7 November 2024 Corporates

MetMax Europe Zrt.
Hungary, Capital Goods

B- NEGATIVE

Key metrics

			Scope estimates	
Scope credit ratios	2022	2023	2024E	2025E
Scope-adjusted EBITDA interest cover	5.9x	4.0x	1.8x	3.3x
Scope-adjusted debt/EBITDA	5.6x	6.8x	16.6x	8.1x
Scope-adjusted funds from operations/debt	15%	10%	3%	9%
Scope-adjusted free operating cash flow/debt	8%	-3%	-3%	7%

Rating rationale

MetMax Europe's downgraded issuer rating of B- is based on our assessments of its business risk profile, which is unchanged at B, and its financial risk profile, which we have downgraded to B- from B+. The business risk profile remains constrained by the company's size, low diversification and high customer concentration. The downgraded financial risk profile reflects our revised expectation for Scope-adjusted EBITDA in 2024-25, now with weaker expected credit metrics, as well as the inadequate liquidity assessment.

Outlook and rating-change drivers

The revised Outlook to Negative from Stable primarily reflects the threat of accelerated repayment of the bond in October 2025 that has been placed under the Hungarian National Bank's Bond Funding for Growth Scheme. MetMax Europe has been in the two-year grace period for a B/B- bond rating since 6 October 2023. As we currently see a recovery of the debt rating to the minimum threshold of B+ as remote, MetMax Europe will likely have to obtain an investor waiver to avoid severe implications for its liquidity and likely default implications.

A positive rating action could be triggered by an agreement with bondholders to avoid an accelerated bond repayment.

A negative rating action could be triggered if an investor waiver is not obtained and the accelerated bond repayment clause will be exercised in October 2025.

Rating history

Date	Rating action	Issuer rating & Outlook
7 Nov 2024	Downgrade and Outlook change	B-/Negative
6 Nov 2023	Downgrade	B/Stable
11 Nov 2022	Outlook change	B+/Negative

Ratings & Outlook

Issuer	B-/Negative
Guaranteed senior unsecured bond	B-

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Related Methodology and Related Research

General Corporate Rating Methodology; October 2023

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Bloomberg: RESP SCOP

Positive rating drivers	Negative rating drivers
• Good operating profitability in a peer group context as measured by Scope-adjusted EBITDA margin • Proven ability to attract high profile customers	• Threat of accelerated bond repayment in October 2025 • Deteriorated 2024 business environment and weak 2025 visibility • Minor niche player in European capital goods market (revenues of HUF 4.7bn in 2023) • Low product diversification and recurring revenues (aftermarket sales) • High customer concentration, with top four accounting for around 90% of revenues • Weak geographical diversification with high share of domestic sales • Risks from rising labour costs and exchange rate fluctuations • Key person risk (ESG factor)

Positive rating-change drivers	Negative rating-change drivers
• Agreement with bondholders to avoid accelerated bond repayment to return to a Stable Outlook •	• Triggering of the accelerated bond repayment clause in October 2025

Corporate profile

MetMax Europe 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. Today MetMax Europe is a strategic supplier to large international companies based in Europe.

The company manufactures combustion nozzles, electric motor components, parts for railway brake systems, pumps, industrial clamping and gripping machines. It produces more than 4,000 parts overall with a focus on small to medium-sized series.

MetMax Europe is a 100% subsidiary of CNC Tőkebefektető Kft., which is owned by Hungarian private individuals. The majority owner is MetMax's CEO András Csoma with a stake of around 54%. MetMax Europe has no subsidiaries. The current circle of ownership defines itself as a long-term strategic investor. Its goal is to make MetMax Europe a leading company in the Central and Eastern European metalworking market.

MetMax Vagyonkezelő Kft. merged with MetMax Europe effective 31 December 2022. Following the merger, MetMax Vagyonkezelő Kft. ceased to exist as a standalone company and MetMax Europe was established in place of the two companies as the ultimate legal successor to MetMax Vagyonkezelő Kft. All assets and liabilities of MetMax Vagyonkezelő Kft. were automatically transferred to MetMax Europe.

In 2023, the company had 153 employees and reported revenue of HUF 4.7bn.

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	5.1x	5.9x	4.0x	1.8x	3.3x	4.5x
Scope-adjusted debt/EBITDA	6.7x	5.6x	6.8x	16.6x	8.1x	6.0x
Scope-adjusted funds from operations/debt	11%	15%	10%	3%	9%	13%
Scope-adjusted free operating cash flow/debt	10%	8%	-3%	-3%	7%	8%
Scope-adjusted EBITDA in HUF m						
EBITDA	815.8	991.0	813.3	341.0	650.4	802.9
less: capitalised development costs	0.0	0.0	0.0	0.0	0.0	0.0
less: non-cash items	0.0	0.0	0.0	0.0	0.0	0.0
Scope-adjusted EBITDA	**815.8**	**991.0**	**813.3**	**341.0**	**650.4**	**802.9**
Funds from operations in HUF m						
EBITDA	815.8	991.0	813.3	341.0	650.4	802.9
less: (net) cash interest paid	51.5	46.3	-69.1	-64.5	-82.4	-76.4
add: intra-group charges to parent/sister	-210.6	-214.6	-132.2	-125.5	-112.6	-103.6
less: cash tax paid per cash flow statement	-38.9	-79.7	-33.5	0.0	0.0	-3.9
Profit/loss on disposals	0.0	0.0	0.0	0.0	0.0	0.0
Other	-6.1	111.6	-40.4	0.0	0.0	0.0
Funds from operations	**611.7**	**854.5**	**538.1**	**151.0**	**455.4**	**618.9**
Free operating cash flow in HUF m						
Funds from operations	611.7	854.5	538.1	151.0	455.4	618.9
Change in working capital	224.1	-191.7	-119.6	-18.1	-21.3	-15.3
Non-operating cash flow	-169.1	63.9	1,265.4	78.8	57.9	2.7
less: capital expenditure (net)	-97.6	-274.0	-677.7	-409.4	-100.0	-199.6
Other[1]	0.0	0.0	-1,201.0	0.0	0.0	0.0
Free operating cash flow	**569.1**	**452.7**	**-194.7**	**-197.7**	**391.9**	**406.8**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	-51.5	-46.3	69.1	64.5	82.4	76.4
add: intra-group charges to parent/sister	210.6	214.6	132.2	125.5	112.6	103.6
add: interest component, pension	0.0	0.0	0.0	0.0	0.0	0.0
Net cash interest paid	**159.0**	**168.3**	**201.3**	**190.0**	**195.0**	**180.0**
Scope-adjusted debt in HUF mm						
Reported gross financial debt	5,500.0	5,560.0	5,565.5	5,649.8	5,249.8	4,818.8
less: cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0
add: lease obligations	0.0	0.0	0.0	0.0	0.0	0.0
add: pension adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Scope-adjusted debt	**5,500.0**	**5,560.0**	**5,565.5**	**5,649.8**	**5,249.8**	**4,818.8**

[1] Adjustment for non-cash effects from the merger with MetMax Vagyonkezelő

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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)	Red 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)

Key person risk

Overall, ESG factors have no immediate impact on this credit rating action.

From a governance perspective, we continue to see high key person risk, as MetMax Europe's business is still dependent on András Csoma, the CEO and majority owner (54%). However, we have a positive view on the transformation of the operational side of the organisation in general and the expansion of management in particular. MetMax Europe has decided to establish a three-member board of directors structure instead of the current CEO-led structure. On 1 May 2023, András Sávos joined MetMax Europe as a new member of the board of directors. The board of directors thus consists of Andras Csoma, Andras Savos and Ganor Nagy. Roles and responsibilities have been clearly distributed among the members of the board to strengthen its focus and better utilise management capacity. At the board level, new authorised signatories were appointed among the second-level managers (head of finance, technical and quality) to increase the managers' personal involvement in decision-making and improve control functions.

[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: B

Industry risk profile: BBB

MetMax Europe is exposed to the capital goods industry as a manufacturer of investment goods. These include components for railway brake systems, vacuum pump components, gripper technique components and robot parts, components for pumps and electric motors, rotary encoder parts and burner nozzles. We deem this industry to have medium cyclicality, medium entry barriers and medium substitution risk. We therefore assess industry risk at BBB.

Business risk profile still assessed at B

The business risk profile, still assessed at B, continues to be constrained by the company's size, low product diversification and high customer concentration.

Small niche player in a fragmented market

With revenues of around HUF 4.7bn in 2023 (equivalent to about EUR 12m), MetMax Europe is a minor niche player in the European capital goods market. MetMax Europe is less involved in mass production as it focuses on low to medium series production with smaller batch sizes (300-500 pieces; up to 50,000-70,000 a year), and products with lower automation but high value-added for customers. In a generally fragmented market, customers choose suppliers based on quality, precision and reliability (just in time). MetMax Europe is well established in this market, with a proven ability to attract big-name customers as recently demonstrated by the acquisition of names like Siemens and Bosch.

Concentrated product portfolio

MetMax Europe has a concentrated product portfolio as indicated by its low revenue of around EUR 12m. It mainly produces high-precision, complex-toothed devices; parts in individual small/medium series; and high-complexity, high-quality machine parts. Its lack of aftermarket activities is credit-negative, however, as such activities come with lower volatility, high profitability and recurring sales.

Figure 1: Overview of selected MetMax Europe's products

Source: MetMax

Limited geographical diversification

Geographical diversification of revenues is limited, with 52% generated in Hungary in 2023, although this is an improvement over the much lower levels of preceding years. MetMax Europe's production capacities are only in Hungary. Exchange rate risk is partially managed using a natural hedge; most price agreements and costs are in euros.

Moderate diversification by end market

End-market diversification is moderate. Products manufactured by MetMax Europe are mainly used as parts for railway undercarriages, rail braking equipment, water pumps, waste recovery and vacuum pumps.

Substantial customer concentration

The key credit-negative factor for MetMax Europe's business risk profile is high customer concentration. While the company's products are strategically important for its customers, it remains dependent on a very small number of customers. The top two represent around 55% of revenues, and the top four represent almost 90%.

Profitability still main support for business risk profile

Despite another decrease in 2023, profitability as measured by Scope-adjusted EBITDA margin in the context of the peer group, remains main support for MetMax Europe's business risk profile.

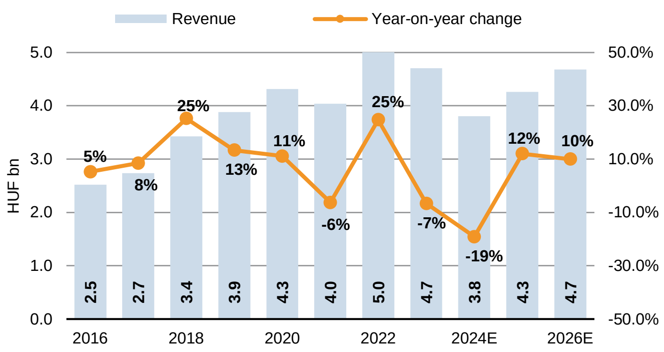
Pressure on labour costs continued to weigh on profitability in 2023

In line with our expectations, the Scope-adjusted EBITDA margin remained well below 20% at 17.3% in 2023, marking the third consecutive year of margin decline. In addition to a gross profit margin that was still below 50% in 2023, the ongoing pressure from wage inflation in particular meant that personnel costs rose significantly faster than revenue and weighed on profitability. In 2023, wage growth slowed down (+7% YoY), which, combined with an increase in headcount of around 5%, led to a rise in personnel costs of around 13%, compared to +31% in 2022. Due to a decline in revenue of around 6.6% YoY, the ratio of personnel costs to revenue as a % of revenue rose from 27.1% in 2022 to 32.9% in 2023, weighing on profitability.

Demand slowed significantly in H2 2023, leading to reduced full-year revenue

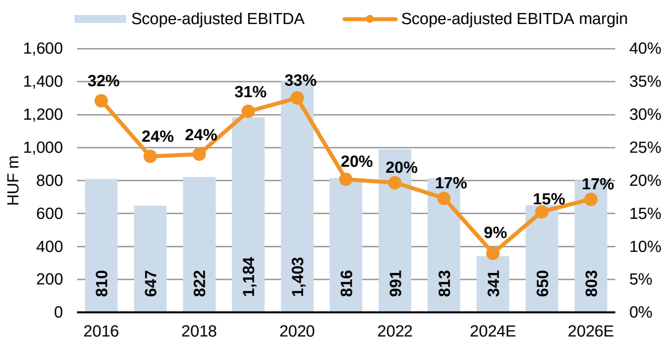
The 6.6% YoY decline in revenue in 2023 was due to the fall in volumes, particularly in H2, which more than offset the price increases with MetMax Europe's most important customers in H1. As a consequence of the lower profitability and the decline in revenue, Scope-adjusted EBITDA decreased to HUF 813m in 2023 from HUF 991m in 2022.

Figure 2: **Revenues, 2016 to 2026E**



Source: MetMax, Scope (estimates)

Figure 3: **Scope-adjusted EBITDA (margin), 2016 to 2026E**



Source: MetMax, Scope (estimates)

Weak demand from H2 2023 continued in H1 2024

The weak demand in H2 2023 continued into H1 2024, with revenue dropping by around 21% YoY to HUF 2.0bn, compared to HUF 2.6bn in H1 2023. Both domestic revenue (down 26% YoY) and export revenue (down 15% YoY) decreased significantly. This development reflects both lower volumes from key customers due to sharp destocking and the absence of further price increases. MetMax Europe has also announced that it carried out an SAP upgrade in May 2024, which resulted in a one-off loss of revenue (one week of full production stoppage and two to three weeks of slow acceleration thereafter). MetMax Europe estimates the total revenue loss due to the SAP upgrade at approximately HUF 250m in H1.

We expect revenue to drop by 19% in 2024

MetMax Europe indicated a recovery in its order books in Q3 vs. Q2 2024. However, volumes are still around 20% lower than in 2023 in some key cases. In Q2 2023, the company launched its "Scale Up Strategy", which focuses on active business development. During H1 2024, MetMax Europe has started serial production for three large European companies. However, the revenue contribution from these projects will be fairly marginal in 2024. Based on our conservative assessment for H2 2024, we have factored in revenues of HUF 3.8bn (down 19% YoY) for the full year 2024.

Low revenue visibility in 2025, growth through new projects

The visibility for revenue in 2025 is rather low. The global economic environment is fragile, MetMax Europe's business model is vulnerable, with high customer and product concentration, and volume declines at some of the company's existing customers have structural reasons. On a positive note, the new customer projects are forecast to contribute significant revenues in 2025. We have factored in revenue of around HUF 4.3bn (up 12% YoY) in 2025.

H1 2024 results suggest massive profitability decline in 2024

Reported EBITDA decreased by 50% YoY from HUF 470m in H1 2023 to HUF 234m in H1 2024. The negative impact of lower revenue was compounded by a drop in profitability, as reflected in the reported EBITDA margin of 11.6% in H1 2024, compared to 18.4% in H1 2023. Both lower cost coverage due to less revenues and a further increase in personnel costs weighed. In combination with the lower revenue, this raised the ratio of personnel expenses to revenue to 40.2% in H1 2024, compared to 29.9% in H1 2023. Based on the H1 2024 results, we have revised our expectation for the Scope-adjusted EBITDA margin in 2024 downwards and expect it to drop to around 9%. Coupled with our revenue forecast, this translates into Scope-adjusted EBITDA of around HUF 340m.

Profitability set to improve in 2025, but the extent is unclear

We expect profitability to improve in 2025, driven by: i) better cost coverage through higher revenue from new projects; ii) the planned headcount reduction in Q4 2024; and iii) an improvement in the gross profit margin supported by the recent expansion of the customer portfolio towards high value-added components and the commissioning of two PV power plants, which should reduce energy costs from 2025. While all these are likely to improve MetMax Europe's profitability in 2025, the exact extent of the recovery is very unclear. Furthermore, after the fourth year of declining profitability, we need to see evidence that MetMax Europe's is able to turn the corner and return profitability towards 20%. For the time being, we expect a Scope-adjusted EBITDA margin of around 15% in 2025 and Scope-adjusted EBITDA of about HUF 650m.

Financial risk profile: B-

Financial risk profile lowered to B- from B+

The downgrade of the financial risk profile to B- from B+ reflects our revised expectation for Scope-adjusted EBITDA in 2024-25, now with weaker expected credit metrics in these years, as well as the inadequate liquidity assessment in view of the threat of the accelerated repayment of the bond in October 2025.

Reported financial debt of HUF 5.6bn at year-end 2023

The company's reported financial debt of HUF 5.6bn at year-end 2023 largely comprises corporate notes of HUF 5bn issued in December 2020.

After repayment in 2021, MetMax Europe no longer has any lease obligations.

As regards factoring, MetMax Europe has a programme with BNP Paribas Dublin and with Raiffeisen Bank Hungary. Under these programmes, receivables are sold without recourse and are therefore not included in our Scope-adjusted debt calculation.

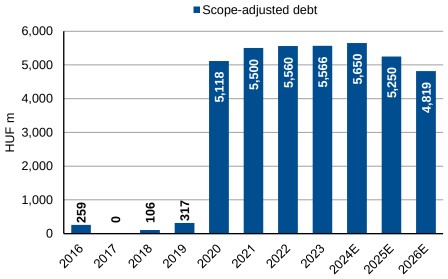
Subsidy is in principle non-refundable, but linked to the fulfilment of three milestones

In addition, our Scope-adjusted debt calculation does not include received subisidies of HUF 1.75bn from HIPA for the HUF 5.0bn investment programme due to the low probability of repayment. The subsidy is in principle non-refundable, but linked to the fulfilment of three milestones, which relate to the total headcount, total cumulative sales and total wage increase during the 2025-2029 monitoring period. Testing for repayment of subsidies starts in 2025, the period when the investment programme is scheduled to be completed. The reference year for the monitoring period is 2019. Any indicator shall be fulfilled in total during the five-year period, i.e. any overperformance is taken into consideration in the later years/underperformance can be recapped by later years. MetMax Europe has also informed us that, given the current market environment, it may apply to delay the completion date of the investment programme by one or two years from the end of 2024. This would mean that the monitoring period would start later. Overall, we assume that MetMax Europe will meet the milestones and that no repayment will be triggered.

Largely unchanged Scope-adjusted debt of around HUF 5.6bn in 2023-24

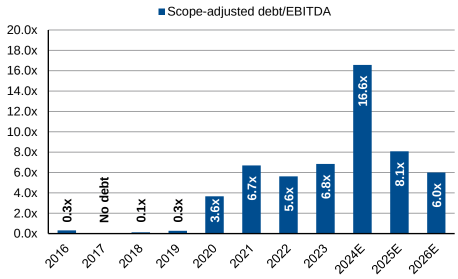
Based on our adjustments, we calculate largely unchanged Scope-adjusted debt of HUF 5.6bn at YE 2023. We also expect Scope-adjusted debt to remain unchanged at around HUF 5.6bn in 2024. The redemption of the bond will start in 2025, with annual payments of HUF 500m between 2025 and 2029 and a final payment of HUF 2.5bn in 2030. Overall, we project Scope-adjusted debt of about HUF 5.2bn at YE 2025.

Figure 4: Scope-adjusted debt, 2016 to 2026E



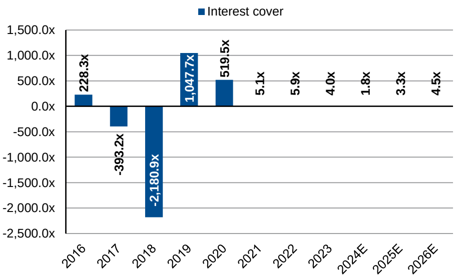
Sources: MetMax, Scope (estimates)

Figure 5: Scope-adjusted debt/EBITDA, 2016 to 2026E



Sources: MetMax, Scope (estimates)

Figure 6: Scope-adjusted EBITDA interest cover, 2016 to 2026E



Sources: MetMax, Scope (estimates)

Leverage is set to deteriorate further

Leverage, as measured by Scope-adjusted debt/EBITDA, deteriorated to 6.8x in 2023 from 5.6x in 2022, driven by the decline in Scope-adjusted EBITDA, as lower revenue and lower profitability weighed. Based on our revised expectations for Scope-adjusted EBITDA, we expect the Scope-adjusted debt/EBITDA ratio to rise further to around 17x in 2024. Although we expect Scope-adjusted debt/EBITDA to improve to around 8x, driven by the expected recovery in Scope-adjusted EBITDA, we see it remaining high in 2025.

We consider the ‘gross interest’ expense when calculating the interest coverage ratio

The interest coverage ratio decreased to 4.0x in 2023 from 5.9x in 2022. Approx. HUF 3bn of the bond proceeds were transferred to the parent company CNC Tőkebefektető Kft., which in turn made interest payments to MetMax Europe (the bond issuer) thus reducing the total interest payment of MetMax Europe. Given that the parent has no operations of its own and its ability to pay depends on dividends from MetMax Europe, we considered the ‘gross interest’ expense rather than ‘net interest’ due to intra-group charges. Based on our revised expectation for Scope-adjusted EBITDA in 2024-25, we project interest cover of around 1.8x in 2024 and roughly 3.3x in 2025.

Scope-adjusted FOCF turned negative in 2023 (the first time since 2013), and we expect it to remain negative in 2024.

Scope-adjusted FOCF turned negative in 2023

In 2023, Scope-adjusted funds from operations (FFO) decreased to around HUF 538m from HUF 855m in 2022, as lower Scope-adjusted EBITDA weighed. Contrary to our expectations, Scope-adjusted FOCF turned negative at around HUF -195m in 2023 (down from HUF 453m in 2022), as higher net working capital and higher capex had a negative impact in addition to the lower Scope-adjusted FFO. The higher capex reflects the HIPA investment programme which, following the consolidation of MetMax Vagyonkezelő Kft., continued at the level of MetMax Europe.

Inventories still high

Contrary to our expectations, inventories continued to rise in 2023, both in absolute terms and as a percentage of revenue, accounting for about 22% of revenue. This is higher than the inventory to revenue ratio of around 19% during the supply chain issues in 2021-22 and well above MetMax Europe’s target of 15%. According to MetMax Europe, this was due to fluctuating demand, i.e. materials and finished products were produced on the basis of forecasts but sold later due to short-term changes in demand.

Scope-adjusted FOCF to remain negative in 2024

In H1 2024, unaudited reported FOCF was negative at HUF -67m (HUF 63m in H1 2023) as a result of the decline in EBITDA and still high capex (HUF 358m) for the implementation of the HIPA investment programme. We anticipate that Scope-adjusted FOCF will remain negative at around HUF -200m in the full year 2024. Here we expect net working capital to have a slightly negative impact due to the ramp-up of new projects. We have also factored in capex of roughly HUF 410m. The lower capex in H2 2024 compared to HUF 358m in H1 2024 reflects both the phasing out of the HIPA programme and MetMax Europe's decision to reduce capex due to falling market demand.

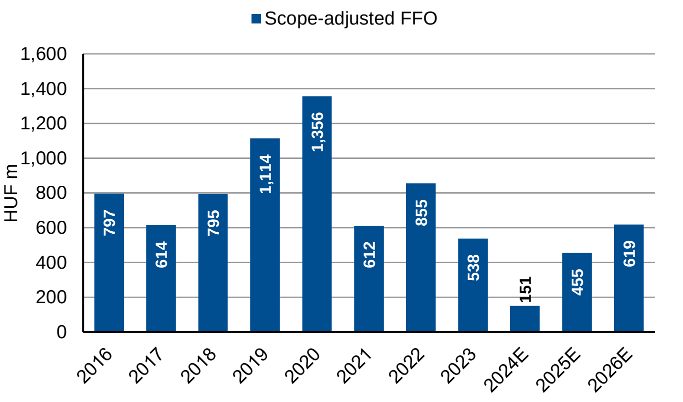
Significant cut in capex in 2025 to preserve cash

In 2025, we anticipate that Scope-adjusted FOCF will turn positive at around HUF 390m. In addition to the expected higher Scope-adjusted EBITDA, this is mainly driven by MetMax Europe's plans to significantly reduce capex after the completion of the HIPA programme in 2024 in order to focus on cash preservation. In this context, MetMax Europe has stated that recent technology investments will provide the company with sufficient spare capacity to service the new projects, as well as an approx. 30% growth in general customer demand. Overall, we have factored in capex of around HUF 100m in 2025.

No further investment programmes until 2026

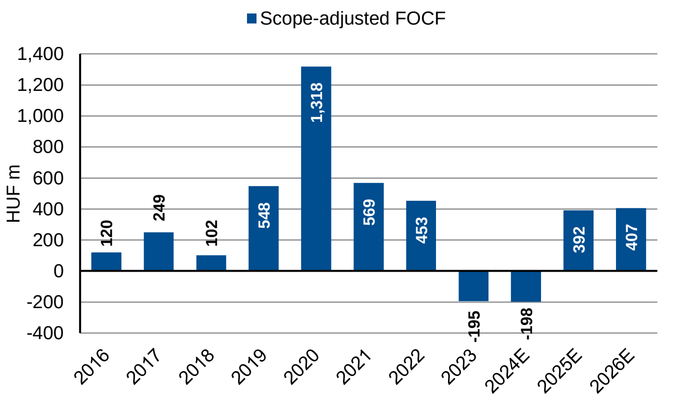
After 2025, MetMax Europe plans to gradually resume normal capex when the market environment (both demand and the predictability of demand) recovers. The start of the new programme is possible in 2026 and could be triggered by a major new customer project or the expansion of ongoing projects that would require project-specific investments. Last year, MetMax Europe told us that it has started discussions with HIPA about the launch of a new programme to support the next five-year investment activity. We understand that this discussion has been put on hold for the time being in view of the current demand situation.

Figure 7: **Scope-adjusted FFO, 2016 to 2026E**



Source: MetMax, Scope (estimates)

Figure 8: **Scope-adjusted FOCF, 2016 to 2026E**



Source: MetMax, Scope (estimates)

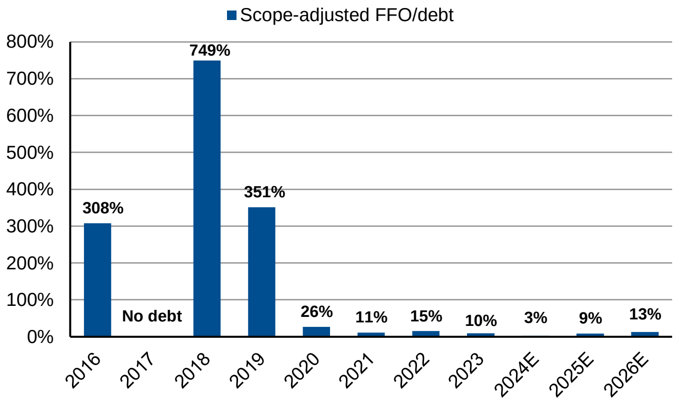
Scope-adjusted FFO/debt ratio below 10% in 2024-25

As a result of lower Scope-adjusted FFO, Scope-adjusted FFO/debt decreased from 15% in 2022 to 10% in 2023. Based on our expectations for Scope-adjusted EBITDA, we project that Scope-adjusted FFO/debt will fall below 5% in 2024 and improve to around 9% in 2025.

Negative cash flow cover in 2023 to remain negative in 2024

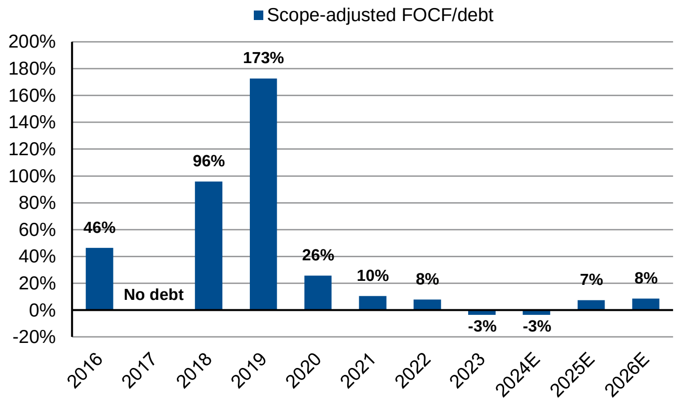
Cash flow cover turned negative in 2023, compared to 8% in 2022, as a result of the negative Scope-adjusted FOCF. Based on our expectations for Scope-adjusted FOCF, we anticipate that cash flow cover will remain negative in 2024. In 2025, we see cash flow cover improving to around 7% supported by the significant capex reduction.

Figure 9: Scope-adjusted FFO/debt, 2016 to 2026E



Sources: MetMax, Scope (estimates)

Figure 10: Scope-adjusted FOCF/debt, 2016 to 2026E



Sources: MetMax, Scope (estimates)

Inadequate liquidity

We consider MetMax Europe's liquidity and financial flexibility to be 'inadequate', in view of the threat of the accelerated repayment of the bond in October 2025.

MetMax Europe's bond has an accelerated repayment clause

MetMax Europe is currently in the grace period

We note that MetMax Europe's senior unsecured bond issued under the Hungarian Central Bank's bond scheme has an accelerated repayment clause. The clause requires MetMax to repay the nominal amount (HUF 5bn) within 10 business days after the bond rating falls below B-. There is a two-year grace period for a B/B- bond rating, which means that to avoid the accelerated repayment the company must ensure the debt rating returns to B+ before the grace period ends. Following the downgrade of the senior unsecured bond rating to B on 6 October 2023, MetMax Europe has entered the grace period, which ends on 6 October 2025. If the debt rating does not return to B+ within the grace period, the company could face severe liquidity constraints which could have default implications, unless it obtains refinancing that covers the early repayment of the outstanding bond amount, or it proactively obtains an investor waiver related to the repayment acceleration.

MetMax Europe has informed Scope that it has already started negotiations with its main bondholders on a possible solution.

Balance in HUF m	2023	2024E	2025E
Unrestricted cash (t-1)	254	98	109
Open committed credit lines (t-1)	0	169	169
Free operating cash flow (t)	-195	-198	392
Short-term debt (t-1)	0	566	5,012
Coverage	**No short-term debt**	**12%**	**13%**

Cash sources

Liquidity comprises:

- Cash on balance sheet of HUF 97m at YE 2023 (HUF 96m at end-June 2024).
- A shareholder loan of HUF 300m, of which HUF 131m were utilized at the end of June 2024. In 2024, the ultimate shareholders provided a five-year loan of HUF 300m to the parent company MetMax Holding. MetMax Europe can request drawdowns from this loan.
- We expect Scope-adjusted FOCF of around HUF 390m in 2025.

Cash uses

Expected cash uses include:

- No dividend payments to external shareholders in 2024-25, but dividends to CNC Tőkebefektető Kft. of around HUF 430m in 2024 and HUF 415m in 2025. However, these flow back through the repayment of intercompany loans and interest and have no effect on liquidity.
- We expect negative Scope-adjusted FOCF of around HUF -200m in 2024.
- The HUF 500m NHP Hajrá line due in January 2024 has already been repaid. It was repaid and replaced by an EUR-based floating classic revolving current credit line by Erste Bank largely with the same amount. There are no further obligatory debt repayments in 2024. The normal bond redemption starts in December 2025 (HUF 500m annually between 2025 and 2029 and HUF 2.5bn in 2030). Without a waiver, the accelerated repayment clause will be triggered in October 2025 and HUF 5bn will be due for repayment.

Neither MetMax Europe's bond issued under the Hungarian Central Bank's bond scheme nor its bank loans are subject to financial covenants.

No financial covenants

Dividend stopper in place for a period of 10 years

The bond prospectus contains the usual conditions: non-payment, cross default, deterioration of external rating, change of control, pari passu, negative pledge, and a dividend stopper for a period of 10 years. The dividend stopper allows dividend payments to the ultimate shareholders only if consolidated EBITDA at the level of CNC Tőkebefektető Kft exceeds HUF 800m and only the part exceeding HUF 800m can be used to pay dividends. The EBITDA covenant was met in 2022 and 2023, but no dividend was paid to the ultimate shareholders. Based on our EBITDA expectations for 2024-25, the EBITDA covenant will not be met. We have therefore excluded any dividend payments to ultimate shareholders from our base case scenario.

Supplementary rating drivers: +/- 0 notches

Supplementary rating drivers are credit-neutral. We have a neutral view on the company's capital allocation.

Dividends to parent company returned through debt and interest service

The aforementioned dividend stopper does not apply to the dividend paid to the parent company for the annual repayment of intercompany loans and interests. Thus, these dividends are returned to MetMax Europe through the repayment of intercompany loans and interest payments and have a zero net cash effect.

No further capital transfers to the parent company in 2023 or 2024-25

Over the past years, MetMax Europe has made capital transfers in the form of intercompany loans to CNC Tőkebefektető Kft, its mother company. The total amount of intercompany loans was HUF 3.8bn at end-June 2024, down from HUF 4.2bn at year-end 2023. There were no capital transfers in 2023 and we do not expect capital transfers in the coming years.

Long-term debt rating: B-

Withdrawal of the senior unsecured debt rating for business reasons

We have downgraded the senior unsecured debt rating to B-, in line with the issuer rating. The rating has subsequently been withdrawn for business reasons.

In December 2020, MetMax Europe issued a HUF 5.0bn senior unsecured guaranteed bond (ISIN: HU0000360169) through the Hungarian central bank's Bond Funding for Growth Scheme. The bond's tenor is 10 years, with a fixed coupon rate of 3.0% and repayment in six tranches of 10% in 2025, 2026, 2027, 2028 and 2029 and of 50% in 2030. The bond has been issued with a guarantee from CNC Tőkebefektető Kft, its parent company.

Senior unsecured guaranteed debt rating: B-

Our recovery analysis indicates an 'average' recovery for the senior unsecured guaranteed bond and for all other senior unsecured debt positions at the level of MetMax Europe, translating into a debt instrument rating for the senior unsecured guaranteed bond at the issuer level (B-).

Guarantee provided by CNC Tőkebefektető Kft. has no impact on the expected recovery

Our recovery analysis uses a liquidation value of HUF 4.1bn for a hypothetical default scenario in 2025. This value is based on a haircut on the assets and reflects liquidation costs of 10% for the assets. The haircut also assumes that the intra-group receivable from the parent (used to refinance the acquisition debt) would become non-recoverable in the event of a payment default. The guarantee provided by CNC Tőkebefektető Kft. has no impact on the expected recovery of the debt instrument.

MetMax Europe's senior unsecured debt comprises the following debt instruments:

- HUF 5.0bn senior unsecured bond issued in December 2020 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.
- HUF 300m five-year loan provided by the ultimate shareholders to the parent company MetMax Holding, which MetMax Europe can draw upon request. At the end of June 2024, MetMax Europe had drawn HUF 131m of this facility. This loan is pari passu with the bond.

To determine claimholders, we ranked the repayment obligation for subsidies and the new EUR-based floating classic revolving credit line at the simulated point of default senior to the claims on the prospective bond.

- In respect of the HUF 1.75bn grant from HIPA, a pledge has been taken on the property of MetMax Europe in favour of HIPA.
- The HUF 500m short-term facility from the NHP Hajrá programme with Erste Bank matured in January 2024, and was replaced by a new EUR-based floating classic revolving credit line provided by Erste Bank with indefinite maturity and an interest rate of 1month EURIBOR+1.5%. This line is also secured by a pledge on receivables and suretyship from MetMax Holding.

H1 2023 saw MetMax Europe agree on a green financing facility of up to HUF 434m with Raiffeisen Bank for the construction of photovoltaic power plants. MetMax Europe has informed us that this line has been terminated without any drawdown.

We assume that the business plan will be executed as planned, with no additional bank debt or other senior-ranking financings ahead of the planned bond.

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