Hell Energy Magyarország Kft.
Hungary, Consumer Products

SCOPE B+ POSITIVE

Key metrics

			Scope estimates	
Scope credit ratios	2022	2023	2024E	2025E
Scope-adjusted EBITDA/interest cover	5.7x	9.4x	7.9x	8.0x
Scope-adjusted debt/EBITDA	5.5x	4.1x	4.5x	4.3x
Scope-adjusted funds from operations/debt	15%	22%	19%	20%
Scope-adjusted free operating cash flow/debt	-41%	-9%	-5%	3%

Rating rationale

The issuer rating reflects a moderate business risk profile, constrained by improving but still weak credit metrics after large expansionary capex cycle. Supplementary rating drives are deemed credit neutral.

Hell Energy's business risk profile (assessed BB+) is supported by the regional market leadership in Central and Eastern Europe (CEE) with further significant growth potential, strong brand recognition and historically solid profitability despite facing high input cost inflationary pressure over the past few years. Conversely, the business risk profile is constrained by the limited diversification in terms of product categories, geographical scope and production sites.

The financial risk profile (assessed at B) is considered weak and has been adversely affected by a substantial investment program concluded in 2023 that affected the company's cash flow coverage and leverage metrics. In 2023, leverage metric started to improve, while free operating remains negative. We project leverage to remain between 4x-5x and free operating cash flow to breakeven in the medium term due to enhancements in operating profitability and increased production.

Outlook and rating-change drivers

The Positive Outlook continues to reflect the expectation of reduced capex levels with broadly stale profitability, resulting in Scope-adjusted debt/EBITDA remaining below 5.0x and free operating cash flow approaching break-even.

An upgrade could be warranted if the company reached and could maintain Scope-adjusted debt/EBITDA below 5.0x over time and breakeven free operating cash flow on a sustainable basis.

A return to a Stable Outlook would be warranted in case of an inability to maintain Scope-adjusted debt/EBITDA below 5.0x over time or the inability to improve free operating cash flow to breakeven on a sustainable basis.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
20 Dec 2024	Affirmation	B+/Positive
19 Dec 2023	Outlook change	B+/Positive
18 Apr 2023	Affirmation	B+/Stable

Ratings & Outlook

Issuer	B+/Positive
Senior unsecured debt	B+

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Related Methodologies

General Corporate Rating Methodology; October 2023

Consumer Products Rating Methodology; October 2024

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• High diversification in terms of geographies (over 50 countries), customers and suppliers; new product launches (ICE Coffee) well received by market • Robust Scope-adjusted EBITDA margins • Strong market position as market leader in product segment in several CEE countries • High vertical integration supporting a diversified product offering and reducing revenue volatility	• High leverage from large debt-funded capex • Negative free operating cash flow and dependence on external financing for expansions • High exposure to Hungarian, Central and Southeastern European market • Concentration to few beverages product categories • Risks associated with changing customer demands and punitive regulation on sugared and/or caffeinated beverages

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA maintained below 5.0x over time. • Improving free operating cash flow to breakeven on a sustainable basis.	• Inability to maintain Scope-adjusted debt/EBITDA below 5.0x over time. • Inability to improve free operating cash flow to breakeven on a sustainable basis.

Corporate profile

Established in 2004, the Hell Group (Hell Energy Magyarország Kft. and its fully owned and consolidated subsidiaries) is a Hungarian family-owned company (Barabás family through holding companies). The Hell energy drink is the third largest branded energy drink globally.

The group is vertically integrated with its own can production and filling lines on-site in Szikszó, Hungary with all production under one roof. Hell Energy is present in over 50 markets outside of Hungary and is market leader in eight countries, mainly in Central and Southeastern Europe.

Yearly production in 2023 was of 1.3bn units of soft drinks under the Hell, XIXO and Swiss Laboratory brands, as well as private label. With the conclusion of the factory and capacity expansions, manufacturing and filling cans lines' capacity both increased by approximately 33% (to 2.7bn units annually each).

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	18.3x	5.7x	9.4x	7.9x	8.0x	8.3x
Scope-adjusted debt/EBITDA	6.1x	5.5x	4.1x	4.5x	4.3x	4.1x
Scope-adjusted funds from operations/debt	16%	15%	22%	19%	20%	20%
Scope-adjusted free operating cash flow/debt	-22%	-41%	-9%	-5%	3%	3%
Scope-adjusted EBITDA in HUF m						
EBITDA	17,115	18,452	28,818	28,086	28,919	29,816
Scope-adjusted EBITDA	**17,115**	**18,452**	**28,818**	**28,086**	**28,919**	**29,816**
Funds from operations in HUF m						
Scope-adjusted EBITDA	17,115	18,452	28,818	28,086	28,919	29,816
less: (net) cash interest paid	(934)	(3,244)	(3,064)	(3,535)	(3,605)	(3,600)
less: cash tax paid per cash flow statement	(56)	(123)	(154)	(855)	(833)	(893)
Other non-operating charges before FFO	29	-	-	-	-	-
Funds from operations	**16,154**	**15,085**	**25,600**	**23,696**	**24,480**	**25,322**
Free operating cash flow in HUF m						
Funds from operations	16,154	15,085	25,600	23,696	24,480	25,322
Change in working capital	(10,012)	(33,518)	(2,061)	(12,194)	(13,291)	(11,836)
less: capital expenditure (net)	(28,996)	(23,401)	(34,017)	(17,294)	(7,774)	(10,198)
Free operating cash flow	**(22,854)**	**(41,834)**	**(10,478)**	**(5,792)**	**3,415**	**3,287**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	(934)	(3,244)	(3,064)	(3,535)	(3,605)	(3,600)
Net cash interest paid	**(934)**	**(3,244)**	**(3,064)**	**(3,535)**	**(3,605)**	**(3,600)**
Scope-adjusted debt in HUF m						
Reported gross financial debt	114,438	107,425	118,685	123,655	125,018	123,318
less: cash and cash equivalents[1]	(56,781)	(7,551)	(2,412)	(895)	(2,806)	(2,527)
add: non-accessible cash	45,000	-	-	-	-	-
add: bank guarantees	1,000	1,000	2,770	2,770	2,770	2,770
Scope-adjusted debt	**103,657**	**100,874**	**119,043**	**125,530**	**124,982**	**123,561**

[1] We applied a 25% haircut to the cash and cash equivalents

Table of Content

Environmental, social and governance (ESG) profile[2]

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)

Efficient production and recycled aluminium input for packaging

Aluminium used for can production comes majority from recycled material and aluminium prices are hedged to mitigate price volatility. The output of aluminium cans (approx. 2.7bn per year) is mostly manufactured from recycled aluminium; however, output is not widely recycled hence it does not contribute to the circular economy. This shows a mixed ESG picture, albeit the responsibility is not just of the issuer: regulators and retailers are involved in this process in Western Europe.

Introduction of deposit systems

This is expected to drastically change as a new deposit system has been implemented in H1 2024 in Hungary, which should provide incentive to consumers and retailers to recycle the cans. The product portfolio concentrates on small packaging, mostly 250 millilitres, with no plans to offer drink dispensers and syrups, resulting in the transport of water. Competitors' product offering includes larger packaging (up to 2.5 litres) and concentrated syrups and biodegradable cups, or reusable cups can be used at dispensers.

Products are high in sugar/sweetener and caffeine

Production facilities adhere to stringent health and safety certifications as mandated by industry standards. However, energy drinks are still taxed with public health product tax (so-called chips tax or "NETA" in Hungary) and are considered less healthy than other beverages (such as juices, milk-based products) by authorities. Hell Energy has a zero-sugar line and the company has diversified into soft drinks without sugar or caffeine.

Corporate structure complexity is medium. Some related entities are not consolidated (such as Üvegszikla Kft, which owns the automated warehouse).

[2] 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: BB+

The business risk profile is supported by the regional market leadership and strong brand recognition as well as historically solid profitability. The business risk profile remains constrained by the company's still relatively small size, as well as by moderate diversification in terms of product categories, geographical scope and production sites.

Industry risk profile: A

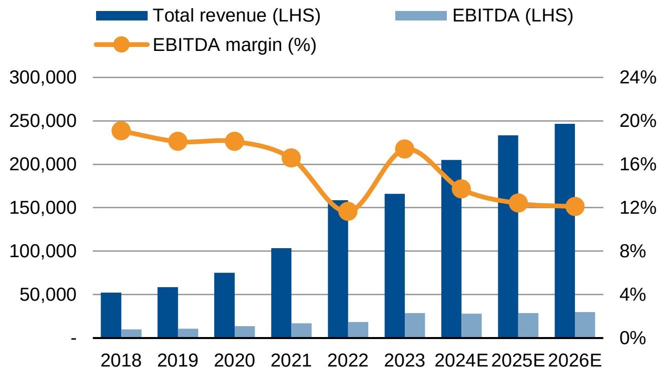
The business risk profile is supported by the non-discretionary consumer products sector's strong industry risk profile, which benefits from low cyclicality, medium barriers to entry and low substitution risk.

Undisputed leader in energy drinks in Hungary

Hell Energy dominates the Hungarian energy drinks market with an over 60% market share as of September 2024 based on Nielsen IQ data. It also leads in local markets for iced coffee and iced teas, though at lower levels. The company leads the energy drink market in several CEE countries, including Romania, Bulgaria, Greece, Bosnia and Herzegovina, Slovakia, Croatia, and Cyprus. Nevertheless, the market position assessment is partially constrained by the company's still relatively small size (revenues of around EUR 390m in 2023).

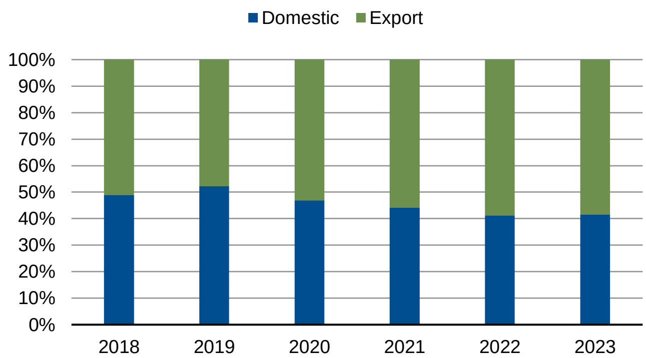
Hell Energy pursues a dual strategy of branded and white-label products, although the vast majority of sales (around 85% in 2023) are realised via branded products, which is beneficial for profitability.

Figure 1: Revenues and EBITDA (in HUF m) and operating profitability (%)



Sources: Hell Energy, Scope estimates

Figure 2: Geographical split of revenues (%)



Sources: Hell Energy annual report, Scope

Moderate geographic reach

Despite operating in over 50 countries and a with a gradually increasing portion of international sales, most of Hell Energy's sales are still in CEE (core markets are Hungary and Romania), with domestic sales accounting for over 40% of consolidated revenues in 2023. We expect further significant growth in India where the company has already experienced a fast development in volumes during 2023.

Limited product diversification

Product diversification remains a limitation for the rating, as energy drinks account for approximately 60% of sales in 2023. However, the company is gradually expanding into other product categories, particularly iced coffee and vitamin drinks, although the majority of Hell Energy' portfolio tend to have high sugar and caffeine content, making them more susceptible to regulatory risks compared to other beverage categories. Furthermore, the company is entering the canned water market, which is currently small and considered niche, focusing on Hungarian and neighbouring markets.

Well-diversified customer and supplier base

In terms of diversification, the company benefits from a relatively diversified client base, mostly thanks to its retail product offering. There is no material dependency on any third-party distributor or retailer due to the group's strategy to develop and run its own global distributions via own local operations on the ground or working together with different local distributors in every market. There is also minimal dependency on suppliers because the main raw materials used – sugar, compound (syrup) and aluminium – are all globally traded commodities with numerous potential suppliers. The company has also developed relationships with several suppliers for each category to mitigate supplier risk.

2024 sales impacted by new deposit system in Hungary

Revenues in 2023 were approximately 10% higher compared to 2022, primarily due to price increases. As of 9M 2024, revenues have continued to grow but are somewhat inflated by the effect of the new deposit system introduced in Hungary in H1 2024 (HUF 50 added to price of each can for recycling purposes).

EBITDA margin between 12-15% over time

In 2023, Scope-adjusted EBITDA increased to HUF 28.8bn from HUF 18.5bn in 2022, with a Scope-adjusted EBITDA margin of 17.8% (up 5.5pp YoY) mainly driven by declining in input costs (especially energy) and higher pricing. Such effects have been carried over also in H1 2024, resulting in a temporarily higher Scope-adjusted EBITDA margin of 19% in H1 2024. This, however, is expected to change in H2 2024 due to the implementation of the can deposit system in Hungary during H1 2024 that has a diluting effect on the company's margin given its pass-through nature. We expect margins to decline to approx. 14% in 2024 (currently at 14.3% in the 9M 2024). The EBITDA margin, which is expected to be between 12%-15% over time, places Hell Energy at the upper end of the Hungarian consumer products peers and at the European average. The company's above-average vertical integration and efficient, and relatively new production facilities have shielded its profitability from the strong wage inflation in Hungary. The facility also provides an advantage over competitors with less modern, less automated production facilities

Sanctions on sales of energy drinks

The enhanced capacity is expected to support revenue growth throughout 2025. However, regulatory impacts may partially limit revenue growth. Romania has in fact enacted a law in February 2024 restricting the sale of energy drinks to minors. This law does not affect other beverages from Hell Energy's portfolio, such as iced coffee, as they are not labelled as energy drinks. A similar bill is under discussion in the Hungarian Parliament which may moderately affect Hell Energy's domestic sales and profitability if approved. We do not include the impact of such event in its forecasts.

Financial risk profile: B

The financial risk profile remains weak and constrained by high leverage and negative cash flow cover, partly supported by a good Scope-adjusted EBITDA interest cover. Nevertheless, credit metrics are improving after the completion of the large expansionary capex cycle in 2023 (the bonds issued in 2021 were earmarked to finance the expansion of its manufacturing and warehouse facilities).

Improving leverage levels

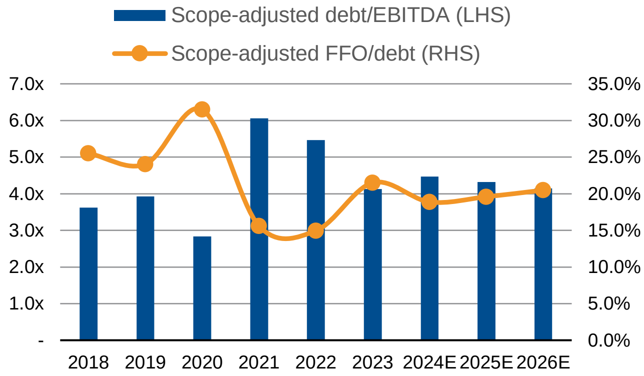
Scope-adjusted Debt/EBITDA improved to 4.1x in 2023 from 5.5x in 2022 thanks to higher Scope-adjusted EBITDA that offsets the higher debt level. As the company finalised its capacity expansion, Scope expects lower yet still sustained capex going forward in conjunction with only slightly increasing Scope-adjusted EBITDA up to HUF 30bn per year, leading leverage to remain between 4.0x-5.0x over time.

Similarly, Scope-adjusted funds from operations/debt has been moderate at 22% in 2023, and we expect it to remain stable at 20% going forward.

Robust interest cover

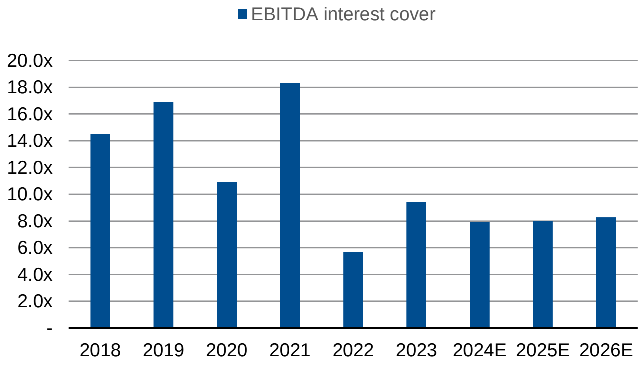
The financial risk profile continues to be supported by the Scope-adjusted EBITDA interest coverage of 9.4x in 2023, which is Hell's strongest financial metric. We expect this ratio to remain strong and well-above 7.0x in the next years since most of the debt is at fixed rate and gross debt is projected to remain broadly stable going forward.

Figure 3: Leverage measured by Scope-adjusted debt/EBITDA and Scope-adjusted FFO/debt



Sources: Hell Energy, Scope estimates

Figure 4: Debt protection measured by Scope-adjusted EBITDA/interest cover

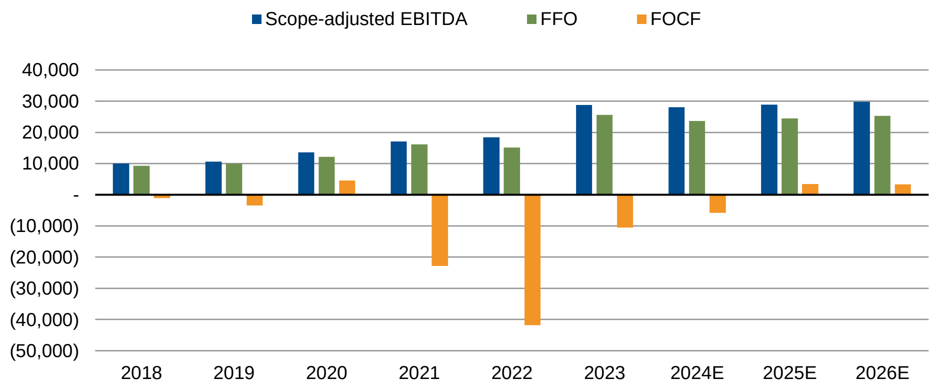


Sources: Hell Energy, Scope estimates

Negative free operating cash flow, but to improve from 2025

Hell Energy is yet to receive part of the state subsidy granted partially for the capacity expansion project (HUF 5.5bn were deferred to 2025 from 2024), therefore capex will remain elevated also in 2024. We forecast Scope-adjusted FOCF/debt will stay marginally negative in 2024 (negative 9% in 2023), and breakeven in 2025. The negative FOCF is due to the large capex programme (HUF 30bn in 2022, HUF 37bn in 2023 and expected HUF 17bn in 2024) but also working capital build-up of HUF 33bn in 2022, HUF 2bn in 2023 and expected HUF 12bn in 2024. The company has been depended on external financing to support its growth needs over the past years. We expect FOCF to improve from 2025 onwards, as capex requirements should significantly decline as no major investments are planned, allowing for deleveraging and an overall improvement of the financial risk profile. Nonetheless, our capex estimates incorporate a degree of conservatism to account for the potential of future investments intended to drive further growth.

Figure 5: Cash flows (in HUF m)



Sources: Hell Energy, Scope estimates

Exposure to Euro and other currencies

The company has expanded well beyond Hungary into CEE countries especially, which also means financing needs to be adapted to other currencies. Interest rates for euro denominated facilities are lower than in Hungarian Forint, which also support the Scope-adjusted EBITDA/interest ratio. Foreign exchange risk is limited, as there is natural hedge arising from revenues received in euros.

Adequate liquidity

The liquidity profile remains adequate, supported by the unrestricted cash reserves of HUF 3.2bn as of December 2023 and the large amount of undrawn committed credit facilities of HUF 9.2bn, despite pressure on free operating cash flow. The assessment considers the expectation of liquidity ratio to be comfortably above 100% in the projected period supported by the improving FOCF and limited debt maturities. From 2027 to 2029, Hell Energy is due to pay HUF 16.2bn a year in bonds repayment principal, what still could be considered manageable, depending on the accumulation of cash over time.

Balance in HUF m	2024E	2025E	2026E
Unrestricted cash (t-1)	3,216	1,193	3,742
Open committed credit lines (t-1)	9,200	9,200	9,200
FOCF (t)	(5,792)	3,415	3,287
Short-term debt (t-1)	5,408	3,637	6,700
Coverage	**122%**	**>200%**	**>200%**

We highlight that Hell Energy's senior unsecured bonds 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 if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B- (accelerated immediate repayment). 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. In addition to the rating deterioration covenant, bond covenants include a list of soft covenants, such as change of control and dividend restrictions.

Supplementary rating drivers: +/- 0 notches

We made no adjustments to the company's standalone credit assessment.

Financial policy

Hell Energy shows a stable and unchanged financial policy over the past years reflecting consistent management practices and where discretionary spendings are well-disclosed and transparent. A dividend payout cap of 20% of net income is applied at main subsidiary Hell Energy Mo. Kft, resulting in a lower payout ratio at consolidated level, which we deem a conservative dividend policy. The company has no specific M&A strategy disclosed.

Family-owned business

The Barabás family has majority ownership and control over the issuer (more than 95%) via its holding companies. The company structure above the issuer was altered with introduction of a few holding companies, all registered in Hungary. Such restructuring is considered as credit neutral.

Long-term debt rating

Senior unsecured debt rating: B+

Our recovery assessment for Hell Energy's senior unsecured debt assumes a hypothetical default scenario in 2026 and is based on an assumed liquidation of the company's assets, which has significantly increased YoY as a result of the completion of the heavy capex phase related to the expansion of Hell Energy's warehouse and manufacturing facilities. Overall, we expect an "above average" recovery, but we refrain to uplift the rating by one notch given the volatility in capital structure on path to default with introduction of additional secured debt. Furthermore, we note that in case of weakening operating performance, the market value of assets will decline and thus recovery rate would drop.

Hell Energy issued two senior unsecured bonds with 10-year tenors under the Hungarian Central Bank's Bond Funding for Growth Scheme. One bond was issued in 2020 (ISIN: HU0000359377) at HUF 28.5bn with a fixed coupon of 2.7% yearly. Another bond was issued in 2021 (ISIN: HU0000360722, guaranteed by subsidiary Quality Pack Zrt.) at HUF 67bn with a fixed coupon of 3.0% yearly. Both bonds were used mainly for capex. Bonds repayment start in tranches from 2026 with a combine principal amount of HUF 6.7bn, HUF 16.2bn in 2027-2029, HUF 6.7bn in 2030 and the remaining HUF 33.5bn in 2031.

Appendix: Peer comparison (as at last reporting date)

	Hell Energy Magyarország Kft.	Vajda-Papír Kft.	Kometa 99 Zrt.	Baromfi-Coop Kft.	Bonafarm Zrt.
Issuer rating with supplementary rating drivers	**B+/Positive**	**B+/Stable**	**B+/Stable**	**BB/Stable**	**BB/Stable**
Last reporting date	30 June 2024	31 December 2023	31 December 2023	30 June 2024	30 June 2023
Business risk profile	**BB+**	**BB-**	**BB-**	**BB**	**BB+**
Size (revenue in EUR bn)	0.4	0.1	0.2	0.6	0.8
Diversification	Beverages; Hungary and exports	Paper products; Hungary and exports	Mainly pork; Hungary and exports	Agriculture and chicken; Hungary and exports	Agriculture, pork and milk; Hungary and exports
Operating profitability (EBITDA margin)	12-19%	0-5%	3-5%	11-13%	7-11%
Financial risk profile	**B**	**B+**	**B+**	**BB**	**BB-**
Scope-adjusted EBITDA/interest cover	9.4x	6.2x	Negative	80.3x	Negative
Scope-adjusted debt/EBITDA	4.1x	3.3x	4.5x	2.3x	1.6x
Scope-adjusted funds from operations/debt	22%	25%	28%	42%	66%
Scope-adjusted FOCF/debt	-9%	-57%	5%	13%	-35%
Supplementary rating drivers	**-**	**-**	**-**	**-**	**+1**
Parent support	-	-	-	-	+1

Sources: Public information, Scope

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