Envien Magyarország Kft.
Hungary, Integrated Chemicals

SCOPE BB STABLE

Corporate profile

Envien Magyarország Kft. is a 100% subsidiary of Envien International Ltd, based in Malta, which is the consolidating entity of the Envien Group. The Envien Group is the leading biofuel producer in CEE. Envien Magyarország is a pure trading company for animal feed products, primarily using by-products of the Envien Group's biofuel production. Envien International has provided an unconditional and irrevocable guarantee for the bond issued by the Hungarian subsidiary. The end-use of the bond proceeds will be to finance the Envien Group's strategic investment projects, primarily in CEE.

Key metrics (Envien International)

		Scope estimates		
Scope credit ratios	2019	2020E	2021E	2022E
EBITDA/interest cover	18.1x	19.4x	10.4x	11.8x
Scope-adjusted debt (SaD)/EBITDA	0.8x	0.5x	1.5x	1.0x
Scope-adjusted FFO/SaD	114.8%	180.9%	55.2%	80.3%
FOCF/SaD	85.1%	170.1%	4.1%	46.2%

Rating rationale

The rating for Envien Magyarország is derived from the corporate rating for Envien International. This reflects the implicit guarantee to Envien Magyarország given name identity, brand responsibility, intercompany funding, and its importance to the Envien Group. It also reflects the explicit, unconditional, and irrevocable guarantee given to debt holders of the planned bond (ISIN HU0000360193) under the MNB Bond Funding for Growth Scheme.

Envien Magyarország plans to issue a HUF 5bn (approx. EUR 14m) bond (ISIN HU0000360193) under the MNB Bond Funding for Growth Scheme. The bond's tenor is 10 years with 10% of its face value subject to amortisation in 2026, 10% in 2027, 10% in 2028, 10% in 2029, 10% in 2030 and the remaining 50% in 2031. The coupon will be fixed and payable on an annual basis. Funds from the bond will be used for capex, working capital, general corporate purposes and to increase liquidity buffers at group level.

Envien International will provide Envien Magyarország with an unconditional and irrevocable guarantee, expected at around HUF 6.1bn, for the full value of the bond plus a contingency buffer to cover all costs, (including the HUF 5bn principal, HUF 1.1bn estimated total coupon payment obligations until maturity, and late payment interest). It will rank as senior unsecured debt for Envien International.

We assess Envien International's business risk profile at B+, primarily reflecting a limited market share in a global context, restricted diversification and moderate operating profitability. The financial risk profile of A- reflects relatively low Scope-adjusted debt (SaD), reduced by a strong cash position. We expect SaD/EBITDA to remain below 2.0x during the rating period. Funds from operations/SaD should remain comfortably over 45% for the rating period. Interest cover is also very strong, reflecting both low interest rates and relatively limited debt carried by the Envien Group. Cash flow cover is more volatile but expected to remain at satisfactory levels on a sustained basis.

Ratings & Outlook

Corporate ratings	BB/Stable
Short-term rating	-
Guaranteed senior unsecured bond rating (ISIN HU0000360193)	(P)BB

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Related Methodology

Corporate Rating Methodology, February 2020

Rating Methodology Chemical Corporates April 2020

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Outlook and rating-change drivers

The Outlook is Stable, supported by our expectation of continued demand, primarily driven by regulatory requirements for biofuel use. We anticipate that relatively volatile free operating cash flow/SaD will remain subject to sharp downturns in weak years but be 15%-25% based on a forward-looking weighted average.

A positive rating change is possible if Envien International's financial metrics improve further. This could happen if the positive price trend in 2019-20 continues, leading to SaD/EBITDA falling below 1x on a sustained basis, and/or if mandates for biofuel use increase.

A negative rating could be driven by a change in Envien Magyarország's ownership and/or a financial downturn for Envien International. This could be driven by a combination of steadily declining prices and persisting lower demand for biofuels, with SaD/EBITDA reaching 3.0x on a sustained basis.

Rating drivers

Positive rating drivers	Negative rating drivers
• Past and future demand generated by regulatory requirements (biofuels) • Strong market presence in highly competitive field • Very strong financial metrics	• Concentration on single product group (biofuels) • Moderate operating profitability for an integrated chemicals company due to strong competition and limited pricing room • Upstream and downstream price volatility

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Improved metrics of parent (SaD/EBITDA below 1x on a sustained basis) • Increased regulatory requirements for use of biofuels	• Change in ownership • Financial downturn of parent, with SaD/EBITDA reaching 3.0x on a sustained basis

Financial overview (Envien International)

		Scope estimates		
Scope credit ratios	**2019**	**2020E**	**2021E**	**2022E**
EBITDA/interest cover	18.1x	19.4x	10.4x	11.8x
Scope-adjusted debt (SaD)/EBITDA	0.8x	0.5x	1.5x	1.0x
Scope-adjusted funds from operations/SaD	114.8%	180.9%	55.2%	80.3%
Free operating cash flow/SaD	85.1%	170.1%	4.1%	46.2%
Scope-adjusted EBITDA in EUR ‘000	**2019**	**2020E**	**2021E**	**2022E**
EBITDA	52,012	52,635	32,877	41,048
Operating lease payments in respective year	-	-	-	-
Other	-	-	-	-
Scope-adjusted EBITDA	54,254	52,635	32,877	41,048
Scope-adjusted funds from operations in EUR ‘000	**2019**	**2020E**	**2021E**	**2022E**
EBITDA	52,012	52,635	32,877	41,048
less: (net) cash interest as per cash flow statement	-2,878	-2,719	-3,149	-3,490
less: cash tax paid as per cash flow statement	-1,014	-5,453	-2,616	-3,628
add: depreciation component, operating leases	-	-	-	-
Scope-adjusted funds from operations	48,120	44,463	27,111	33,930
Scope-adjusted debt in EUR ‘000	**2019**	**2020E**	**2021E**	**2022E**
Reported gross financial debt	101,973	75,590	99,090	99,090
less: hybrid bonds	-	-	-	-
less: cash and cash equivalents	-62,437	-55,086	-51,723	58,330
add: cash not accessible	-	-	-	-
add: pension adjustment	-	-	-	-
add: operating lease obligations	-	-	-	-
Other	2,364	2,075	1,782	1,489
Scope-adjusted debt	41,900	24,579	49,149	42,249

Business risk profile

Business risk profile: B+

While its industry risk profile is robust, Envien International's competitive positioning is limited by a relatively weak market position, diversification, and profitability. We assess the business risk profile at B+.

Macroeconomic market conditions supportive

Macroeconomic conditions in key markets (Slovakia, Czechia, Hungary, Croatia, the rest of CEE and the EU 27 excluding the UK) are being significantly challenged by the effects of the Covid-19 pandemic. However, we expect recoveries to be robust with demand returning to pre-pandemic levels.

Key product demand mandated by government regulations

The group's key products – biofuels mixed with conventional diesel and gasoline to meet EU requirements – use agricultural commodities as inputs to produce oils and ethanol in large volumes. According to the Envien Group, it is ranked 9th for bioethanol production in the EU and 10th for FAME (fatty acid methyl esters) for biodiesel. The EU Renewable Energy Directive II (Directive (EU) 2018/2001) mandates the increasing use of biofuels to promote renewable forms of energy and meet EU emission reduction targets. As such, demand is primarily driven by changes in these mandates.

Industry risk profile of BBB for integrated chemicals

We place Envien International in the integrated chemicals industry, which is rated BBB. Price risks come from both upstream and downstream. The industry faces high cyclicality due to great sensitivity to fluctuations in raw material prices, especially for commodity products. Market entry barriers are high due to extensive capex requirements and intellectual property rights. Substitution risk is low, with strict technical production requirements, a lack of alternative production methods and product uniqueness (especially bespoke chemical solutions) limiting alternatives.

Strong position in CEE, but limited market position elsewhere

The Envien Group has a strong position within CEE and to a lesser degree in the EU. The industry is dominated by large-scale multinationals. Global biofuel production in 2019 was 1.8m bbl./d, with just over 80% of global biofuels produced in the US and South America. All of Europe produced just over 12% of world supply in the same period. We expect global fuel demand to increase greatly in 2021 after the sharp downturn in 2020 due to Covid-19 travel restrictions. However, we expect the increase to then slow, despite the growing use of transportation, as older vehicles are retired, and fuel efficiency improves. The move away from fossil fuels to electric and hydrogen vehicles will also curb demand. Overall, the Envien Group's market position is limited.

Limited diversification

Envien International's market portfolio diversification is restricted to the commodities bioethanol and biodiesel, as well as their by-products and related trading activities. Geographical diversification is better, but is limited to relatively few markets, primarily in CEE. Supplier and customer diversification are also weak, with the top four suppliers making up 41% of suppliers and the top four customers making up 71% of revenues.

Constrained profitability

Profitability for biofuel producers is closely related to price developments, which in turn are linked to feedstock prices and crude oil prices. Increasing feedstock and crude oil prices have supported profitability in recent years, but feedstock prices have been on a decreasing trend lately, which we expect to negatively impact EBITDA margins in 2021. Demand development is strengthened by national support policies requiring the use of biofuels. At the same time, mandated improvements in fuel efficiency and the expected addition of significant production capacity will increase competitive pressures on prices. We expect EBITDA margins to average around 10% in the short to medium term.

Financial risk profile

Financial risk profile: A-

We assess Envien International's financial risk profile at A-. Envien International's credit metrics are robust and liquidity is adequate.

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Planned issuance of HUF 5bn with unconditional and irrevocable guarantee of parent

Envien Magyarország intends to issue a bond (ISIN HU0000360193) for HUF 5bn (around EUR 14m). Envien International will provide an unconditional and irrevocable guarantee for the issue. For this reason, we rate Envien Magyarország at the same level as its 100% parent, Envien International. Envien Magyarország's income serves to cover the full performance of payment obligations, with finance coverage from existing assets, receivables, and inventories, as well as after-tax profits and profit reserves. The volume of the planned issuance is HUF 5bn, with a ten-year tenor (due in 2031) and a fixed coupon, expected to be 2.5% per year (HUF 125,000 per year for the first five years, then decreasing according to scheduled amortisation). Amortisation will be 10% in 2026, 10% in 2027, 10% in 2028, 10% in 2029, 10% in 2030 and the remaining 50% in 2031. We expect the guarantee for the bond to be around HUF 6.1bn, representing the full value plus a contingency buffer (including the HUF 5bn principal, HUF 1.1bn estimated total coupon payment obligations until maturity and late payment interest).

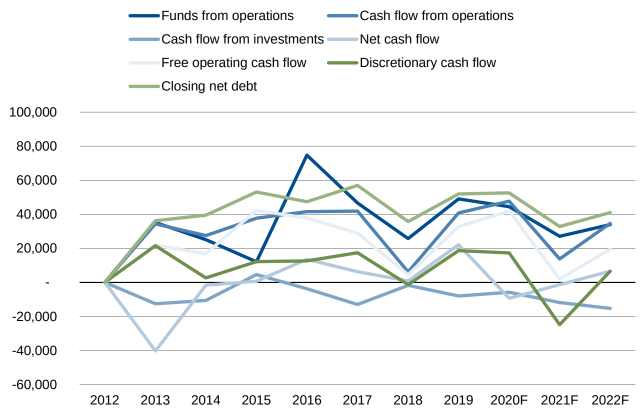
Robust credit metrics and modest only modest increase in debt

Envien International's credit metrics are robust. The increase in debt for Envien International is modest and its strong cash position will persist during the rating period, reflecting a conservative financial policy. This will lead to stable debt burdens. We note that Envien International's cash position alone is a strong multiple of the planned bond issuance.

Strong leverage and debt protection

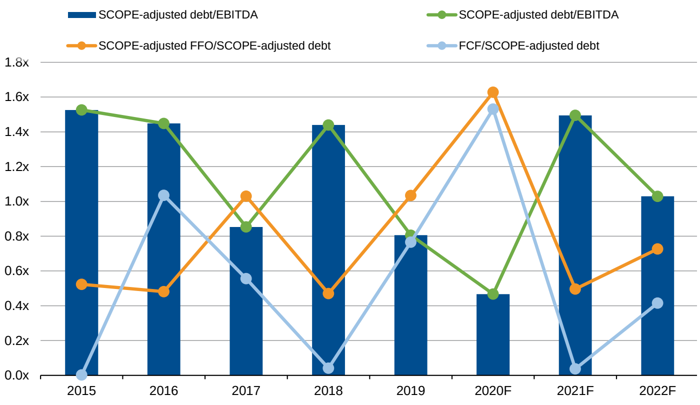
SaD/EBITDA is very strong, mainly driven by the effect of the good cash position on debt levels together with sufficient recurring EBITDA generation. This metric is comfortably below the threshold of 2x for an A rating. Funds from operations/SaD is also robust, reflecting Envien International's strong funds from operations and limited debt. Our assessment of leverage and debt protection for the planned issuance therefore indicates a favourable position for Envien International.

Figure 1: Envien International – cash flow



Source: Scope estimates

Figure 2: Envien International – Scope credit rating metrics



Source: Scope

Strong interest and satisfactory cash flow cover

EBITDA/interest cover is very strong as well, reflecting robust EBITDA, moderate debt levels and the current low market interest rates. Free operating cash flow/SaD reflects moderate debt levels and robust but volatile free operating cash flow, leading to a fluctuating but generally satisfactory cash flow cover.

Liquidity adequate

Liquidity is adequate. Envien Magyarország has no short-term debt and the planned issuance is the first long-term debt to be carried. Envien International's liquidity is also adequate. If we include inventories in our liquidity assessment, liquidity is well above 110%.

Supplementary key rating drivers

Conservative financial policies

Envien Magyarország's financial policy is characterised by a minimal risk appetite. The company has no short-term debt, which is unusual for a trading company. Around 80% of goods are supplied by related companies and financed by intercompany liabilities. Envien International has demonstrated some risk appetite via acquisitions in the past, but no M&A activity is planned.

Parent support

We have applied full rating equalisation for the parent support Envien Magyarország is expected to receive from 100% owner Envien International. The ultimate beneficial owners of Envien International are Ján Sabol, Slovak national, and György Nagy, Hungarian national.

Financial peer group

Envien is at the upper end of its financial peer group. However, peer group considerations do not support an uplift to the rating.

Governance and structure

We have no issues with the governance and structure of Envien Magyarország or Envien International.

Guaranteed bond

Guarantee is unconditional and irrevocable

Given the unconditional and irrevocable guarantee for the planned bond issuance (ISIN HU0000360193), we place the guaranteed debt at the same level as the senior unsecured debt of the guarantor, Envien International Ltd.

Rating for guaranteed debt: BB

We anticipate that any recovery for Envien Magyarország would cover the planned issuance in full. The preliminary rating of (P)BB will be changed to a BB rating once the bond has been issued as long as terms and conditions remain unchanged.

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