14 March 2024

Corporates

Envien Magyarország Kft.
Hungary, Chemicals

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024 E**	**2025 E**
Scope-adjusted EBITDA/interest cover	33x	4.8x	5.6x	6.2x
Scope-adjusted debt/EBITDA	1.8x	3.2x	2.8x	2.8x
Scope-adjusted funds from operations/debt	36%	27%	26%	27%
Scope-adjusted free operating cash flow/debt	16%	48%	14%	9%

Rating rationale

The issuer rating of Envien International reflects a moderate business risk profile (assessed at BB-), coupled with a good but deteriorating financial risk profile (revised to BBB- from BBB). The downgrade on the bond rating reflects the change in recovery assessment following the material increase in higher-ranking bank debt over the past two years.

The issuer rating of Envien Magyarország is based on the credit metrics of its direct parent, Envien International, which is the holding company of Envien Group, the leading biofuel producer in Central and Eastern Europe. Within the group, Envien Magyarország is a pure trader of animal feed products that primarily uses the by-products of Envien Group's biofuel production. The issuer rating is based on Envien International's implicit guarantee to Envien Magyarország given the shared name identity, brand responsibility, intercompany funding and Envien Magyarország's importance for the group, as well as the parent's explicit, unconditional and irrevocable guarantee on the bond issued by Envien Magyarország.

Outlook and rating-change drivers

The Stable Outlook incorporates our assumption that Scope-adjusted EBITDA will recover and stabilise at around EUR 60m in 2024, following the weak performance in 2023, leading to a Scope-adjusted debt/EBITDA close to 3.0x over the next 12-18 months. Additionally, we assume that Scope-adjusted EBITDA interest cover will remain above 5.0x on a sustained basis, and there will be no changes in regulation, taxation, or law. However, it is worth noting that the previously available rating headroom has been used up and cannot absorb any further decline in credit metrics. Moreover, the Stable Outlook assumes an unchanged ownership for Envien Magyarország Kft.

A negative rating action could be driven by Scope-adjusted debt/EBITDA of Envien International remaining above 3.0x or Scope-adjusted EBITDA interest cover dropping to below 4.0x on a sustained basis due to protracted pressure on production margins and/or the execution of large debt-funded investments not included in our rating case. Additionally, liquidity risk may arise in case of a significant increase in working capital that unused overdraft lines cannot cover or in case of an unexpected cancellation of one or more credit lines as a consequence of potential covenant breaches.

A positive rating action, although remote in the short term, is possible in case of Scope-adjusted debt/EBITDA sustained below 1.5x.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
14 March 2024	Affirmation	BB/Stable
17 March 2023	Affirmation	BB/Stable
18 March 2022	Affirmation	BB/Stable

Ratings & Outlook

Issuer	BB/Stable
Guaranteed senior unsecured bond ISIN: HU0000360193	BB-

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Related Methodologies

Corporate Rating Methodology; October 2023

Rating Methodology: Chemical Corporates; April 2023

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Past and future demand generated by regulatory requirements (biofuels) • Strong market presence in CEE, especially in Slovakia (100% market share), despite limited capacity at EU level • Still good financial metrics, despite increased leverage and weakened interest cover • Production diversified across several plants in CEE (6 production plants) as well agro-commodity trading activities in Slovakia, Hungary and Switzerland.	• Sharp decline in Scope-adjusted EBITDA margin of around 5.5% in 2023, but expected to recover around 8% from 2024 onwards • Product portfolio mostly including commoditised products with limited pricing room • Concentration on single product group (biofuels) • Customer concentration on MOL Group, mitigated by the synergistic business relationship • Geographical concentration of sales to Slovakia and Hungary, expected to reduce below 50% after Biopaliwa's acquisition • Increased bioethanol and biodiesel imports in the EU market from extra-EU countries • Complex group structure

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA below 1.5x on a sustained basis (at the level of Envien International Ltd)	• Scope-adjusted debt/EBITDA remaining above 3.0x or EBITDA interest cover below 4.0x (at the level of Envien International Ltd), as a consequence of protracted negative development of production margins and/or large investment for expansionary capex and/or acquisitions • Liquidity risk arising from further large increase in working capital needs above existing unused overdraft lines, in case of unexpected line closure as well as in case of covenant breaches not waived by lenders

Corporate profile

Envien Magyarország Kft. is a fully owned subsidiary of Malta-based Envien International Ltd., the consolidating entity of Envien Group, one of the largest producer of first-generation biofuels (bioethanol and biodiesel) in Central and Eastern Europe (CEE). The activities of Envien Group include the procurement of feedstock; the production and commercialisation of biofuels; the trade of the by-products of the production process (animal feeds and corn oil from bioethanol, chemicals such as glycerine from biodiesel) as well as the trade of related products acquired for resale; and the production of heat and energy.

Envien Group started in 2005 with the construction of the Enviral bioethanol plant in Slovakia and has gradually grown into a group of 12 interconnected companies in six countries (Slovakia, Czech Republic, Hungary, Poland, Switzerland and Croatia). It now employs over 600 staff and it is privately held.

Member companies are Enviral, Meroco, Enagro, Poľnoservis, Rossi Biofuels, Biodizel Vukovar, Biopaliwa Poland (since Q4 2022), Envien Hungary, Ethanol Energy Vrdy, RT Logistic and Envien Trading (Switzerland). Envien Magyarország is a pure trader of animal feed products, primarily using the by-products of Envien Group's biofuel production. Envien International provides an unconditional and irrevocable guarantee on the bond issued by Envien Magyarország.

Envien Magyarország Kft.

Hungary, Chemicals

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023P**	**2024 E**	**2025 E**	**2026 E**
Scope-adjusted EBITDA/interest cover	164.6x	33.5x	4.8x	5.6x	6.2x	6.9x
Scope-adjusted debt/EBITDA	0.3x	1.8x	3.2x	2.8x	2.8x	2.6x
Scope-adjusted funds from operations/debt	258%	36%	27%	26%	27%	30%
Scope-adjusted free operating cash flow/debt	53%	16%	48%	14%	9%	12%
Scope-adjusted EBITDA in EUR '000s						
EBITDA	129,349	89,178	47,928	56,939	59,071	62,532
Other items[1]	-298	-95	-36	0	0	0
Recurring associate dividends received	2,151	2,024	1,055	1,000	1,000	1,000
Scope-adjusted EBITDA	**131,202**	**91,107**	**48,947**	**57,939**	**60,071**	**63,532**
Funds from operations in EUR '000s						
Scope-adjusted EBITDA	131,202	91,107	48,947	57,939	60,071	63,532
less: (net) cash interest paid	-797	-2,720	-10,196	-10,372	-9,691	-9,251
less: cash tax paid per cash flow statement	-11,414	-34,892	3,287	-4,389	-4,730	-5,228
Other items	-1,611	6,490	248	0	0	0
Funds from operations (FFO)	**117,380**	**59,985**	**42,286**	**43,178**	**45,651**	**49,053**
Free operating cash flow in EUR '000s						
Funds from operations	117,380	59,985	42,286	43,178	45,651	49,053
Change in working capital	-66,414	-20,267	50,327	2,760	-6,120	-5,607
Non-operating cash flow	0	0	0	0	0	0
less: capital expenditure (net)	-23,337	-9,858	-14,499	-20,000	-20,000	-20,000
less: lease amortisation	-3,365	-3,611	-3,500	-3,500	-3,500	-3,500
Free operating cash flow (FOCF)	**24,264**	**26,249**	**74,614**	**22,438**	**16,031**	**19,946**
Net cash interest paid in EUR '000s						
Net cash interest per cash flow statement	-797	-2,720	-10,196	-10,372	-9,691	-9,251
add: interest component, operating leases	0	0	0	0	0	0
Change in other items	0	0	0	0	0	0
Net cash interest paid	**-797**	**-2,720**	**-10,196**	**-10,372**	**-9,691**	**-9,251**
Scope-adjusted debt in EUR '000s						
Reported gross financial debt	137,011	232,181	268,079	251,130	241,030	230,930
less: cash and cash equivalents	-91,444	-66,768	-113,595	-87,584	-72,015	-65,361
Other items	0	0	0	0	0	0
Scope-adjusted debt (SaD)	**45,567**	**165,413**	**154,484**	**163,546**	**169,015**	**165,569**

[1] It mainly refers to gains/loss on disposal of fixed assets.

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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)
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)

Resource management

We assess ESG factors as credit neutral. As usual for chemical companies, the main ESG factors are environmental: greenhouse gas emissions and consumption of raw materials, in particular water and energy. We do not see Envien as an outlier within its industry.

Health and safety

Health and safety issues for the staff is a common factor in the chemicals industry and is a material ESG factor for Envien, given physical hazards (e.g. explosion risks) linked to its products. Since there has not been any major incident, health and safety is a neutral factor.

Regulation is relevant for Envien's sector

With regards to the specific sector of first-generation biofuels (Envien Group's core business), regulatory risk is a material ESG factor for Envien. While the regulatory-driven increase in use of biofuels has reduced carbon emissions and has supported the demand for Envien products so far, the use of first-generation biofuels (based on food and seed crops) poses a risk in terms of food security and the European Union is trying to gradually transition to second-generation biofuels. Until now, we did not see major regulatory changes concerning first-generation biofuels that would represent a material threat and therefore we consider it ESG neutral. Nevertheless, significant changes in future regulations may negatively impact the credit profile.

Complex corporate structure

Regarding company-specific factors, we see the corporate structure as the most relevant risk factor. The Group has different entities that raise debt with local banks and financial covenants are almost entirely set at single subsidiary level rather than at the consolidated level. Another relevant aspect of the corporate structure is related to the complex shareholding structure above the level of the Envien International, composed by numerous legal entities and several intermediate levels before connecting to the ultimate private owners, whose respective ownership is not disclosed, except that none of them owns more than 25% of shares and/or voting rights. This limits transparency and increases regulatory risks, as the intermediate entities are based in different jurisdictions.

[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.

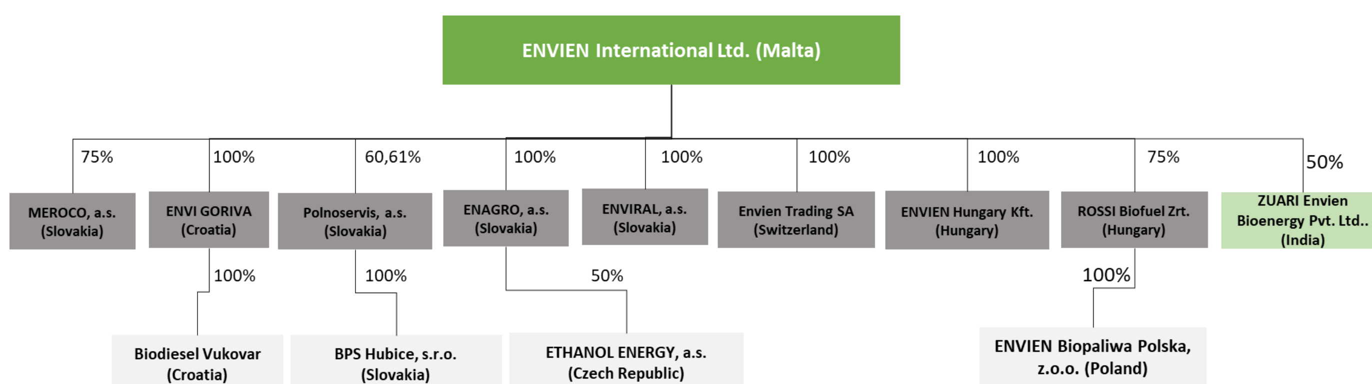
Business risk profile: BB-

The business risk profile continues to be assessed at BB-, reflecting the low profitability, dependency on commodity market fluctuations, a limited company size on an international scale despite strong market shares in small core markets and improving diversification.

Industry risk profile: BBB

Envien Group is viewed as a commodity-focused chemical corporate, which we rate at BBB under our Chemicals Rating Methodology. Commodity-focused chemical corporates experience high cyclicality due to raw material price sensitivity and transparent market pricing. Entry barriers are significant, demanding substantial capital investments and compliance with safety and environmental regulations. Size determines entry success, favouring larger corporations with cost efficiency and economies of scale. Substitution risks are medium due to technical production requirements, a lack of alternative production methods, and product uniqueness (especially bespoke chemical solutions).

Figure 1: Envien Group structure



Sources: Envien Group

EU mandates and government regulations key drivers of product demand

The group's main products are biofuels, which are blended with conventional diesel and gasoline to meet EU requirements. They use agricultural commodities as inputs to produce oils and ethanol in large quantities. According to Envien Group, it is the ninth largest producer of bioethanol in the EU and the tenth largest producer of fatty acid methyl esters for biodiesel. On 20 November 2023, the new EU Renewable Energy Directive EU/2023/2413 (also known as RED III) came into force, amending the previous RED II (Directive (EU) 2018/2001). The Directive sets specific targets for renewable energy and aims to accelerate Europe's energy transition in order to meet the EU's emission reduction targets. As such, demand is primarily driven by changes in these mandates, with an increasing tendency to move away from supporting first-generation biofuels based on traditional agricultural feedstocks such as sugar starch (e.g. sugar cane, corn) and edible oil (e.g. rapeseed, soybean), which are capped at 7% of consumption. Each country then has its own specific mandate within the EU directive.

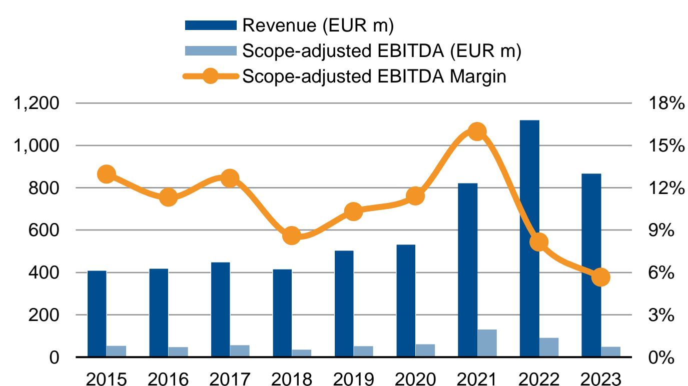
Slight increase in targets for second-generation biofuels, but still a long way from replacing first-generation biofuels

The EU is promoting the use of advanced biofuels made from non-food biomass. The industry is focusing on the development of second-generation biofuels, i.e. those produced from cellulose, agricultural residues and waste, although these are not yet commercialised on a large scale due to their higher costs and are therefore expected to have an impact on the market only in the long term (perhaps a decade). The new EU Renewable Energy Directive III has increased the target for advanced biofuels for transport to 5.5% (3.5% was the previous target under RED II), with double counting to be achieved by 2030. Within advanced fuels, those derived from used cooking oil and animal fats (feedstock list B) are capped at 1.7% by 2030.

Strong position in CEE, limited market position within EU

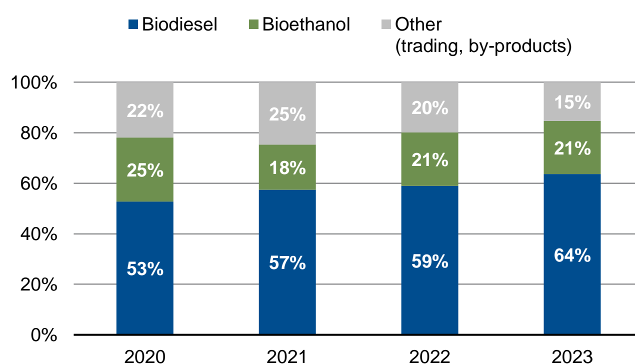
The Envien Group has a strong position in the CEE region, which is its core market, with a limited position in the EU. It produces 100% of Slovakian biofuel (effectively a monopoly); its market share in Hungary is higher in biodiesel (around 30%), with the bioethanol segment (market share around 11%) facing more competitive pressure from other players. In the Czech Republic, the market share is higher for bioethanol (around 40%), although we note a slight decline in market share due to increased competitive pressure following regulatory changes (e.g. the introduction of E10). In terms of company size, the Envien Group reports declining revenues of EUR 867m (record EUR 1.12bn in 2022) due to declining price trends, although remaining above historical levels between EUR 400m and 550m from 2015 to 2020.

Figure 2: Revenues, Scope-adjusted EBITDA (LHS, EUR m) and Scope-adjusted EBITDA margin (RHS, %)



Sources: Envien Group, Scope

Figure 3: Revenue breakdown by product



Sources: Envien Group, Scope

Competitive pressure from import volumes from extra-EU countries…

In 2023, both the bioethanol and biodiesel markets came under some pressure due to increased import volumes from extra-EU countries. High ethanol prices in Europe attracted record import volumes, with net imports, mainly from the US and Brazil, reaching a record high of 25%-29% of total European (EU and UK) consumption. This caused European ethanol prices to fall, with crush margins reaching negative territory in Q4 2022 and remaining extremely low in Q1 2023. In addition, a significant increase in imports of allegedly fraudulent advanced biofuels from China and other Asian countries caused biodiesel prices to plummet, ultimately squeezing premiums in several markets. For 2024, we expect some pressure to remain on both the bioethanol and biodiesel segments. We expect a slight increase in bioethanol demand, supported by European legislation on the use of ethanol in the energy transition. Despite the sharp decline in European ethanol prices towards the end of 2023 and the narrower price differential with other markets such as the US and Brazil, we believe that the European market will remain attractive and that import volumes will remain high over the next twelve months. At the same time, the high level of biodiesel imports from China, labelled as advanced, is still expected to have some negative impact on the EU market in the coming period, as the European Commission's investigations are still ongoing.

…but overall Envien's market position benefits from fairly protected and mature local markets

The biofuel markets in which Envien operates are fairly mature and protected from foreign players or new entrants/capacity: local players generally have lower logistic costs and each country has a specific set of product specifications that often can only be met by local producers. In addition, the construction of new first-generation plants (which would potentially compete with Envien) is discouraged by the more stringent greenhouse gas reduction requirements (70% from 2021) compared to existing first-generation plants (only 50% reduction required). In addition, as the industry will gradually switch to advanced biofuels, the construction of a new first-generation plant is risky in terms of its estimated

lifetime. All these factors help to explain the group's relatively stable market share in recent years.

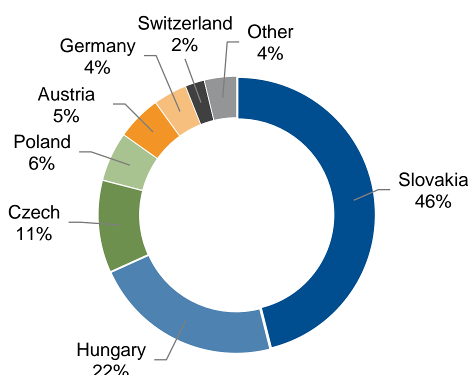
Market diversification strategy through M&A and JV

In recent years, the Envien Group has pursued a strategy of market diversification both within and outside the EU market. In October 2022, Envien entered the Polish market by acquiring Lotos Biopaliwa from PKN Orlen through its joint venture in Rossi Biofuel (75% owned, the remaining 25% held by MOL). The aim is to achieve a 10% market share by increasing the capacity of the existing plant. We expect the Polish business to contribute around 10% to 15% of the group's EBITDA. In March 2023, Envien signed an agreement with Zuari Industries Limited for a 50/50 joint venture in India, named ZUARI Envien Bioenergy Pvt. Lt, for the construction and operation of a fully grain-based distillery with a capacity of 150 kilo litres per day. Management expects construction to commence by the end of Q1 2024 and the plant to be fully operational by mid-2025. Further M&A transactions in other strategic markets, such as Brazil, are currently under review.

Investments aimed at optimising production capacity, technological upgrading and product diversification

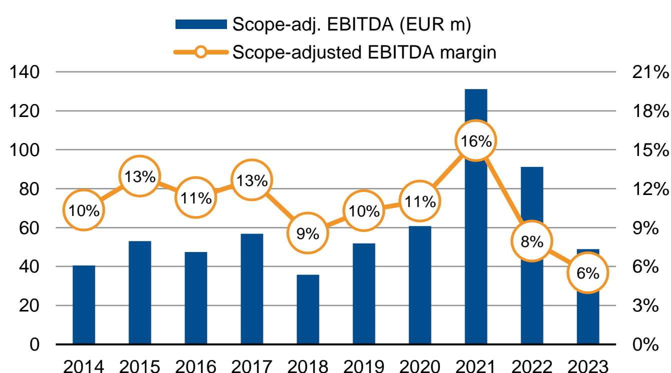
In 2022, the Hungarian subsidiary Rossi Biofuels opened a multi-feedstock plant at its Komaron site capable of producing advanced (second-generation) biodiesel using the Repcat process technology (patented by BDI). The annual capacity of this plant is approximately 50,000 tonnes, of which less than half is dedicated to advanced biodiesel and therefore represents a very limited part of the group's biodiesel capacity (approx. 450,000 tonnes). In 2023, the group completed investments of EUR 14.5m focused on optimising production capacity and increasing overall production, as well as technology upgrades to use more advanced/double counted feedstocks. Investments in these areas are expected to continue in 2024.

Figure 4: Revenue breakdown by geographical area



Sources: Envien Group, Scope

Figure 5: Scope-adjusted EBITDA (LHS, EUR m) and Scope-adjusted EBITDA margin (RHS, %)



Sources: Envien Group, Scope

Good asset diversification with production spread across different sites

The Envien Group's business risk profile benefits from good asset diversification as production capacity is spread across its CEE subsidiaries. There are now six biofuels production plants in Slovakia (Enviral and Meroco), Hungary (Rossi Biofuels), the Czech Republic (Ethanol Energy), Poland (Biopaliwa) and Croatia (Biodizel Vukovar); a rapeseed oil plant (intermediate process) in Slovakia (Polnoservis); and agricultural commodity trading in Slovakia (Enagro), Hungary (Envien Magyarország) and Switzerland (Envien Trading SA).

Moderate portfolio diversification with negligible contribution from specialty products

Portfolio diversification is concentrated on two main products, bioethanol and biodiesel, the latter accounting for over 60% of group sales. These products are considered commodities and their business cycles are highly correlated as they both serve the same transportation end-use markets. In addition, Envien sells by-products (including animal feed) and trades related products (including those not produced in-house), but these generally do not

exceed 20% of sales. Overall, the proportion of specialty products sold by the Envien Group is negligible.

Customer concentration on MOL mitigated by synergistic relationship and recent M&A

On the customer side, there is a concentration on the Hungarian oil and gas group MOL (including its subsidiary Slovnaft), which accounted for around 50% of the Envien Group's biofuel sales (excluding trading sales) in 2023. We note an improvement in this aspect compared to historical levels, with MOL accounting for almost 70% of the group's sales until 2021. From 2022 onwards, on the customer side, Envien benefits from the acquisition of Biopaliwa, which brought other large customers such as PKN Orlen and Aramco Poland. The risk of a key client dependency on MOL is mitigated by the fact that a material part of the exposure derives from Rossi Biofuels, an entity owned by both Envien Group (majority) and MOL (minority), also located at MOL's site in Hungary. We consider this close and synergistic relationship to have little risk of deterioration.

Diversified suppliers

The supplier side is more diversified, with the largest supplier, Interagros, representing around 20% of supplies and the top five covering close to 50%. The pool of suppliers is further enlarging, with new relationships being established with Ukrainian suppliers (because of the Russia-Ukraine war) as well as Polish ones.

Profitability dependent on commodity price

The profitability of biofuel producers is closely related to their market prices, which in turn are linked to feedstock prices and crude oil prices. Because of this high dependency on market prices, it is generally difficult to predict margins beyond one year.

Natural price hedge…

Price risk management is mainly based on buying most of the feedstock during the harvest (when prices are generally lower), which would cover not only the production needs for the harvest period but also around 20% of the needs for the rest of the year. The main feedstocks are rapeseed (harvested in July and August) and maize (harvested from the end of September to December), the prices of which tend to rise in the summer. The risk strategy also includes a mix of long-term (five years) and spot contracts to diversify risk. The pricing of long-term contracts is modified according to market developments: while procurement contracts are mostly based on variable market prices, supply contracts use a pricing formula that includes premiums or discounts over a specific benchmark.

… with occasional resort to financial hedging

Since the start of the war between Russia and Ukraine, the seasonal price development has changed, and the raw materials became expensive even during the harvest period. This, together with the high price volatility of recent years, has led Envien to start using financial hedges for rapeseed biodiesel in 2022/2023. In 2024 they have hedged Q1 for bioethanol. However, based on information provided by the company, financial hedging remains an occasional tool to be used from time to time.

Profitability sharply declining in 2023…

Envien Group displays overall fairly volatile margins driven primarily by the change in input and market prices with profitability, measured as Scope-adjusted EBITDA margin, around 11% on average between 2014-2022. Based on preliminary unaudited figures, Scope-adjusted EBITDA decreased significantly to EUR 49 m in 2023 (EUR 91 m in 2022) with a Scope-adjusted EBITDA margin of 5.5%. This result reflected a very weak performance in H1 2023 due to adverse market conditions such as high energy prices. In addition, both the bioethanol crush margin and the biodiesel esterification margin were impacted by higher feedstock prices carried over from 2022 and declining price quotations due to higher import volumes from non-EU countries. Envien was able to partially recover margins in H2 2023, benefiting from better corn and rapeseed supply conditions and the decline in energy prices.

… but expected to recover starting 2024

We forecast a gradual increase in Scope-adjusted EBITDA between EUR 58m and EUR 63m in 2024-2026, with a conservative recovery in profitability to around 8%. We expect bioethanol crush margins and biodiesel RSO and esterification margins to gradually stabilise, continuing the trend observed in H2 2023. In our projections, we exercised some

degree of caution to account for the risk of persisting pressure from high import volumes from outside Europe - mainly from the US and Brazil for bioethanol and China and Asian countries for biodiesel. Nevertheless, we expect that Envien's exposure to relatively mature and protected markets and its strategic partnership with key customers will be able to mitigate further impacts of this competitive pressure on the group's margins.

Financial risk profile: BBB-

Credit metrics based on Envien International

As mentioned earlier, we base the rating of Envien Magyarország on the credit metrics of Envien International, as the latter has provided an unconditional and irrevocable guarantee for Envien Magyarország's bond issuance (the Hungarian subsidiary has no other material financial liabilities).

Financial risk profile deteriorated further

The financial risk profile has further deteriorated to BBB- from BBB, reflecting the significant decline in EBITDA and higher interest payments in 2023, amid a still high level of Scope-adjusted debt of around EUR 155m, which increased significantly in 2022 due to high working capital needs. As a result, the leverage and EBITDA interest cover weakened materially in 2023, thereby largely exhausting the previously available rating headroom.

Key adjustments

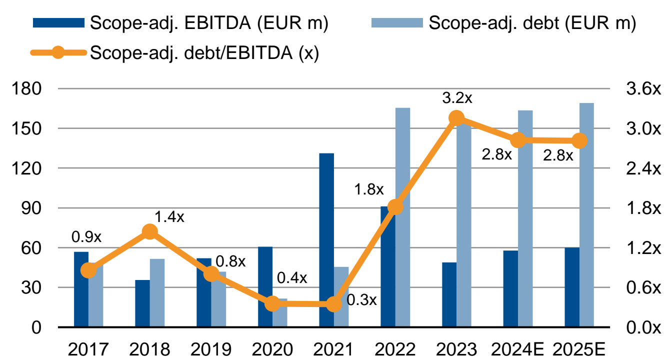
The main adjustments to credit metric are:

- Scope-adjusted EBITDA includes the recurring associate dividends received from Ethanol Energy a.s., assumed at around EUR 1.0m per annum.
- Scope-adjusted debt reflect cash netting with 100% of cash resources.

Leverage expected to remain close to 3.0x in the short term

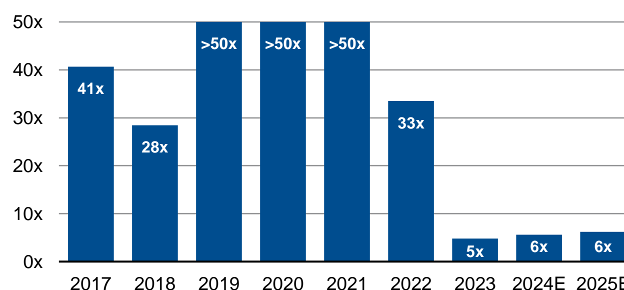
Despite a moderate decrease in Scope-adjusted debt in 2023, which has been driven by a price normalisation that positively affected working capital, the Scope-adjusted debt/EBITDA ratio deteriorated to 3.2x from 1.8x in 2022 due to weaker Scope-adjusted EBITDA, especially in Q1 2023. Although we anticipated a deterioration in leverage at last year's review amid deteriorating market conditions, the actual outcome was slightly below expectations. We expect leverage to return to below 3.0x in 2024, but to remain close to this level for the foreseeable future as profitability gradually improves. Conversely, Scope-adjusted FFO/debt declined only moderately in 2023 to 27% from 36%, thanks to the positive impact of tax deferrals in 2023, and we expect this metric to remain close to 30% going forward.

Figure 6: Envien International's leverage



Source: Scope estimates

Figure 7: Envien International's Scope-adjusted EBITDA interest cover (x)



Source: Envien, Scope estimates

Interest cover deteriorated to around 5x in 2023

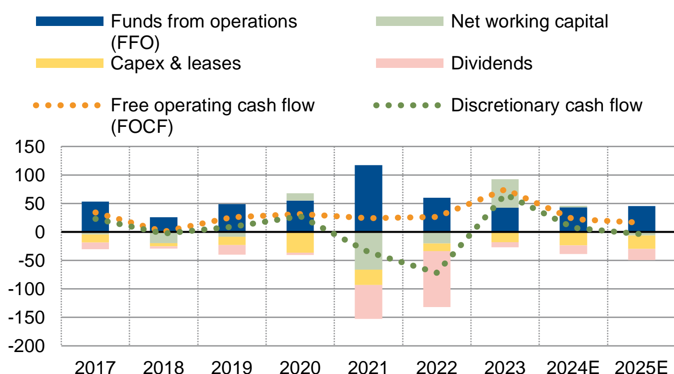
Scope-adjusted EBITDA interest cover weakened significantly to around 5x in 2023 due to lower EBITDA but also higher interest payments, although Envien had benefited from excellent coverage of over 20x until 2022. Net interest payments increased to around EUR 10m in 2023 from EUR 2.7m in the previous year, mainly due to higher interest rates

and a higher proportion of bank overdrafts, which carry a higher interest rate than the average for other borrowings. We forecast only a limited reduction in interest payments from 2025 onwards as a result of the decreasing gross financial debt, leading to a recovery of the Scope-adjusted EBITDA interest cover to between 6.0x and 7.0x.

Cash flow cover to remain close to 15%

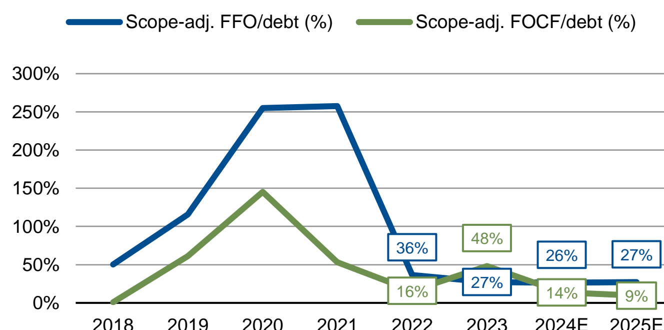
Scope-adjusted FOCF/debt improved to 48% in 2023 (well above our forecast of close to 15%), thanks to EUR 50m of working capital releases and moderate capex of EUR 15m. Going forward, we expect cash flow cover to remain constrained between 10% and 15%, with working capital normalising and capex which we conservatively assumed at around EUR 20m per annum (excluding capex earmarked for potentially large strategic projects). The rating case assumptions also include an annual dividend payout of EUR 15m to EUR 20m and no significant M&A transactions. However, we include some moderate investments in 2024 related to the expansion of the ethanol capacity in the 50/50 Indian JV with Zuari Industries Limited (expected to start production in H2 2025).

Figure 8: Envien International – cash flow (EUR m)



Source: Scope estimates

Figure 9: Envien International – Scope adjusted FFO/debt and FOCF/debt metrics

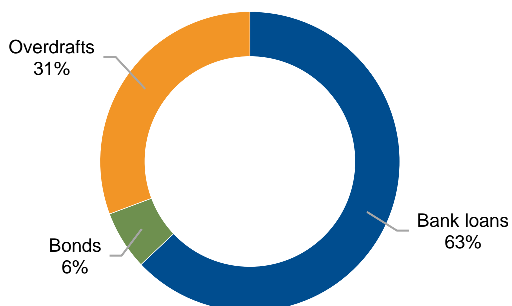


Source: Scope estimates

Investments in second-generation facilities would be credit negative

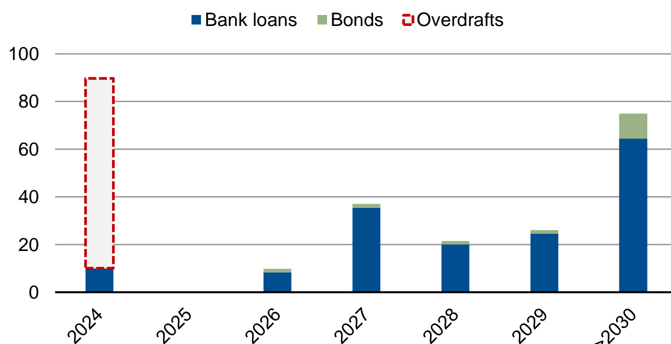
Management remains cautious when assessing the possibility of entering into large projects to build second-generation production facilities in the coming years. Such projects typically require investment that runs into the hundreds of millions of euros, usually through a joint venture with a refinery. The investment would be partly financed by additional equity, but a significant increase in debt could potentially trigger a negative rating action. This event is not included in our rating case.

Figure 10: Envien International's gross debt (Dec 2023)



Source: Envien Group, Scope

Figure 11: Envien International's debt maturity profile, excluding leases (EURm)



Source: Envien Group, Scope

Adequate liquidity

Liquidity is adequate, with short-term debt of EUR 112m as of December 2023, primarily consisting of drawn overdraft facilities of EUR 80m (representing around 30% of gross debt at YE 2023). In line with the general practice in the country, Envien Group has uncommitted short-term revolving overdraft lines with a handful of banks, with different maturities with each bank during the year, in order to reduce liquidity risk. Most of these lines have been in place for years (even decades) and primarily serve to finance inventory needs. We project that internal liquidity coverage will exceed 100% for the next few years, based on a conservative assumption of 50% recoverability of inventories, which in Envien's case include highly liquid raw materials and finished goods. Even without considering the potential contribution from a short-term sale of inventories, the liquidity ratios remain above 100%.

Balance in EUR '000s	2024 E	2025 E	2026 E
Unrestricted cash (t-1)	113,595	87,584	72,015
Inventory * 50% (t-1)	48,368	46,924	48,076
Open committed credit lines (t-1)	0	0	0
Free operating cash flow (t)	22,438	16,031	19,946
Short-term debt (t-1)	111,517	89,668	89,668
Coverage	**165%**	**168%**	**156%**

Financial bank covenants mostly at a subsidiary level

Regarding financial covenants, Envien is subject to several bank covenants at various subsidiary levels. At the group level, the only financial covenants relate to maintaining an equity to debt of more than 30% and a debt service coverage ratio of at least 1.5x, both of which were met in 2023. However, management has flagged that starting 2024 another financial covenant will be tested at the consolidated level. Such covenant, which requires to maintain long-term debt/EBITDA ≤ 3.5x was as of December 2023. At the subsidiary level, Envien reported covenant breaches on few bank loans as of December 2023; however, based on communication with management, we assess these breaches as one-offs and that they will be remedied smoothly with relevant creditors (waivers to be obtained during Q1 2024). The rating case assumes that Envien Group will be in compliance with covenants in 2024.

Rating covenant on bond issued

We highlight that Envien Magyarország's senior unsecured bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 5.5bn) if the debt rating of the bond stays below B+ for more than two years (grace period) or drops below B-. Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is two notches. We therefore see no significant risk of the rating-related covenant being triggered.

Supplementary rating drivers: +/- 0 notches

Conservative financial policy

Envien Magyarország's financial policy is characterised by a low-risk appetite. Dividend upstream to parent Envien International is not done automatically but only when financial results are sufficient.

Envien International does not explicitly commit to any credit metrics levels. Management has a record of being prudent since leverage has been kept below2.5x over the past ten years, with a deviation in the most recent year due to extremely negative market conditions. Moreover, we have not seen any major appetite for acquisitions in past years, except for Biopaliwa in 2022. Future acquisitions are likely, also outside Europe, but no large acquisition is expected that would materially impact Envien's credit profile.

There is no specific dividend policy; the company strives to maximize shareholder distribution while ensuring healthy credit metrics. Moreover, certain bank agreements include negative covenants on permitted dividend distribution, restricting cash disbursement during less favourable years.

As already mentioned earlier within the ESG section, we see the complex corporate structure as negatively impacting the credit assessment, with different entities that raise debt with local banks and financial covenants almost entirely set at single subsidiary levels rather than at consolidated level. Nevertheless, the covenant structure could simplify in the future if more lenders start transitioning to covenants at a consolidated level.

The assessment of the corporate structure also incorporates the complex shareholding structure above the level of the Envien International, composed by numerous legal entities and several intermediate levels before connecting to the ultimate private owners. While no negative rating adjustment is deemed required under the supplementary rating drivers, the complex corporate structure contributes to the conservative assessment of the financial risk profile and its overall weight within the issuer rating.

Parent support

We have equalised the issuer rating of Envien Magyarország with that of 100% owner Envien International based on expected parent support and a guarantee to the bond issued by Envien Magyarország provided by the parent. The parent company (Envien International) is privately owned by several individuals, none of which directly or indirectly controls Envien International with 25% or more shares and/or voting rights. Based on the applicable law, the members of the board of directors (R. Spisak, S. Toth, T. Jacobsen) are the ultimate beneficial owners

Guaranteed bond rating

Envien Magyarország issued HUF 5.5bn in bonds in 2021

Envien Magyarország Kft. issued a HUF 5.5bn bond in 2021 under the Hungarian National Bank's Bond Funding for Growth Scheme (ISIN: HU0000360193). The bond's tenor is 10 years, maturing in May 2031. Bond proceeds were earmarked for the repayment of an intercompany loan with the parent company, Malta-based Envien International Ltd., to be used for capex, working capital and general corporate purposes and to increase liquidity buffers at the group level. Envien International Ltd has provided an unconditional and irrevocable guarantee to the bond issued by Envien Magyarország, totalling HUF 6.1bn for the full value of the bond plus a contingency buffer to cover all costs incurred by Envien Magyarország. The bond is unconditional and unsubordinated, ranking as senior unsecured debt for Envien International.

Unconditional and irrevocable guarantee

Given the unconditional and irrevocable guarantee of the bond, the guaranteed debt ranks at the same level as the senior unsecured debt of guarantor Envien International Ltd.

Rating for guaranteed debt: BB-

Based on a liquidation scenario at the level of Envien Group in 2025, we assess the recovery for the senior unsecured bond as low (revised from average), following the material increase in higher-ranking bank debt over the past two years. The conservative assessment is also driven by the complex corporate structure with various group entities issuing debt and financial covenants largely established at standalone level. Consequently, we have downgraded the bond rating to BB- from BB, one notch below the issuer rating.

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