MetMax Europe Zrt.
Hungary, Capital Goods

B+ STABLE

Corporate profile

MetMax Europe Zrt. is a Hungarian metalworking company with a decades-long history. In 2016, it was acquired by a group of Hungarian private investors led by András Csoma. Now MetMax is a strategic supplier to large international companies based in Europe. The company focuses on small to medium-sized series and employs about 130 people. Its key production site is in Györ. MetMax is currently making investments to significantly expand its production capacity.

Key metrics

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
EBITDA/interest cover (x)	1,047.7	519.5x	2,129.6x	2,248.9x
Scope-adjusted debt (SaD)/EBITDA	0.3x	3.6x	4.3x	4.1x
Scope-adjusted funds from operations/SaD	351%	26%	22%	23%
Free operating cash flow/SaD	173%	26%	17%	15%

Rating rationale

Scope Ratings has affirmed the B+/Stable issuer rating on MetMax. Scope has also affirmed the B+ rating for the senior unsecured debt category.

MetMax's business risk profile, with an unchanged rating of B, is still constrained by the company's size, low diversification and high customer concentration. Profitability continues to be the major support. Its EBITDA margin has ranged between 24% and 32% during the past five years. We expect a Scope-adjusted EBITDA margin of around 28% in 2021 and 2022.

The rating continues to be supported by the company's lowered financial risk profile, rated BB. We calculate SaD of HUF 5.1bn at year-end 2020 (HUF 317m at year-end 2019). We expect relatively unchanged SaD of around HUF 5.1bn at year-end 2021 and 2022.

We note that MetMax started an investment programme in Q3 2020 to expand its production facilities (including constructing a new building and buying new machinery). The programme is being implemented at the level of MetMax Vagyonkezelő Kft. as agreed with the Hungarian Investment Promotion Agency. That company is a wholly owned subsidiary of CNC Tőkebefektető Kft. (100% owner of MetMax). When the programme is complete, MetMax will lease the production assets from its sister company.

The increase in leverage to 3.6x in 2020 was driven by an increase in SaD due to a bond issuance. We expect SaD/EBITDA to increase to 4.3x at year-end 2021, reflecting expected lower Scope-adjusted EBITDA, and then decline slightly to 4.1x at year-end 2022. Based on our expectations for free operating cash flow (FOCF) and SaD, we estimate cash flow cover at around 15% (26% in 2020).

Internal cash flow generation with positive FOCF since 2013 is a supportive factor for MetMax's financial risk profile.

We consider MetMax's liquidity and financial flexibility to be 'adequate' as sources cover uses by more than 100% in 2021. Going forward, financial maturities are rather low, with almost no financial debt other than a long-dated bond.

Ratings & Outlook

Corporate rating	B+/Stable
Senior unsecured rating	B+

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Related Methodology

Corporate Rating Methodology, July 2021

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Outlook and rating-change drivers

The Stable Outlook incorporates our expectation of mid-to-high single-digit revenue growth in 2022 and of the EBITDA margin remaining at around 28%, translating to a FOCF/SaD of around 15% in 2022.

At this stage, we deem a rating upgrade to be remote unless MetMax can improve its business risk profile in terms of customer concentration and product/end-market diversification, while keeping its credit metrics at the forecasted levels.

A negative rating action could result from FOCF/SaD moving towards 5% on a sustained basis, caused by EBITDA margin pressure from rising personnel costs or investment that goes beyond the current plan.

Rating drivers

Positive rating drivers	Negative rating drivers
• Strong operating profitability (EBITDA). The Scope-adjusted EBITDA margin was 32.5% in 2020 after 25.5% in 2019. • 'Adequate' liquidity • Solid expected revenue development	• Very small niche player in Europe's capital goods market (HUF 4.3bn in revenues in 2020) • Low product diversification and low share of recurring revenues (aftermarket sales) • High customer concentration, with top five accounting for more than 80% of revenues • Weak geographical diversification with high share of domestic sales • Risks from rising labour costs and exchange rate fluctuations • Key person risk

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Stronger business risk profile, e.g. through improvements in end-market diversification or customer concentration, while maintaining current credit metrics	• FOCF/SaD moving towards 5% on a sustained basis

Financial overview

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
EBITDA/interest cover (x)	1,047.7	519.5x	2,129.6x	2,248.9x
SaD/EBITDA	0.3x	3.6x	4.3x	4.1x
Scope-adjusted funds from operations/SaD	351%	26%	22%	23%
FOCF/SaD	173%	26%	17%	15%
Scope-adjusted EBITDA in HUF m	**2019**	**2020**	**2021E**	**2022E**
EBITDA	1,184.0	1,402.6	1,187.3	1,253.9
Other				
Scope-adjusted EBITDA	1,184.0	1,402.6	1,187.3	1,253.9
Scope-adjusted funds from operations in HUF m	**2019**	**2020**	**2021E**	**2022E**
EBITDA	1,184.0	1,402.6	1,187.3	1,253.9
less: (net) cash interest as per cash flow statement	-1.1	-2.7	-0.6	-0.6
less: cash tax paid as per cash flow statement	-73.2	-91.8	-56.7	-62.3
less: pension interest				
Other	4.4	48.0	0.0	0.0
Scope-adjusted funds from operations	1,114.0	1,356.0	1,130.1	1,191.0
SaD in HUF m	**2019**	**2020**	**2021E**	**2022E**
Reported gross financial debt	175.5	5,000.0	5,111.5	5,111.5
less: hybrid bonds				
less: cash and cash equivalents				
add: cash not accessible				
add: pension adjustment				
add: lease obligations	141.7	117.6		
Other				
SaD	317.3	5,117.6	5,111.5	5,111.5

Business risk profile

Business risk profile still rated B

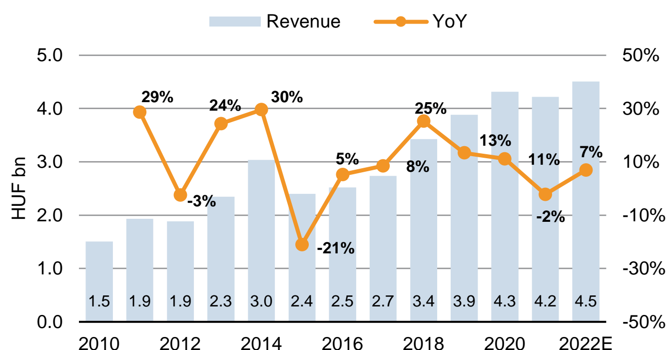
MetMax's business risk profile, with an unchanged rating of B, is constrained by the company's size, low diversification and high customer concentration.

Profitability supports business risk profile

Expected Scope-adjusted EBITDA margin of around 27% for 2021 and 2022

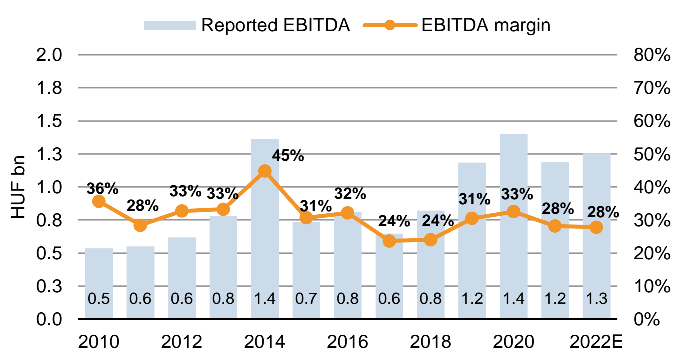
Profitability continues to be the major support for the business risk profile. The EBITDA margin has ranged between 24% and 32% during the past five years. In 2020, the EBITDA margin was 32.5%, down from 35.5% in 2019 due to a lower gross profit margin. In H1 2021, the EBITDA margin decreased to 26.6% from 27.5% in H1 2020, largely reflecting higher personnel expenses. Due to a rebound in the labour market, MetMax implemented an average 10% salary increase and variable payments also returned to their normal course. In 2020, due to the Covid situation, MetMax: (i) did not increase salaries; and (ii) reduced bonuses and variable payments. In the long run, MetMax's strategic goal is to maintain an EBITDA margin near 30%. We expect its Scope-adjusted EBITDA margin to be around 28% in 2021 and 2022.

Figure 1: **Revenues, 2010 to 2022E**



Source: MetMax, Scope

Figure 2: **Reported EBITDA (margin), 2010 to 2022E**



Source: MetMax, Scope

HUF 4.3bn of total revenues in 2020

In 2020, revenues increased by 11% to HUF 4.3bn driven by higher export sales (up 22% YoY). In H1 2021, total revenues were down 6% YoY on a 15% drop (YoY) in domestic revenues due to lower demand from the railway segment (Knorr Bremse). Generally, domestic sales volumes are driven by Grundfos and Knorr-Bremse Budapest trends. By contrast, export revenues in H1 2021 increased by 13% YoY. The increase in export revenues in 2021 can be attributed mostly to: i) winning new orders from Leybold; ii) returning to normal volumes in a large project with Edwards (this trend started in 2020 after a very sharp drop in 2019). MetMax's strategy focuses more on European markets and getting closer to OEM HQs instead of just their Hungarian affiliates. MetMax's new customers (DMG Mori, Alfa Laval, Plansee, Gardner-Denver) are export business and will bring noticeable volumes in 2022.

We expect revenues of HUF 4.1bn (down 5% YoY) in 2021

MetMax expects 2021 to bring a significant decline in its railway segment. Furthermore, moving the factory to a new location could result in some temporary capacity shortfalls in Q4. MetMax expects full-year revenues for 2021 to be in the same region as 2020's figure (HUF 4.3bn). We anticipate revenues of around HUF 4.1bn for 2021 (down 5% YoY). For 2022, we expect revenues to increase to HUF 4.4bn (up 7% YoY) driven by higher export revenues and an increase in domestic sales supported by an expected recovery in the railway sector.

Financial risk profile

Financial risk profile lowered to BB

The rating continues to be supported by the lowered BB rating on MetMax's financial risk profile. The company's reported debt of HUF 5.0bn at year-end 2020 comprises corporate notes of HUF 5bn issued in December 2020. To calculate SaD, we have made adjustments for leases in the amount of HUF 118m. We generally apply cash netting when calculating credit metrics for ratings in the BB category or higher, and only if the cash is permanent and accessible. Based on these adjustments, we have calculated SaD of HUF 5.1bn at year-end 2020 (HUF 317m at year-end 2019).

SaD at around HUF 5.1bn at year-end 2021

MetMax has access to a HUF 500m credit line from the Hungarian central bank's NHP Hajrá programme as a three-year facility. HUF 111m of this credit line was used in 2021 to repay existing financial leases. The rest of the line is open for MetMax to use for temporary financing needs. We expect SaD to remain relatively unchanged at around HUF 5.1bn at year-end 2021 and 2022.

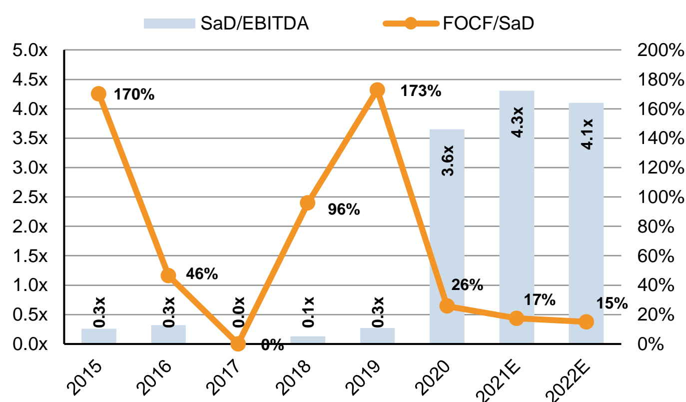
Investment programme started in Q3 2020 implemented at the level of MetMax Vagyonkezelő

We note that MetMax started an investment programme in Q3 2020 to expand its production facilities. The planned investment size is HUF 5.0bn (of which HUF 2.2bn is for real estate and HUF 2.8bn is for new machinery). This programme is being implemented at the level of MetMax Vagyonkezelő as agreed with the Hungarian Investment Promotion Agency. MetMax Vagyonkezelő is a wholly owned subsidiary of CNC Tőkebefektető (100% owner of MetMax). The programme is set to run for five years with the first stage (real estate) to be completed in Q4 2021. Both equity and debt financing will be organised at the group level (MetMax, MetMax Vagyonkezelő and CNC Tőkebefektető) and provided to the respective group member as intra-group financing. When the programme is complete, MetMax will lease the production assets from its sister company.

We expect leverage to increase to 5.7x at year-end 2022

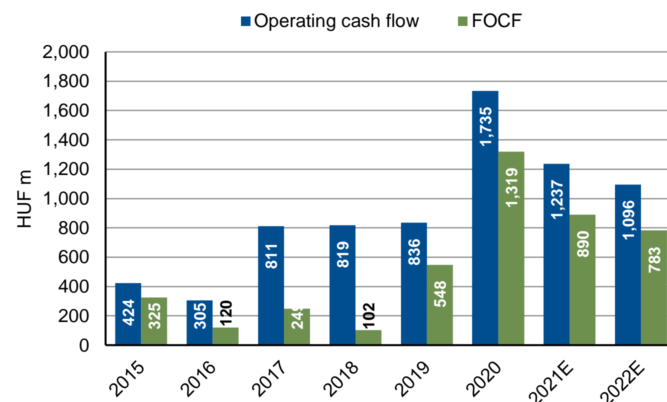
The increase in leverage to 3.6x in 2020 was driven by an increase in SaD due to the bond issuance. We expect SaD/EBITDA to increase to 4.3x at year-end 2021, reflecting lower expected Scope-adjusted EBITDA, and to 4.1x at year-end 2022. Based on our expectations for FOCF and SaD, we estimate cash flow cover (FOCF/SaD) at around 15% (26% in 2020).

Figure 3: SaD/EBITDA, 2015 to 2022E



Source: MetMax, Scope

Figure 4: Cash flow, 2015 to 2022E



Source: MetMax, Scope

Internal cash flow generation is a supportive factor for MetMax's financial risk profile

Internal cash flow generation, with positive FOCF since 2013, is a supportive factor for MetMax's financial risk profile. At HUF 1.7bn, operating cash flow was at a record high in 2020 due mainly to higher EBITDA and lower net working capital. The decline in net working capital was largely due to the use of vendor/supplier financing schemes starting in 2021, in which accounts receivable are sold to a financing institute as non-recourse

debt. MetMax is currently in schemes with BNP Paribas Dublin (for Atlas Copco Group) and Raiffeisen Bank Hungary (for Knorr Bremse Budapest). Supported by higher operating cash flow, FOCF increased to HUF 1.1bn in 2020 vs HUF 548m in 2019. In H1 2021, operating cash flow was HUF 355m vs HUF 513m in H1 2020. FOCF decreased to HUF 314m vs HUF 417m in H1 2020. We expect FOCF of around HUF 900m and HUF 800m for 2021 and 2022 respectively.

Limited protective effect from existing dividend stopper

There is a dividend stopper in place for a period of 10 years. This means dividends at the level of the parent are only permissible if consolidated EBITDA exceeds HUF 800m, and only the portion exceeding HUF 800m can be used for dividend payments. The protective effect of this dividend restriction, however, is rather limited in our view, as it applies to dividend payments to ultimate shareholders and still allows MetMax to distribute more than 100% of its forecasted net income to its parent company. The dividend approved at the MetMax level was HUF 365m in 2020 (intercompany dividend), of which the dividend payable to ultimate shareholders (i.e. payable by CNC Tőkebefektető) was approved at HUF 240mn. HUF 125m will remain in CNC Tőkebefektető – this amount is available to repay parent company loans. For 2021-22, MetMax plans dividends for ultimate shareholders in the range of HUF 250m-350m. In addition, MetMax plans annual repayments of intercompany loans of HUF 300m. All in all, we expect dividend payments of around HUF 600m at the MetMax level in 2022 and 2023.

Around HUF 6bn transferred to parent and sister company in form of intercompany loans

In 2020, MetMax transferred around HUF 5.7bn to parent/sister companies in the form of intercompany loans (HUF 6.3bn at end-June 2021). MetMax Vagyonkezelő is to repay intercompany loans using real estate and asset lease income received from MetMax, while CNC Tőkebefeketető is to repay loans primarily using dividends received from MetMax. Starting in H2 2021, MetMax expects a reduction in intercompany loans of HUF 300m p.a.

Adequate liquidity

We consider MetMax's liquidity and financial flexibility to be 'adequate' as sources cover uses by more than 100% in 2021. Going forward, financial maturities are rather low, with almost no financial debt other than the long-dated bond.

Cash sources

MetMax's liquidity at end-December 2020 comprised cash on balance sheet of HUF 607m (HUF 465m at end-June 2021). Furthermore, we expect FOCF of around HUF 2.2bn in 2021 and HUF 2.3bn in 2022.

Cash uses

On the other hand, we expect the following cash uses: i) net capital transfers in the form of intercompany loans in the amount of HUF 240m in 2021; and ii) dividend payments of around HUF 365m in 2021 and HUF 600m in 2022.

Long-term and short-term debt ratings

B+ senior unsecured debt rating

In December 2020, MetMax issued a HUF 5.0bn senior unsecured bond with a 10-year maturity (amortising at 10% each year during 2025-29, then at 50% in 2030) and a coupon of around 3% p.a. under the Hungarian central bank's Bond Funding for Growth Scheme. We note that bond proceeds have been transferred to sister company MetMax Vagyonkezelő (around HUF 2bn) for investments to expand production capacity and to parent company CNC Tőkebefektető (around HUF 3bn) to repay management buyout debt and acquisition debt. Interest payable on the bond will be offset by interest receivable from the parent and sister company.

In line with the issuer rating, we affirm the current B+ rating for senior unsecured debt based on 'average' recovery prospects for bondholders in a simulated default scenario.

Our recovery analysis uses a liquidation value of HUF 3.9bn in a hypothetical default in 2023. This figure is based on an asset haircut and reflects liquidation costs of 10% for the assets. The haircut also assumes that the intra-group receivable from the parent used to

refinance acquisition debt would become non-recoverable in the event of a payment default. Our recovery scenario assumes availability of sister company's PPE in a simulated default scenario.

To determine claimholders, we have ranked repayment obligations for subsidies at the simulated point of default senior to the claims on the prospective bond. There is currently a three-year, HUF 500m credit line from the Hungarian central bank's Hajrá programme that the company raised in 2021. This credit line is secured by a pledge on selected machinery. In the simulated point of default, we assume that this credit line will be fully utilised. We also assume the business plan and investment programme will be executed as planned, with no additional bank debt or other senior financings ahead of the planned bond.

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