operates in a discretionary retail market, which is characterised by medium cyclicality, low entry barriers and low substitution risk. We assess the industry risk profile for the retail and wholesale industry at BB. The company's business risk profile remains constrained by its limited size with EUR 92m in sales (2023) and low diversification in terms of geography and distribution channels, despite it being one of the leading wholesalers of construction materials for professional customers in Hungary. Furthermore, the company's high dependency on its underlying market, the construction industry and its cycles, also impacts its operating profitability as its wide range of products all belong to this cyclical goods category.

The construction industry in Hungary had one of the fastest growth rates in Europe between 2016 and 2022. This growth was mainly due to government-driven orders, rising household disposable incomes, and low interest rates. The Covid-19 pandemic slowed construction activity during 2020, but the industry promptly recovered by the end of the year. In 2022, the Hungarian government extended many of its subsidy schemes (e.g. the baby loan and 'CSOK' family subsidy scheme), continuing construction-friendly policies aimed at improving demographic trends within the country. However, by the end of 2022 the industry again started to slow in the wake of macroeconomic conditions prompted by the Russia-Ukraine war, high inflation and the energy crisis. In 2023 and 2024 the slowdown in the construction industry continued putting pressure on market players such as Stavmat.

Leading market share as a wholesaler despite small size

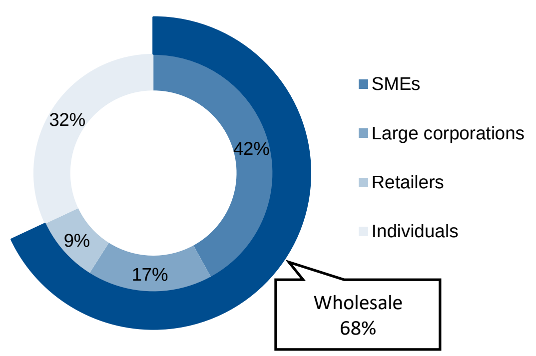
The Hungarian building materials trading industry is rather fragmented. Stavmat holds a leading 6% market share in the wholesaling of construction materials for professional use. The second largest competitor (Lambda) is close in terms of revenues but has almost 50% fewer stores. Stavmat also produces construction materials, which indicates that the real gap in terms of wholesale-only market shares is even wider. Stavmat's revenues are still small in an international context. However, even though Stavmat does not operate in a protected industry, we still assess the risk of new entrants in its market as only moderate in view of the high investment needs.

Figure 1: Revenue development versus peers (HUF bn)



Sources: Stavmat, Scope

Figure 2: Revenue split by customer segment



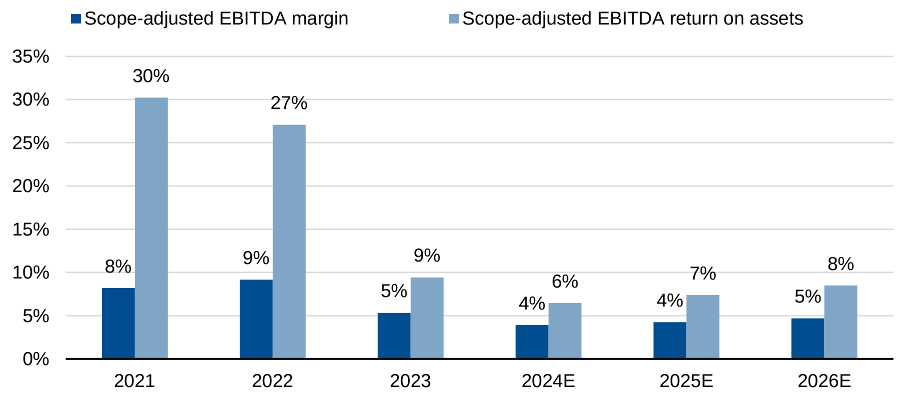
Sources: Stavmat, Scope

Stavmat's revenue and reported EBITDA decreased by 24% and 70% YoY respectively in 2023 and are expected to deteriorate further in 2024. Low demand and strong price competition have caused the company's gross margin to decline to 5% in 2023 where it is expected to remain in 2024 from the exceptional level of 9% in 2022. The EBITDA margin continues to be negatively impacted by the price competition and a high inflationary environment leading to a significant increase in overhead costs. Although management has implemented several cost-saving initiatives, such as the optimisation of the workforce and working capital management, these have not been able to mitigate the unfavourable macroeconomic headwinds. Demand is expected to increase as financing conditions become more favourable and government subsidies become more accessible (e.g. Home Renovation Programme) leading to a slow market recovery and a steadily increase in Stavmat's operating profitability.

The Scope-adjusted EBITDA margin is expected to recover towards the historical average of around 5% by 2026 after its low in 2024 and after the deterioration of the Scope-adjusted EBITDA return on assets to below 6%, it is also forecasted to steadily increase towards 9%.

Although the Dabas paving stone plant has started its operations in Q3 2023, it will take at least two years for the plant to ramp up its production and contribute materially to Stavmat's performance.

Figure 3: Scope-adjusted EBITDA margin and Scope-adjusted EBITDA return on assets



Sources: Stavmat, Scope estimates

Cost of materials is a key profitability driver

Overall, Stavmat's profitability is dependent on the cost of materials, at more than 90% of its revenues. Additionally, Stavmat benefits from larger supplier bonuses than those of smaller peers as these are linked to order sizes, although the impact on overall profitability is moderate.

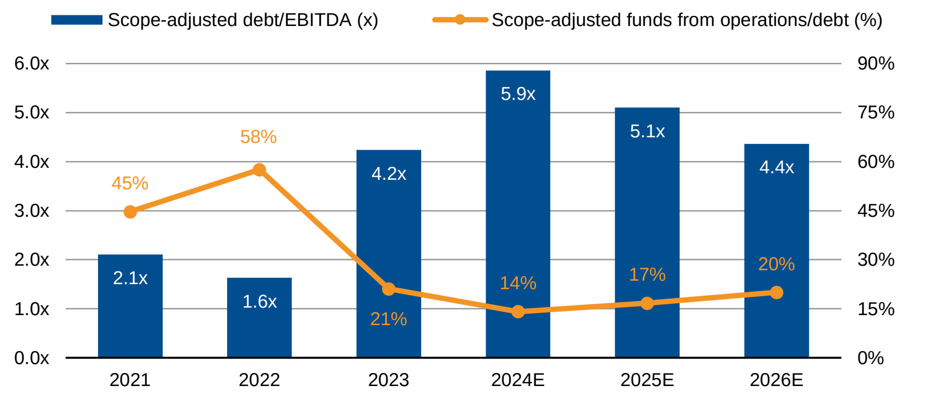
Financial risk profile: B+

The financial risk profile was revised to BB from B+ as credit metrics are forecasted to continue to deteriorate in 2024. This is due to the unfavourable market conditions in the underlying construction market. The strong interest coverage remains a supportive factor but the weakened leverage is a major constraint.

Stavmat's HUF 5bn green bond issuance in 2021 pushed up the debt balance substantially; debt in previous years consisted only of operating leases. Most of the green bond proceeds went towards the construction of the paving production plant in Dabas. In 2023 gross debt increased as Stavmat contracted debt in the amount of HUF 840m to finance a site acquisition, however in 2024 no additional debt has been contracted.

In 2023 credit metrics deteriorated due to increase in interest-bearing debt and the unfavourable market conditions. In 2024 credit metrics are expected to further deteriorate from their 2023 levels due to lower operating profitability: Scope-adjusted debt/EBITDA is expected to peak at around 5.9x and the Scope-adjusted funds from operations/debt will be at an all-time low of 14% in 2023. In the medium term, we expect Scope-adjusted debt to gradually decrease with the as the HUF 840m loan amortises and lessens interest-bearing debt. These effects are expected to be paired with the slow recovery of the Scope-adjusted EBITDA leading to the improvement of credit metrics, with Scope-adjusted debt/EBITDA decreasing to 4.5x and Scope-adjusted funds from operations/debt increasing towards 20% by 2026.

Figure 4: Scope leverage metrics

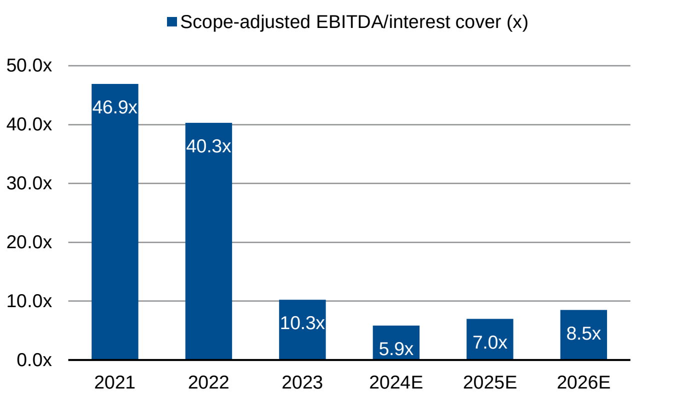


Sources: Stavmat, Scope estimates

The financial risk profile continues to benefit from the strong interest coverage as the debt portfolio has fixed, subsidised interest rates. Nevertheless, interest coverage also deteriorates and is forecasted to remain between 5.5-8.5x.

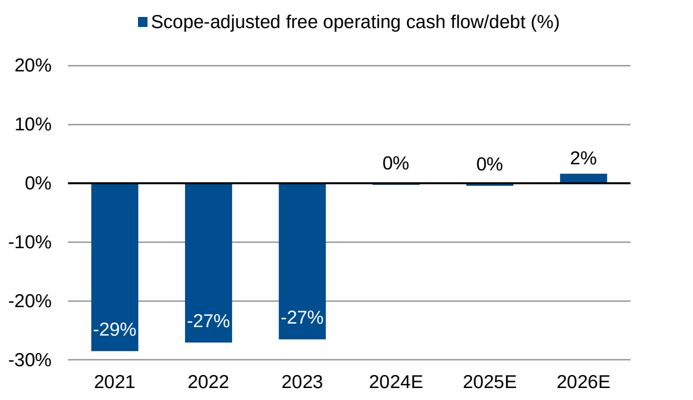
After the completion of the plant (production started in Q3 2023) the cash flow cover is forecasted to significantly improve as it benefits from the company's moderate cash flow generation and reserved CAPEX plans for the next two years. Although the company has communicated conservative investment capex plans for 2025 and 2026, we expect the company to continue its expansion strategy as soon as the construction market recovers, which would put pressure again on the cash flow cover.

Figure 5: Interest cover



Sources: Stavmat, Scope estimates

Figure 6: Cash flow cover



Sources: Stavmat, Scope estimates

Adequate liquidity

The assessment is backed by the considerable sources of liquidity (liquid sources of HUF 1.2bn as at December 2023, including cash and cash equivalents, of which HUF 800m are assumed to be restricted, arriving at HUF 400m of unrestricted cash as at end-2023), which cover by more than 200% of the bank debt repayments (with HUF 168m annual amortisation) for 2024 and 2025. Liquidity sources can be supplemented, if needed, by the annually rolled over credit lines of HUF 500bn (as customary in Hungary) and the sell-out of inventory at a discounted price. In 2026 the senior unsecured bond is scheduled to start its amortisation by HUF 500m, which Scope assumes the company will refinance. Liquidity could come under pressure if the company does not address the refinancing risk well in advance.

We highlight that Stavmat'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 5bn) 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 zero notches. Given the limited rating headroom, the company must at least maintain its current credit profile to avoid triggering the rating-related covenant.

Balance in HUF m	2023	2024E	2025E
Unrestricted cash (t-1)	2,038	865	687
Free operating cash flow	-2,111	-20	-32
Short-term debt (t-1)	-	158	168
Coverage	**No short-term debt**	**>200%**	**>200%**

Supplementary rating drivers: -1 notch

Financial policy is credit-negative

We continue to apply one-notch down for supplementary rating drivers due to Stavmat's aggressive financial policy.

Stavmat previously had a low appetite for risk, operating without bank debt (only leases) and following a prudent approach, including owning most of its stores. This changed in 2020 on the back of the HUF 1.4bn in Covid-related government subsidies and plans to issue the HUF 5.0bn green bond, after which the company returned to shareholders HUF 1.8bn of committed reserves that the previous owners had granted to back past losses. A more prudent approach would have been to compensate shareholders after the completion of the large capex plan of building the paving plant.

On the positive side, no dividends have been paid since 2020 even though Stavmat has HUF 500m in dividend payouts in its forecasts, and we have no reason to believe management will deviate from this position. However, the execution risk that fell away with the completion of the paving plant has returned with the acquisition of additional point of sale sites and their renovation. We would need to see a longer track record before considering the removal of the negative one-notch adjustment.

Parent support is neutral

Stavmat Zrt. is currently 100% directly owned by IN Group via the 100% ownership by Stavmat Stavebniny (Czech Republic). IN Group is a Slovakian investment holding company with diversified interests within the construction industries in Slovakia, the Czech Republic and Hungary. Its activities include the wholesaling and production of building materials, construction, and the development of real estate. The ultimate beneficial owner is Mr Pavol Kollar (67% share in IN Group). Stavmat Zrt. continues to operate independently from the group and we have therefore assessed it on a standalone basis. We expect the parent to have significant willingness to support Stavmat in case of need since Hungary is becoming an increasingly important market for the group. However, we assess parent support as neutral, also since we do not have visibility on the financial strength of IN Group.

In our view, the company compares negatively (with a standalone rating of B+) against peers regarding its size, but the associated risk (i.e. volatile cash flow, weaker competitive power) does not exceed the risk expressed by the B+ rating.

Long-term debt rating

Senior unsecured debt rating: B+

We have downgraded the ratings for senior unsecured debt to B+ from BB-, in line with the rating action on the underlying issuer rating. The recovery analysis is based on a hypothetical default scenario in 2026 and assumes outstanding senior secured debt of HUF 847m and senior unsecured debt of HUF 4.5bn with available overdrafts fully drawn. Our analysis assumes a liquidation scenario given the significant asset balance, including fixed assets with high recoverable values. We estimate the recovery for senior unsecured debt to be 'above average' and therefore assigns the debt category a B+ rating, one notch above the underlying issuer rating.

In July 2021, Stavmat issued a HUF 5bn senior unsecured green bond through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond proceeds were used for the paving plant capex and for working capital financing. The bond has a tenor of 10 years and a fixed coupon of 3%. Bond repayment is in six tranches starting from 2026, with 10% of the face value payable yearly, and a 50% balloon payment at maturity. In addition to the rating deterioration covenant (see liquidity), bond covenants include non-payment, insolvency proceedings, cross-default, pari passu, negative pledge, change of control and additional indebtedness covenants.

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