Bonafarm Group
Hungary, Consumer Products

SCOPE BB- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover	144.5x	243.6x	45.2x	14.5x
Scope-adjusted debt (SaD)/Scope-adjusted EBITDA	2.6x	2.4x	1.9x	2.5x
Funds from operations/SaD	38%	41%	50%	36%
Free operating cash flow/SaD	Negative	16%	Negative	Negative

Rating rationale

The Outlook change is mainly driven by the group's flexible financial and M&A policy despite improving credit metrics. Improvement in credit metrics is due to higher margins in 2022 from the low agricultural input prices of 2021 and high sales prices this year, and slow deployment of capex in the new brownfield processed meat products plant. These result in decreasing SaD/EBITDA to below 2x and high cash flow generation above 40%. We expect leverage to increase in mid term to below 3x and cash flow generation to decrease (albeit still above 35%) due to inflationary pressure.

The affirmation of the ratings factors in the strong market position of Bonafarm Group in Hungary in consumer products and agriculture enabling pricing power, the advantages of being a vertically integrated company covering the full process chain, owning two of the most valuable Hungarian consumer products brands (Pick and Sole-Mizo) and strong parent support.

EBITDA volatility is expected to increase due to market price changes, especially the recently increasing animal feed price, fluctuating ZMP index (German slaughter pigs index), the milk price, energy price and increasing labour costs hence our projection factors in a somewhat lower than historical margin.

Delayed execution of investments aiming to replace old production technologies while construction prices have been soaring in Hungary since 2020 are somewhat mitigated by higher-than-expected subsidies and owner's equity contributions. High production-related headcount compared to peers and rather low automation in the food processing segment, however, poses a risk on increasing wage costs and hence profitability.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation that Bonafarm can tackle inflation and keep its margins, execute on its capex plans while keeping leverage below 3.5x.

The Outlook was changed to Stable from Positive reflecting the further delayed capex, the flexible financial and investment strategy of the Group and hence expected volatility in metrics.

A positive rating action is possible upon i) a free operating cash flow/SaD sustained at more than 5% as a result of the executed investment strategy and production ramp-up; and/or ii) keeping Pick Szeged's investments within budget despite the soaring construction costs and/or (iii) tighter financial and investment policy.

Ratings & Outlook

Issuer	BB-/Stable
Senior unsecured debt	BB-

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Related Methodologies

Corporate Rating Methodology, July 2022

Consumer Products Methodology, September 2021

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A negative rating action could be warranted by i) a funds from operations/SaD sustained below 15%; and/or ii) a SaD/EBITDA sustained above 4x. The latter could be caused by more debt taken on due to i) higher construction costs; ii) a slow production ramp-up; iii) a significant change in market input prices; and/or iv) weaker pricing power in main segments due to further delays in modernisation that result in shrinking market shares and/or M&A.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
23.08.2022	Outlook change	BB-/Stable
17.09.2021	Outlook change	BB-/Positive
21.09.2020	Affirmation	BB-/Stable
06.09.2019	Initial Rating	BB-/Stable

Positive rating drivers	Negative rating drivers
• Strong market position in Hungary in consumer products (processed meat products and milk products) and agriculture enable pricing power • Vertically integrated company covering the full process chain: agriculture incl. animal feed and livestock, pork meat and milk processing and winery • Owning two of the most valuable Hungarian consumer products brands (Pick and Sole-Mizo) • Strong parent support exemplified by equity increases totalling HUF 50bn in the period of 2016-2020	• EBITDA vulnerability to market price changes, especially recently increasing animal feed prices, fluctuating ZMP index (German slaughter pigs index), milk price, energy price and increasing labour costs • Slow execution of investments aiming to replace old production technologies planned before construction prices started soaring in Hungary after 2020, mitigated by higher-than-expected subsidies and owner's equity contribution • High production-related headcount compared to peers in both milk processing and meat processing because of delayed investments, low automation and production sites situated at multiple locations • Discrepancies in past and forecasted financial disclosures • Possible high fluctuations in metrics due to large capital expenditures and M&A activity

Positive rating-change drivers	Negative rating-change drivers
• Return of FOCF/SaD to greater than 5% as a result of executed investment strategy and production ramp-up • Contracting the construction works of the brownfield processed meat products facility within budget in an environment where construction costs soared in 2021 compared to planning level • Tighter financial and investment / M&A policy	• Movement of SaD/EBITDA to more than 4x, exemplified by higher debt level due to increased construction costs and/or slow production ramp-up and/or significant market input price changes or loss of pricing power in main segments and/or mergers & acquisitions • Movement of FFO/SaD to below 15% which may be caused by significant further delay in technological modernisation of the production facilities exemplified by shrinking market share and/or margin or high operational costs

Corporate profile

Bonafarm Group, which consists of Bonafarm Zrt. and its fully consolidated subsidiaries, is Hungary's largest fresh food producer, with a broad, diversified product portfolio. The group is vertically integrated, with activities ranging from crop production and large-scale animal husbandry to the production of wholesale food products under both its own brands and private labels. Bonafarm Zrt. is the parent company of eight separate business units (five in agriculture and three in the food industry). Its three main operating groups are called Agriculture, Food Industry, and HQ & Administration (BonOffice Ltd, Bonafarm Zrt.). Agriculture includes Bóly Group (crop and seed production, pig and dairy cattle breeding), Dalmand Co. (crop and seed production, pig breeding), Fiorács Ltd. (crop production, pig breeding), Agroprodukt Group (crop and seed production, pig and dairy cattle breeding), and Bábolna Takarmány Ltd (fodder production). Food Industry includes Pick Szeged Co. (processed meat production), Sole-Mizo Co. (milk processing) and Csányi Pincészet Co. (wine). The group is fully owned by renowned businessman and banker Dr Sándor Csányi through holding company Bonitás 2002 Zrt.

The Group does not include the other interests of Dr Sándor Csányi such as MCS Slaughterhouse (pig slaughterhouse), Hungerit (chicken production) and KITE (agricultural integrator). The Group looks to expand organically and inorganically while keeping family ownership.

Financial overview

			Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	144.5x	243.6x	102.9x	20.6x	21.0x
SaD/Scope-adjusted EBITDA	2.6x	2.4x	1.9x	2.5x	2.6x
Funds from operations/SaD	38%	41%	51%	38%	36%
Free operating cash flow/SaD	-11%	16%	-31%	-53%	-19%
Scope-adjusted EBITDA in HUF 000					
EBITDA	18,441,664	19,992,992	24,327,020	20,270,407	20,107,486
Scope-adjusted EBITDA	**18,441,664**	**19,992,992**	**24,327,020**	**20,270,407**	**20,107,486**
Funds from operations in HUF 000					
Scope-adjusted EBITDA	18,441,664	19,992,992	24,327,020	20,270,407	20,107,486
less: (net) cash interest paid	-127,604	-82,084	-236,434	-984,565	-959,441
less: cash tax paid per cash flow statement	-160,293	-146,627	-247,483	-226,157	-190,439
Change in provisions	131,464	114,516	-72,312	-68,696	-206,269
Funds from operations	**18,285,231**	**19,878,797**	**23,770,791**	**18,990,988**	**18,751,337**
Free operating cash flow in HUF 000					
Funds from operations	18,285,231	19,878,797	23,770,791	18,990,988	18,751,337
Change in working capital	-2,275,831	-3,401,637	-4,574,237	2,137,102	-4,787,761
less: capital expenditure (net)	-21,107,858	-9,029,655	-33,154,245	-47,139,283	-23,372,124
Free operating cash flow	**-5,293,972**	**7,749,170**	**-14,413,166**	**-26,553,775**	**-10,109,175**
Net cash interest paid in HUF 000					
Net cash interest per cash flow statement	-127,604	-82,084	-236,434	-984,565	-959,441
Net cash interest paid	**-127,604**	**-82,084**	**-236,434**	**-984,565**	**-959,441**
Scope-adjusted debt in HUF 000					
Reported gross financial debt	58,154,615	53,673,588	54,990,000	58,625,000	54,946,500
less: cash and cash equivalents	-20,638,852	-25,447,831	-28,543,933	-8,131,116	-3,072,344
add: non-accessible cash	10,000,000	20,000,000	20,000,000		
Scope-adjusted debt	**47,515,763**	**48,225,757**	**46,446,067**	**50,493,884**	**51,874,156**

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Environmental, social and governance (ESG) profile

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)	Grey leaf
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)	Grey leaf
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)	Grey leaf
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	Grey leaf

Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

Circular economy in focus

Bonafarm is the largest Hungarian vertically integrated consumer products and agricultural company with substantial investments in farming and livestock production. The production is from crops to processed food which enables contribution to the circular economy. The group entities have started developing and implementing ESG principles which is visible in the environmental footprint. The agricultural and livestock leg is rather modern (save for further investments needed in crop irrigation) while the processed food plants are rather old and need significant investments which have been under planning for several years.

Family ownership driven decision-making

The Csányi family keeps a hands-on approach on strategic business decisions.

Pick Szeged was one of the first issuers in the Hungarian Bond for Growth programme with a bond issuance of HUF 27bn @ 2% p.a. fixed coupon in 2019. The proceeds are meant to be used to build a brand new, integrated meat processing plant on a new plot since the current establishment dates back to the 1970’s. The issuance was done very early when the greenfield investment was in the planning phase. Pick’s management has somewhat changed since then.

Business risk profile: BB+

Blended industry risk profile: A-

As a vertically integrated agribusiness and commodity foods manufacturer, Bonafarm Group primarily generates revenues from the sourcing and distribution of crops, food, animals and their products as well as their inputs, and the processing, distribution and marketing of commodity food products. We used a blended approach to assign the industry risk profile, with roughly two-thirds of total sales and EBITDA relating to fast-moving (processed meat and milk products) consumer goods (Industry risk of A) and the remainder from agribusiness (BBB). With low substitution risk (food is non-discretionary), the overall industry risk profile is A-.

High cyclicality

Non-discretionary products normally have low cyclicality. However, the strong supply swings for agribusiness and commodity food products introduce significant volatility to both costs and prices, resulting in volatile revenues and EBITDA. Both expected (crop forecasts) and unexpected events (bad weather, diseases and government import restrictions) can lead to volatility, with supply shortages (increasing prices) and supply gluts (decreasing prices) leading to price volatility well in excess of more general price changes. For these reasons, we consider industry cyclicality to be high.

High entry barriers

Barriers to entry are high. This reflects the need to purchase appropriate land, construct specialised infrastructure and hire qualified personnel. Animal husbandry also involves significant time lags between breeding livestock and processing the resulting milk and meat products, as well as capital costs to establish adequate processing capacity. Costs for generating specialised infrastructure and changing products to align with demand are also substantial. Unemployment continues to be low among farmers and animal breeders in Hungary, making it difficult to find qualified personnel. Additional market barriers are intellectual property rights (trademarks, proprietary recipes for milk and meat products) and genetics (specialised, proprietary and high-productivity breeds).

Low substitution risk

Substitution risks are low, although agricultural commodity products can be easily substituted (either via imports or alternative domestic sources). Since Bonafarm Group is the largest vertically integrated (plot to plate) agribusiness and commodity food manufacturer in Hungary, other suppliers cannot offer the same scale and product coverage. Hence, vertical integration and the resulting control over final products (processed meat and milk products) limit substitution risks, as consumers are unlikely to accept differences in price, taste and consistency. The group also provides the necessary value chain certification for non-GMO products that cannot be easily reproduced with alternative inputs.

Core market of Hungary hit by inflation

Bonafarm's main market is Hungary. Our public finance rating for Hungary is BBB+/Stable (to be reviewed in late August 2022).

The country's economic growth after the pandemic is challenged by record high inflation (projected to reach up to 17% in 2022[1] while inflation in the food sector was in the range of 20%-35% in the first half year of 2022, one of the highest rates in the EU), weakening local currency, delay in receiving certain EU funds and labour shortages due to ageing workforce and wage pressure. Before the elections in Q2 2022 there was a fiscal stimulus with wage increases and tax cuts which is fuelling consumption in 2022. Hungary's trade deficit turned negative at the end of 2021, which results in a twin deficit. This affect's the county's ability to further support investments with state grants and develop governmental infrastructure.

[1] Hungarian Central Bank's report on inflation, June 2022

The low input prices of 2021 and high sale prices of 2022 will have a positive impact on Bonafarm's profitability in 2022. The weakening Hungarian forint will help export margins. Most of investment subsidies have been secured or in other cases investments can be delayed or done with EU agricultural subsidies, hence we expect moderate forex effect on Bonafarm Group. Increasing wages, however, affect Bonafarm negatively, as it is one of the largest employers in the country and its level of automation is moderate.

Consumer product companies with strong brands remain somewhat resilient

Consumer preferences are slowly changing. The pandemic has increased food consumption at home rather than in restaurants. Soaring inflation may also have the same effect and home consumption will be preferred. At the same time, the government has supported local production with subsidies and grants and, if needed, loans and financial guarantees from state-owned banks during the pandemic. That is no longer the case in 2022.

Bonafarm Group has profited greatly from this due to its market leadership in processed milk and meat products in Hungary and its strong brands.

Strong vertical integration enhances diversification

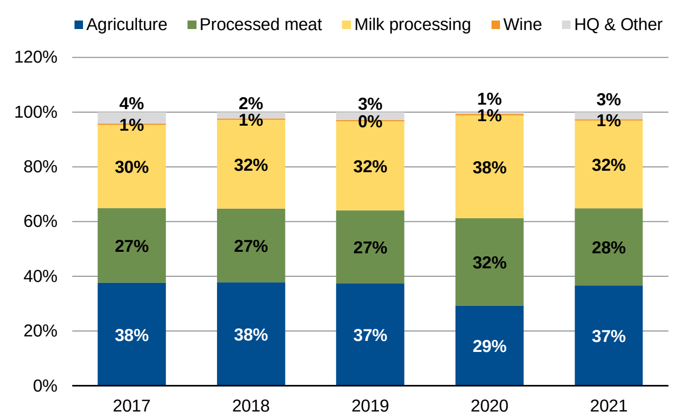
Concentration on Hungarian market

Bonafarm Group profits from strong vertical integration. Access to key markets (China, Japan) is still an issue because of certain restrictions on imports of Hungarian pork because of African Swine Fever. The effect was seen on the results of pig slaughterhouse MCS Vágóhíd, a strategic partner owned by Dr Sándor Csányi but not part of Bonafarm Group. The profitability of the slaughterhouse was stabilised in 2021.

For an agribusiness and consumer products entity, the company is well diversified. It is geographically diversified within Hungary and export sales are moderate at less than a quarter of total revenues (mainly to Germany and Romania).

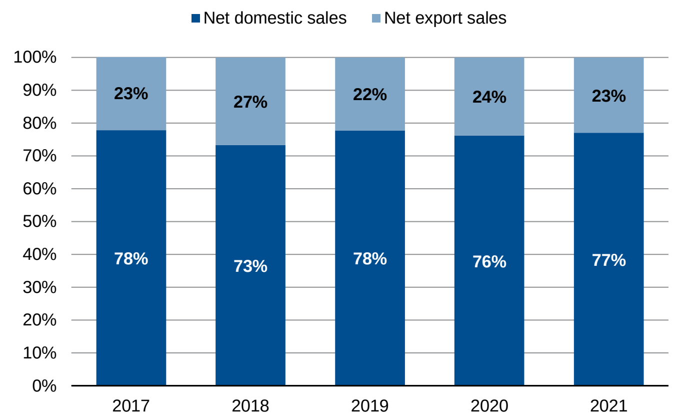
Product diversification (Figure 1) in 2021 was dominated by processed meat and milk production, at around 70% of total revenues. Market diversification (Figure 2) shows the relatively moderate international position of revenues (consolidated) with relatively stable development.

Figure 1: Product diversification (sales, % of total)



Source: Bonafarm

Figure 2: Market diversification (sales, % of total)



Source: Bonafarm

Customer diversification

Bonafarm Group's customer base is highly diversified for a consumer product company, including all relevant retail chains in Hungary because its brands are in high demand in Hungary. Hence, there is limited concentration risk. Overall, Bonafarm Group is a price-taker, unable to fully recover cost increases in raw materials or, if so, with a delay. Bonafarm Group plans to expand distribution channels for future growth, especially for dairy. Export markets are increasing in importance, and Bonafarm Group is concentrating on key growth markets within Europe.

Low EBITDA margin but improving profitability in recent years

EBITDA margins are moderate, at 5%-6% during 2015-18 and above 7% from 2019-21, including during the pandemic years. Planned investments may move this towards 8% in the long term but not beyond. EBITDA is volatile, mainly due to cost changes outside of the company's control such as increasing labour and input costs. Profitability for 2022 is expected to be somewhat higher, but still in single digits., The low input prices contracted in 2021 used in end products in 2022 and higher pig prices both help. However, it looks like a one-off as inflation and ramp-up costs of the new facility may put pressure on margins.

Slow execution of investments allow competition to gain market share and better profitability

Bonafarm Group is one of the largest employers in Hungary, with a headcount of more than 5,800. The ratio of revenue to headcount is half that of its main competitors in processed meat and milk. The seemingly low efficiency is mostly due to the old technology used in its production facilities, whose modernisation has been delayed, facilities being situated in multiple locations, and the manual nature of some production (salami). In agriculture, the group uses state-of-the-art technologies with high efficiency, especially in crop production and livestock breeding.

The main domestic competitor of Bonafarm Group's milk processing subsidiary, Sole-Mizo, is Alföldi Tej, which in 2020 caught up to Sole-Mizo's domestic revenue of around HUF 55bn and outperformed its EBITDA margin with 4.9% versus Sole-Mizo's 4.6%. This is due to Alföldi Tej's better efficiency and wider product portfolio. In 2021, revenues of the two companies were similar, however, Alföldi Tej made a loss mainly due to production issues.

Bonafarm Group focuses on fat-based milk and meat products, while the competition also offers a wide range of premium protein-based products, which can have superior gross margins.

Mecom Group (owned by Smithfield) acquired in 2021 smaller production sites in Hungary (Csabai brand, mainly sausage and non-moulded salami) and Slovakia's largest meat processing plant with the well-known Humenné brand. Should Smithfield be successful in Hungary, they could attack the private label business of Pick at discounters. The branded moulded salami should be rather protected due to its strong brand. Further delays in investments in the meat processing segment may result in having a more efficient competition at the door.

Strong brands enable pricing power in Hungary

In Hungary, both Pick and Sole-Mizo brands have high brand awareness and are known for high quality. This leading position enables premium pricing for salami and certain milk products despite often lower operating efficiencies compared to competitors, which the group is using well in negotiations with retailers. We see the sustained market leadership by both sales and brand as key to keeping this pricing power and volumes.

Financial risk profile: B+

We overweighted the financial risk profile as large capex has been committed since 2019 (but not contracted) while constructions costs have soared. Furthermore, the group's financial policies have large headroom between covenants (leverage of 4x) and fact figures (leverage of 2x), giving space to manoeuvre to increase leverage moderately. We have taken a more conservative view on the financial risk profile instead of adjusting separately for financial policy.

Financial risk assumptions

Our key financial assumptions are i) no major restructuring of the company or subsidiaries; ii) strategic capex (above depreciation) of HUF 61bn net of subsidies iii) continuity of management; iv) top-line sales will grow organically below food inflation (20% in 2022 and 7.5% p.a. afterwards); v) wage growth in Hungary close to inflation; vi) no major agribusiness-related event (e.g. drought, disease); vii) investment plans executed as presented with no meaningful operational or financial risks; and viii) continuity of financial policy, especially in terms of no dividends and no new large debt issuances, while SaD/EBITDA stays below 3.5x.

Improving leverage ahead of large brownfield investment

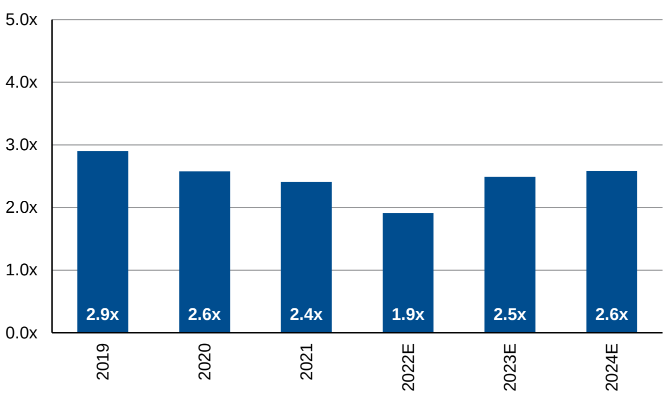
A Bonafarm consortium secured financing provided by CIB Bank Zrt. (member of Intesa Group) and Raiffeisen Bank Zrt. of HUF 44.7bn (EUR 140m) and it is jointly, severally, irrevocably and unconditionally guaranteed by Bonafarm Group. The covenants of the consortium credit line are i) an equity ratio of at least 30%; ii) maximum indebtedness of 4x; iii) two-year average net operating cash flows of at least HUF 9bn; iv) annual debt service coverage ratio of at least 1.05x; and v) total assets to shareholder equity of at least 45%. According to the 2021 compliance certificate, all covenants were fulfilled with good headroom. Ongoing capex will negatively affect credit metrics.

Leverage has been decreasing since 2017, from 3.7x to 2.4x in 2021 as measured by SaD/EBITDA. The reason is the increases in sales by 30% since 2017 and the EBITDA margin rising to 7.8% from 5.7% with EBITDA up to HUF 20.0bn from HUF 11.3bn (+76%).

Gross debt increased to HUF 54bn in 2021 from HUF 43bn in 2017 (+24%), though this is related to the upcoming Pick facility – hence, the EBITDA effect will come from 2025 onwards. Nevertheless, the EBITDA increase during the years has been triple the increase for debt, resulting in deleveraging. This may rise back to around 3x due to investments (organic and M&A).

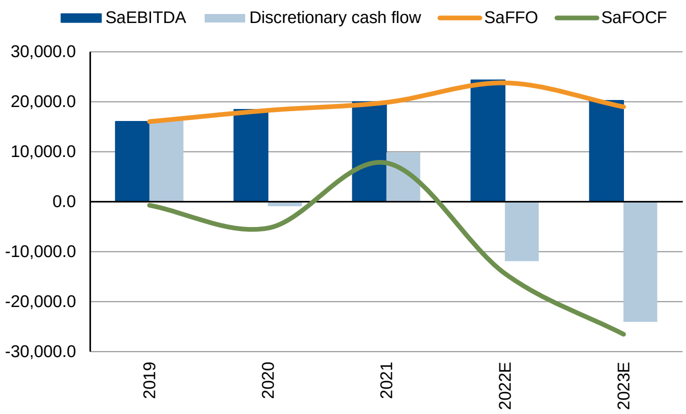
Funds from operations/SaD have been well above 30% since 2019 due to the improving EBITDA margin and good working capital management. Inflation may increase working capital financing requirements which we included in the model in line with the revenue increase and resulted in utilisation up to 50% of existing overdraft facilities and acceptable leverage below 3x.

Figure 3: Leverage over time as measured by SaD/EBITDA



Source: Bonafarm, Scope estimates

Figure 4: Cash flow overview showing large investments



Source: Bonafarm, Scope estimates

Strong interest cover coupled with improving cash flow headroom

EBITDA/interest cover has always been strong at Bonafarm Group. The low interest rate regime of the central bank combined with state-subsidised financing opportunities has allowed Bonafarm Group to contract debt with an average interest rate of 1.3%, calculated for 2021 on the drawn exposure. 80% of committed financing facilities have fixed interest rates. Hence, we expect the increasing base rate in Hungary to have no major impact, with the group interest rate remaining below 2%, which provides excellent debt protection.

The financing structure includes low amortisation and high balloon or bullet facilities, which allow a good debt service coverage ratio. The issued HUF 27bn bond is repayable only at maturity in 2029, which provides great cash flow headroom.

Soaring construction costs are mitigated by increased state subsidy

With the acquisition of large production sites in need of modernisation as well as an efficiency and capacity expansion, free operating cash flow/SaD fell to negative in 2017, and will again be negative once the Pick Szeged investment kicks in.

Since the plans for the Pick Szeged facility were made and the related bond was issued in 2019, construction costs in Hungary have soared. The Hungarian Investment Promotion Agency recently granted a HUF 10.6bn non-refundable investment subsidy to the HUF 39bn investment in a processed meat plant.

Adequate liquidity

Liquidity coverage is rather low and is caused by capex-induced negative free operating cash flow, some of which can be delayed.

The company has a HUF 7.3bn overdraft facility, which is currently mainly unused, and a small factoring facility at Sole-Mizo (fully consolidated subsidiary), also unused. However, due to the short tenor of these facilities, we have excluded them from the liquidity calculation. Taking these lines into account based on their historical prolongation track record results in adequate liquidity.

Cash pooling is in place across Bonafarm and its subsidiaries. MCS Slaughterhouse (out of group entity) was granted limited access to the cash pool in 2022.

Balance in HUF 000	2022E	2023E	2024E
Unrestricted cash (t-1)	25,447,831	28,543,933	8,131,116
Open committed credit lines (t-1)	-	-	-
Free operating cash flow	-14,413,166	-26,553,775	-10,109,175
Short-term debt (t-1)	4,847,814	2,203,812	5,686,812
Coverage	**2.3x**	**<1x**	**<1x**

Supplementary rating drivers: + 1 notch

Neutral financial policy, coupled with discrepancies in disclosures

Bonafarm Group's financial policy continues to have the aims of a strong expansion of core businesses (primarily Pick Szeged) and organic growth overall. The Pick Szeged investment focuses on strategic modernisation and the expansion and replacement of a production plant built in the 1970s. Bonafarm Group carries all group debt. We view financial policy as largely prudent as management is committed to keeping leverage at a maximum of 3.5x. Loan covenants allow up to 4x. The group has implemented SAP for reporting and controlling production costs. Even so, financial planning, financial reporting and detailed notes for audit disclosures still have room for improvement. We did not adjust the rating for financial policy or governance.

Parent support: one-notch uplift for investing HUF 50bn in five years

Dr Sándor Csányi was for a long time Hungary's richest individual; currently he is second and has several executive positions at blue chip companies and assets across different industries. Forbes magazine estimated his wealth in 2021 at HUF 420bn (around EUR 1.2bn). Dr Csányi fully owns Bonafarm Group through Bonitás 2002 Zrt. and has supported the group significantly with equity and owner loans since its inception.

For the Pick Szeged investment, Dr Csányi contributed an equity increase in cash through Bonafarm Group's holding company, Bonitás 2002 Zrt., of HUF 4.4bn in 2020 and HUF 17.25bn in 2019. A previous equity increase in 2016 totalled HUF 28.3bn. These add up to HUF 50bn in five years (EUR 140m).

Therefore, we maintain the one-notch uplift for parent support, reinforced by the recent equity increases.

Long-term debt ratings

Senior unsecured debt rating: BB-

Wholly-owned subsidiary Pick Szeged Zrt. issued senior unsecured debt in 2019 of HUF 27bn. While the company has a strong asset position, we have not provided an uplift for any potential recovery.

We therefore affirm the BB- rating on senior unsecured debt issued by Bonafarm Group, which is in line with the issuer rating. The debt category rating reflects the ranking of debt issued by Pick Szeged, which is below the HUF 32bn senior secured bank debt of Bonafarm Group. We expect an 'average' recovery for outstanding senior unsecured debt in a hypothetical default scenario in 2024.

Appendix: Peer comparison (as at last reporting date)

	Bonafarm Zrt	Kometa 99 Zrt	Baromfi Coop Kft	Naturtex Kft	Zalaco Zrt	Georgian Beer Company JSC
	BB-/Stable	B+/Stable	BB-/Stable	B+/Stable	B+/Stable	BB-/Bbb
Last reporting date	31 December 2021	31 December 2020	31 December 2020	31 December 2021 est.	31 December 2020	31 December 2020
Business risk profile	BB+	BB-	BB	B+	B+	BB-
Financial risk profile	B+	B+	BB-	BB-	B+	BB-
Scope-adjusted EBITDA/interest cover	243.6x	6.3x	17.1x	29.8x	24.7x	3.4x
SaD/Scope-adjusted EBITDA	2.4x	3.6x	3.6x	4.2x	4.7x	3.2x
Funds from operations/SaD	41%	23%	26%	22%	19%	22%
Free operating cash flow/SaD	16%	-5%	-19%	-9%	-2%	-1%
Supplementary Rating Drivers						
Parent support	+1	-	-	-	-	-

Sources: Public information, Scope

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