

# Vajda-Papír Kft.

## Hungary, Consumer Products


**B** STABLE

### Key metrics

Scope credit ratios	2021	2022	Scope estimates	
			2023E	2024E
Scope-adjusted EBITDA/interest cover	2.7x	0.4x	3.3x	2.7x
Scope-adjusted debt/EBITDA	11.4x	73.4x	6.5x	7.7x
Scope-adjusted funds from operations/debt	5%	-2%	10%	8%
Scope-adjusted free operating cash flow/debt	-70%	-16%	-15%	3%

### Rating rationale

Vajda-Papír's issuer rating benefits from the strong business risk profile, assessed at BB. The group is a leading consumer goods company in Hungary producing non-discretionary household paper products, with market shares of around 35%. It also has strong market positions in several European countries, upholding strong geographical diversification with more than 50% of its revenue coming from exports. The business risk profile is hindered by the group's limited size, low product diversification, below-average brand strength and historically volatile profitability.

The financial risk profile, assessed at B-, continues to hinder the issuer rating. This is despite the forecast of stronger credit metrics thanks to initiatives taken to make profitability less volatile. The financial risk profile is supported by the relatively strong interest coverage, forecasted to normalise at around 3x. We forecast leverage, as measured by the Scope-adjusted debt/EBITDA ratio, to remain well above 6x in the next years, and Scope-adjusted debt to remain fairly stable thanks to management's commitment to limit additional debt issuance, emphasised by the end of the investment period that will allow cash flow cover to return to positive.

### Outlook and rating-change drivers

The Stable Outlook reflects our view that in addition to the improvement in profitability and credit metrics, Vajda-Papír has committed to stable indebtedness for the next 2 years (Scope-adjusted debt/EBITDA normalising at around 7x). This commitment is emphasised by the absence of investment capex plans until 2025.

A negative rating action could occur in case liquidity deteriorates further, potentially as a result of the issuer's inability to roll-over its significant short-term lines) or if the Scope-adjusted EBITDA/interest cover ratio dropped to below 2x. These could result from unfavourable market conditions (such as the interest rate environment) or an inflated debt portfolio.

A positive rating action could be warranted if liquidity improved and Scope-adjusted debt/EBITDA leverage reduced to below 6x on a sustained basis.

### Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
3 Nov 2023	Outlook change	B/Stable
14 Jun 2023	Confirmation	B/Negative
17 Nov 2022	Downgrade	B/Negative

### Ratings & Outlook

Issuer	B/Stable
Senior unsecured debt	B+

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### Related Methodologies and Related Research

[General Corporate Rating Methodology, October 2023](#)

[Consumer Products Rating Methodology, November 2022](#)

[ESG considerations for credit ratings of consumer goods companies](#)

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## Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"><li>• Active in non-durable consumer products, with strong underlying demand for products</li><li>• Completion of investment programme to ensure internal supply of base paper covering related manufacturing needs, mitigating the price volatility of that raw material</li><li>• Leading market position in Hungary and notable market positions in several other European countries, with a solid customer portfolio of retail chain stores</li><li>• One of the first Hungarian companies to issue a green bond within the NKP green bond framework</li></ul>	<ul style="list-style-type: none"><li>• Exposure to volatility of input prices, with risk only partially mitigated, especially for cellulose and gas (affecting profitability and credit metrics)</li><li>• Historically weak and volatile profitability, coupled with a short history of acceptable credit metrics</li><li>• Liquidity issues in unfavourable market environments like in 2022</li><li>• Despite completion of investment phase, increased external working capital financing to keep hindering deleveraging in the medium term</li></ul>
Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"><li>• Improved liquidity</li><li>• Deleveraging to a Scope-adjusted debt/EBITDA sustained below 6x</li></ul>	<ul style="list-style-type: none"><li>• Inadequate liquidity (potentially as a result of the issuer's inability to roll over its significant short-term lines)</li><li>• EBITDA interest cover deteriorating below 2x</li></ul>

## Corporate profile

Vajda-Papír Kft. is a consumer goods group founded in 1999. It manufactures and sells selected hygiene paper products such as toilet paper, tissues, paper towels and napkins. Vajda-Papír is the market leader in Hungary (combining its private label and own brands). It exports to 24 countries, mostly in Europe. Vajda Real Estate was consolidated into Vajda-Papír Kft. in 2018. The group's majority shareholders are its founders, Attila Vajda and Szilvia Vajda Csata.









## Financial overview

				Scope estimates		
Scope credit ratios	2020	2021	2022	2023E	2024E	2025E
Scope-adjusted EBITDA/interest cover	9.7x	2.7x	0.4x	3.3x	2.7x	2.9x
Scope-adjusted debt/EBITDA	3.9x	11.4x	73.4x	6.5x	7.7x	7.2x
Scope-adjusted funds from operations/debt	23%	5%	-2%	10%	8%	9%
Scope-adjusted free operating cash flow/debt	-2%	-66%	-16%	-15%	3%	3%
<b>Scope-adjusted EBITDA in HUF m</b>						
EBITDA	3,505	1,523	-360	4,600	3,722	3,858
Operating lease payments	399	521	782	822	863	906
<b>Scope-adjusted EBITDA</b>	<b>3,904</b>	<b>2,044</b>	<b>422</b>	<b>5,421</b>	<b>4,584</b>	<b>4,763</b>
<b>Funds from operations in HUF m</b>						
Scope-adjusted EBITDA	3,904	2,044	422	5,421	4,584	4,763
less: (net) cash interest paid	-401	-745	-1,172	-1,651	-1,720	-1,665
less: cash tax paid per cash flow statement	-25	-18	-13	-118	-1	-16
<b>Funds from operations (FFO)</b>	<b>3,478</b>	<b>1,280</b>	<b>-763</b>	<b>3,652</b>	<b>2,863</b>	<b>3,083</b>
<b>Free operating cash flow in HUF m</b>						
Funds from operations	3,478	1,280	-763	3,652	2,863	3,083
Change in working capital	-864	-1,937	5,434	-6,987	-473	-497
Non-operating cash flow	51	106	257	0	0	0
less: capital expenditure (net)	-2,586	-14,297	-9,226	-1,350	-800	-800
less: lease amortisation	-319	-417	-626	-657	-690	-725
<b>Free operating cash flow (FOCF)</b>	<b>-241</b>	<b>-15,265</b>	<b>-4,924</b>	<b>-5,342</b>	<b>900</b>	<b>1,061</b>
<b>Net cash interest paid in HUF m</b>						
Net cash interest per cash flow statement	321	641	1,016	1,487	1,547	1,484
add: interest component, operating leases	80	104	156	164	173	181
<b>Net cash interest paid</b>	<b>401</b>	<b>745</b>	<b>1,172</b>	<b>1,651</b>	<b>1,720</b>	<b>1,665</b>
<b>Scope-adjusted debt in HUF m</b>						
Reported gross financial debt	13,700	21,200	27,876	31,904	31,64	30,534
less: cash and cash equivalents	-6,567	-1,244	-2,271	-957	-1,607	-1,549
add: non-accessible cash	6,567	1,244	2,271	957	1,607	1,549
add: operating lease obligations	1,596	2,084	3,130	3,286	3,450	3,623
<b>Scope-adjusted debt (SaD)</b>	<b>15,296</b>	<b>23,284</b>	<b>31,005</b>	<b>35,190</b>	<b>35,104</b>	<b>34,157</b>

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## Environmental, social and governance (ESG) profile<sup>1</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)

## ESG factors are credit-positive

Vajda-Papír was one of the first entities to issue a green bond under the NKP green bond programme, which has a comprehensive framework that sets multiple green objectives, mainly related to resource management, that the group must comply with before 2030. Vajda-Papír established a three-member green committee to monitor its bond covenant progress and achievements. In addition, the group is committed to providing annual updates regarding its usage of bond proceeds. In May 2022 the green bond's allocation report was published, which confirmed that the group has fulfilled its commitments.

Vajda-Papír's first ESG report was published in 2023, detailing the group's environmentally conscious operations, the characteristics of its energy-saving paper mill and its sustainable development.

Additionally, Vajda-Papír's dedication to sustainable forest management also provides a competitive advantage. The group focuses on minimising its environmental impact by continually improving energy efficiency and the share of renewable energy it uses. Vajda-Papír has product certifications, including from ISO, HACCP, FSC and Nordic Ecolabel, and these have become more important to its customers lately.

<sup>1</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.

**Industry risk profile: A**

**Business risk profile: BB-**

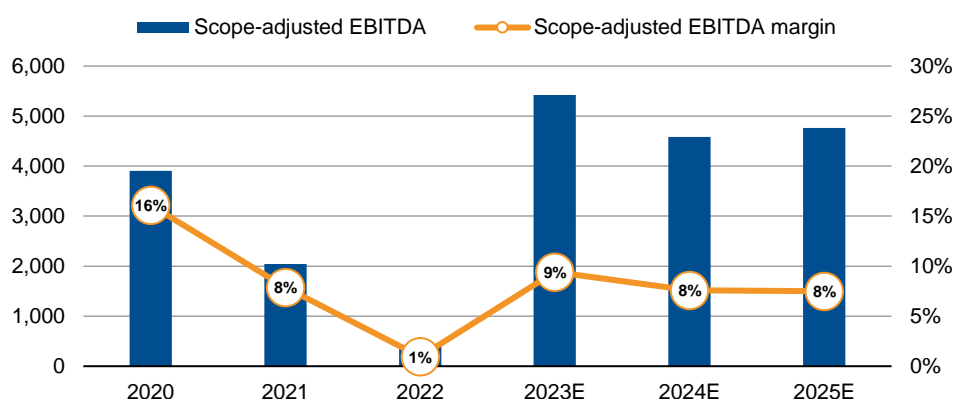
The group's business risk profile is supported by its solid domestic position, moderate geographical diversification, and operations within the non-durable consumer goods industry. However, the assessment is hindered by the group's limited size, low product diversification (albeit with the completion of the second-phase of investment capex, the group now manufactures a surplus of base paper, which is sold to third parties), below-average brand strength and historically volatile profitability.

Vajda-Papír is active in the non-durable consumer products industry, which is characterised by low cyclicalities, low substitution risk and medium barriers to entry. The group's products are household hygienic paper products. These are categorised as non-discretionary consumer products, which are less sensitive to the macroeconomic trends.

Vajda-Papír estimates that it has around a 35%-40% market share in Hungary (including both private label and own brand sales) and strong geographical diversification with more than 50% of sales from exports. The group also retains a balanced customer portfolio of well-established retailers with limited concentration. Demand for its non-discretionary products is expected to remain strong.

Operating profitability is the main rating constraint. In 2021-2022, the rising prices for cellulose and energy put pressure on materials costs and operating expenses and led to the deterioration of operating profitability, with the Scope-adjusted EBITDA margin dropping to 0.8% in 2022. However, in 2023 the input prices started to normalise, which together with sound initiatives<sup>2</sup> taken by the group led to the significantly improved Scope-adjusted EBITDA margin of 12.5% in H1 2023. The taken measures are expected to reduce profitability volatility. Even so, we expect pricing pressure to remain due to declining retail volumes and strong competition and forecast a slightly deteriorated Scope-adjusted EBITDA margin by the end of the year, followed by a normalisation to around 7.5%. However, volatility is only partially mitigated as the group plans to fix prices for only part of its energy consumption, while cellulose prices remain exposed to forex risk.

**Figure 1: Operating profitability**

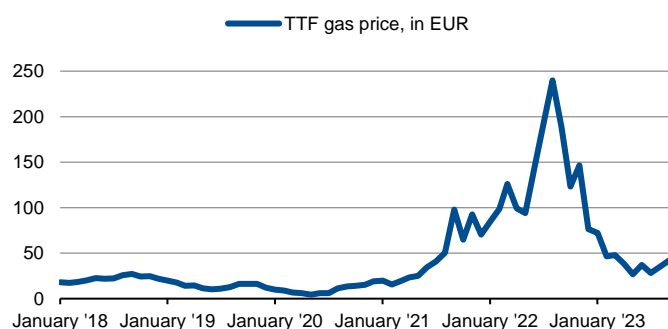


Sources : Vajda-Papír, Scope estimates

<sup>2</sup> Measures include the option to fix prices for up to 50% of the plant's gas consumption for two years. In addition, the completion of the second phase of the investment project will lead to cost savings and sales of surplus base paper.

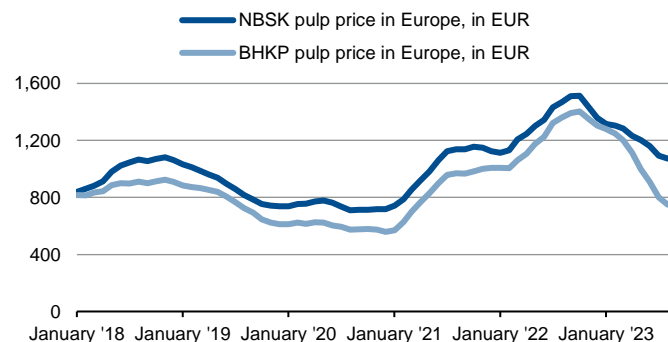
Vajda-Papír has several brands, each of which has a different price range to distinguish between premium and budget and to target a wide range of end-users. The group spends less than the peer average on advertising and marketing, historically at around 3% of its sales.

**Figure 2: Development of gas price**



Sources: Vajda-Papír

**Figure 3: Development of pulp/cellulose price indices**



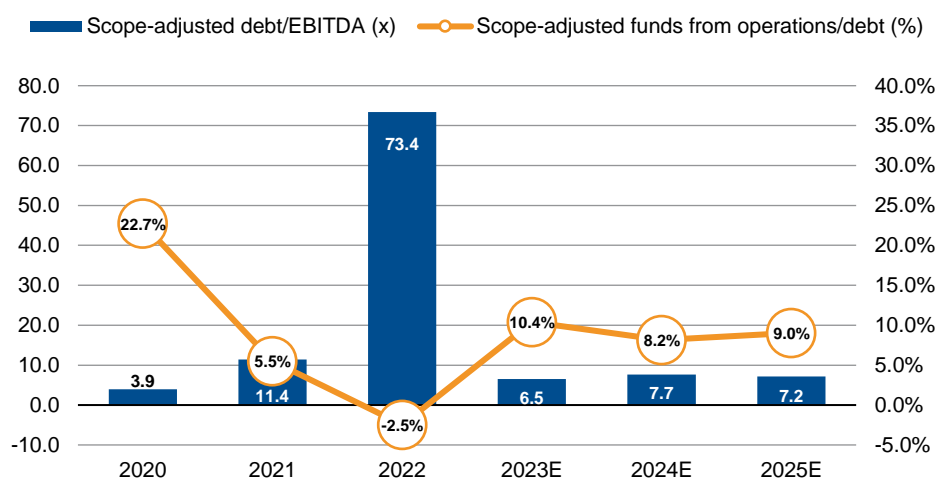
Sources: Vajda-Papír

### Financial risk profile: B-

Vajda-Papír's financial risk profile remains weaker than its business risk profile. This was exacerbated by the unfavourable market conditions of 2021 and 2022, but the expected improvement in operating profitability after 2023 and the following years are forecasted to strengthen credit metrics.

The significantly weak credit metrics of 2022 were temporary, but last year's unfavourable macroeconomic environment led Vajda-Papír to substantially increase indebtedness by 2023 to finance its working capital needs. NKP bond proceeds have been fully used to complete the second investment phase. As a result, Vajda-Papír arranged for a HUF 6.75bn overdraft and working capital credit lines (of which HUF 6.25bn was utilised by H1 2023) in addition to HUF 4.5bn in intercompany loans granted by affiliate companies Vajda Papír Scandinavia AS and Vajda Holding GmbH in 2022.

**Figure 4: Leverage**

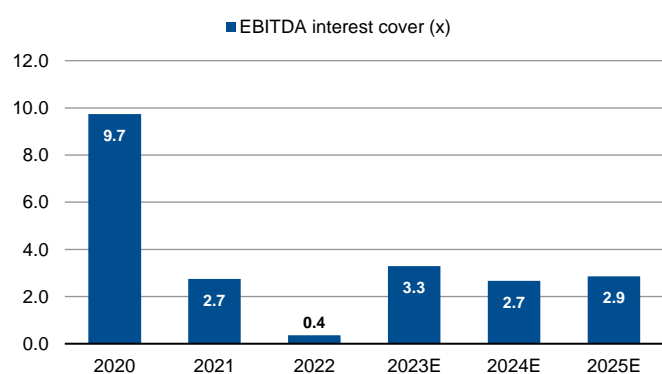


Sources : Vajda-Papír, Scope estimates

Strong interest coverage supports the financial risk profile, as majority of debt has fixed interest rates. Interest cover is forecasted to improve further and remain at 2.5-3.5x thanks to more stable profitability and the expected gradual normalisation of interest rates.

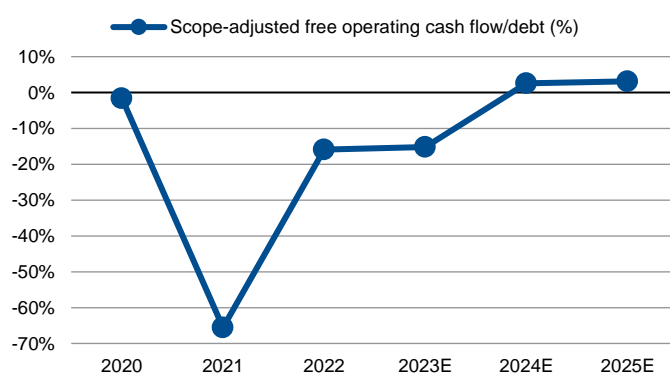
Leverage, as measured by the Scope-adjusted debt/EBITDA ratio, will continue to be the main constraint of the financial risk profile, expected to remain well above 6x in the next years. We expect that the Scope-adjusted debt will remain fairly stable as management has committed to limit working capital financing to below HUF 8.5bn in the next two years. Additionally, with the completion of investment capex, cash flow cover is forecasted to return to positive, further giving merit to the stable indebtedness forecast for the next years.

**Figure 5: Interest cover**



Sources : Vajda-Papír, Scope estimates

**Figure 6: Cash flow cover**



Sources : Vajda-Papír, Scope estimates

### Adequate liquidity

Until mid-2022, the group could finance operations with an unused portion of government grant and bond proceeds. However, the funds were fully spent on the completion of the investment programme. As Vajda-Papír was under pressure in 2022 and 2023 from its increased working capital needs, it contracted sufficient funding for the following years – assuming low volatility in its performance – however its liquidity is highly dependent on the annual roll-over of the significant short-term credit lines. With available, unused external funds, an additional credit line that can be granted by Vajda-Papír Scandinavia and a high ratio of liquid inventory, the group's liquidity is adequate. We note that any deterioration in banking relationships may have an immediate effect on the issuer's liquidity.

Balance in HUF m	2022	2023E	2024E
Unrestricted cash (t-1)	994	2,271	957
Open committed credit lines (t-1)	0	0	500
Free operating cash flow	-4,924	-5,342	900
Liquid inventories (t-1)	2,650	3,614	3,749
Short-term debt (t-1)	0	2,222	6,250
<b>Coverage</b>	<b>No short-term debt</b>	<b>24%</b>	<b>98%</b>

**Senior unsecured debt rating:  
B+****Long-term debt rating**

Vajda-Papír's senior unsecured debt rating was upgraded to B+ from B, which includes the HUF 11.2bn and HUF 9.9bn bonds (ISIN codes HU0000359989 and HU0000360474 respectively). The new long-term debt rating reflects above-average recovery for the senior unsecured debt positions in a hypothetical event of a company default. The hypothetical default scenario occurs in 2025 and assumes no collateral on the group's property, plant and equipment, and outstanding working capital credit lines of HUF 8.5bn together with an intercompany loan of HUF 4.5bn. The upgrade is driven partly by the higher liquidation value of the group's fixed assets due to the successful integration of capex investment that eliminates execution risk, and partly by management's commitment to keep indebtedness stable for the next two years.

The HUF 11.2bn senior unsecured bond (ISIN: HU0000359989) was issued in November 2020 and the HUF 9.9bn senior unsecured green bond (ISIN: HU0000360474) in May 2021, both through the Hungarian central bank's Bond Funding for Growth Scheme. The second bond is guaranteed by VAJDA REAL ESTATE Kft., which belongs to the same corporate group as Vajda-Papír.

Bond proceeds were used for refinancing loans, investment capex to increase base-paper production and working capital financing. Both bonds have tenors of 10 years and fixed coupon rates of 3.5%. The bond repayment schedule is the same for the two bonds: in six instalments with 10% of the face value payable yearly starting in the fifth year and a balloon payment of 50% at maturity. The bonds start amortisation in 2025 and 2026, respectively.

Both senior unsecured bonds have an accelerated repayment clause related to the loss of the B+ rating. The clause requires repayment of the nominal amount (HUF 11.2bn and HUF 9.9bn) in case of a rating deterioration (two-year cure period for a B/B- rating; repayment within 30 days after the bond rating falls below B-, which could have default implications). After the rating action dated 17 November 2022, the issuer entered the two-year cure period preceding bond acceleration. The latest rating action has remedied the covenant breach within the defined cure period. Bond covenants in addition to the rating deterioration covenant include non-payment, insolvency proceedings, cross-default, pari passu, negative pledge, change of control and dividend payment covenants.





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