Pannonia Bio Zrt.
Hungary, Chemicals

SCOPE BB NEGATIVE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA interest cover	40.5x	40.5x	3.5x	5.9x
Scope-adjusted debt/EBITDA	1.3x	2.1x	8.4x	3.4x
Scope-adjusted funds from operations/debt	73%	43%	8%	23%
Scope-adjusted free operating cash flow/debt	28%	-17%	9%	32%
Liquidity	511%	116%	98%	121%

Rating rationale

The downgrade reflects our downward revision of Pannonia's financial risk profile (assessed at BBB- from BBB) as a result of deteriorating operating performance, which was weaker than we expected and negatively impacted credit metrics. The weak operating performance was driven by unfavourable market conditions and increased competitive pressure in 2023. The Negative Outlook reflects the persistence of some risk elements that could limit the recovery of ethanol margins for a prolonged period, and which could ultimately lead to a weaker business risk profile (currently assessed at BB-).

Outlook and rating-change drivers

The Negative Outlook reflects our expectation that the ongoing pressure on ethanol prices will continue to impact Pannonia's profitability, putting pressure on its market positioning and ability to deleverage, with Scope-adjusted debt/EBITDA potentially exceeding 3.0x. The Scope-adjusted EBITDA margin is expected to remain below 15% over the next 12-18 months, implying a weaker business risk profile.

A downgrade could result from i) difficulties in deleveraging, e.g. if Scope-adjusted debt/EBITDA remains above 3.0x for a prolonged period due to low ethanol margins or high capex; or ii) no recovery in profitability, e.g. if the Scope-adjusted EBITDA margin remains below 15% for a prolonged period. In addition, a negative rating action, such as a multi-notch downgrade, could be warranted if the company fails to obtain a covenant waiver from the lender pool.

A positive rating action, such as a revision of the Outlook to Stable, could be warranted if our expectations regarding Pannonia's weak credit metrics and profitability do not materialise on a sustained basis with an improvement in leverage below 3.0x. Further upside is unlikely given the current business mix but could be triggered by significant improvements in diversification and credit metrics.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
21 February 2024	Downgrade	BB/Negative
19 May 2023	Outlook change	BB+/Negative
27 May 2022	Affirmation	BB+/Stable
2 July 2021	Affirmation	BB+/Stable

Ratings & Outlook

Issuer	BB/Negative
Senior secured debt	BBB-
Senior unsecured debt	BB

Analysts

Eugenio Piliego, CFA
+49 696677 38915
e.piliego@scoperatings.com

Herta Loka
+39 028 2958255
h.loka@scoperatings.com

Related Methodologies

General Corporate Rating Methodology; October 2023

Chemicals Rating Methodology; April 2023

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• One of the largest and most efficient ethanol plants in Europe (ESG: credit positive environmental risk factor), based on production capacity and EBITDA margin • Proximity to low-cost corn production areas and good logistics infrastructure • Operating costs among the lowest in the industry • Good financial credit metrics despite the impact of adverse market conditions • Limited liquidity concerns	• Expected deterioration in leverage at year-end 2023 but return to more sustainable levels of around 3.0x from 2024 onwards • Gradual compression of Scope-adjusted EBITDA interest cover due to the current interest rate environment and lower margins • Very high asset concentration, with a single plant as the core asset • Weak product diversification, with four-fifths of sales coming from ethanol • Strong exposure to highly volatile commodity markets (corn and ethanol), although partially offset by DDGS/corn price correlation • Increased imports in the EU market from extra-EU countries. Also, Western European competitors benefited from government subsidies • No exposure to less cyclical specialty products, but the company is investing in the development of such products

Positive rating-change drivers	Negative rating-change drivers
• Outlook back to Stable: if our expectations of weak credit metrics and profitability do not materialise, and Scope-adjusted debt/EBITDA improves below 3.0x • Upgrade: significant improvement in diversification and credit metrics	• Scope-adjusted debt/EBITDA remains above 3.0x or Scope-adjusted EBITDA margin stays below 15% on a sustained basis • Failure to obtain waiver of covenant breaches, triggering liquidity issues

Corporate profile

Pannonia Bio Zrt. owns and operates a biorefinery in Dunaföldvár, Hungary, which mainly produces ethanol and animal feed. The plant has the capacity to process over 1.2m tonnes of corn annually, producing over 500m litres of ethanol, which is primarily blended into gasoline. The plant also produces dried distillers grains with solubles (DDGS), corn protein concentrate, biomethane, corn oil, and organic fertilisers. In addition to corn, the company is commissioning the capacities to process 0.3m tonnes of barley annually. Pannonia Bio has over 400 employees.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	37.4x	40.5x	40.5x	3.5x	5.9x	7.4x
Scope-adjusted debt/EBITDA	1.8x	1.3x	2.1x	8.4x	3.4x	2.6x
Scope-adjusted FFO/debt	53%	73%	43%	8%	23%	32%
Scope-adjusted FOCF/debt	19%	28%	-17%	9%	32%	24%
Scope-adjusted EBITDA in EUR m						
EBITDA	117.5	139.2	142.9	35.7	65.3	74.3
On/off items	0.1	-3.5	0.8	-1.4	0.0	0.0
Recurring associate dividends received	0.0	0.0	0.0	1.1	0.0	0.0
Scope-adjusted EBITDA	**117.6**	**135.6**	**143.7**	**35.4**	**65.3**	**74.3**
Funds from operations (FFO) in EUR m						
Scope-adjusted EBITDA	117.6	135.6	143.7	35.4	65.3	74.3
less: Scope-adjusted interest	-3.1	-3.4	-3.5	-10.2	-11.1	-10.1
less: taxes paid	-0.8	-2.0	-12.8	-3.0	-2.8	-3.0
Scope-adjusted FFO	**113.6**	**130.2**	**127.3**	**22.2**	**51.3**	**61.3**
Scope-adjusted free operating cash flow (FOCF) in EUR m						
Scope-adjusted FFO	113.6	130.2	127.3	22.2	51.3	61.3
Working capital changes	-4.9	22.1	-74.5	56.7	18.1	1.0
Non-operating cash flow	-2.7	-4.9	5.1	-8.4	9.2	0.0
less: Capex (net)	-42.9	-86.8	-96.5	-49.1	-19.5	-19.5
less: lease amortisation	-1.6	-2.0	-2.0	-2.0	-2.0	-1.0
Other items[1]	-21.4	-9.2	-8.8	8.6	14.9	3.5
Scope-adjusted FOCF	**40.1**	**49.4**	**-49.3**	**27.9**	**72.0**	**45.3**
Scope-adjusted interest in EUR m						
Net cash interest per cash flow statement	2.9	3.4	3.5	10.2	11.1	10.1
add: 50% of interest paid on hybrid debt	0.3	0.0	0.0	0.0	0.0	0.0
Scope-adjusted interest	**3.1**	**3.4**	**3.5**	**10.2**	**11.1**	**10.1**
Scope-adjusted debt in EUR m						
Reported financial debt	260.6	230.2	340.2	318.0	279.9	242.0
less: cash and cash equivalents	-34.2	-53.0	-42.9	-22.1	-58.1	-51.2
less: subordinated (hybrid) debt	-12.8	0.0	0.0	0.0	0.0	0.0
Scope-adjusted debt (SaD)	**213.6**	**177.2**	**297.2**	**295.9**	**221.8**	**190.8**

[1] Include mainly investment loans to subsidiaries and/or loan repayments from subsidiaries

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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)

Plant's high efficiency is credit-positive ESG factor

Pannonia Bio has no dedicated ESG strategy. However, it operates in an industry whose requirements include sustainability certifications covering grain supply and biofuels as well as carbon accounting. The plant's high efficiency is a credit-positive environmental risk factor.

[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 reflects our assessment of the industry in which a company operates and its competitive position within that industry.

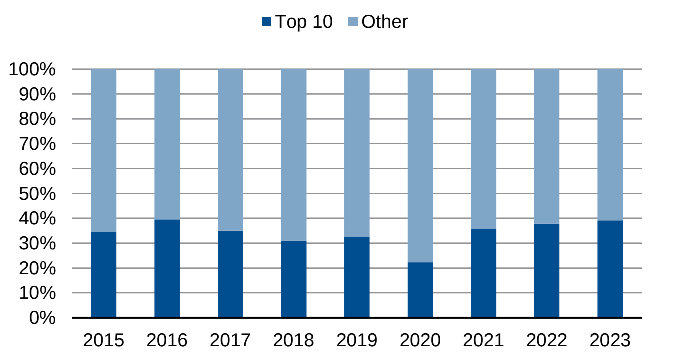
Semi-protected EU market for ethanol

Ethanol is Pannonia Bio's main output product, accounting for four-fifths of its revenues. Our analysis focuses on the European rather than the global ethanol market. This is because import tariffs and significant shipping costs are partly protecting the market in the EU, limiting imports to less than 20% of total consumption before 2022. The semi-isolated nature of the EU market is also evidenced by relatively low-price correlation between main regions. However, recent market development with imports reaching an all-time high in 2023 suggest that the protective effect of tariffs is somewhat diminishing.

No uplift from industry risk profile for commodity-focused chemical companies

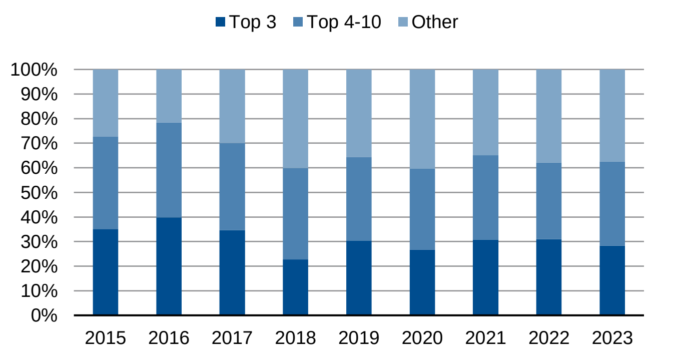
Import tariffs constitute the sole financial incentive for bioethanol producers – which clearly differentiates them from other renewable energy producers such as those operating wind or photovoltaic parks. We have therefore treated Pannonia Bio as a commodity chemicals producer and applied our rating methodology for chemical corporates. We classify the company as a commodity-focused chemical producer based on its plans to expand into specialty products. However, we will not incorporate any uplift to the ratings based on the BBB industry risk assessment for commodity-focused chemicals companies until Pannonia Bio's speciality products reach a critical share of revenues.

Figure 1: Supplier concentration



Sources: Pannonia Bio, Scope

Figure 2: Customer concentration



Sources: Pannonia Bio, Scope

Large plant size enables significant economies of scale and market relevance

Pannonia Bio's competitive position continues to benefit from its plant's large size, which enables significant economies of scale and market relevance. With an ethanol production capacity of over 500m litres per year, the plant is one of the largest in the EU and accounts for 6%-7% of the region's production. In addition, the company is working with selected industry players to optimise the production and distribution of its products.

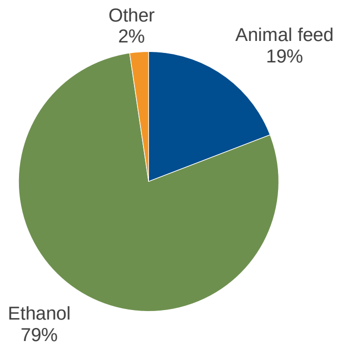
Very high asset concentration

Pannonia Bio's business risk profile assessment is restricted by the very high asset concentration, with a single plant as the core asset. This is despite investments in biogas plants in Slovenia and Serbia, due to the small size of the plants. The company addresses this risk mainly through extensive insurance coverage against severe damage, which would allow it to preserve asset values and service at least one year of debt payments.

Customer concentration mitigated by solid credit quality of counterparties

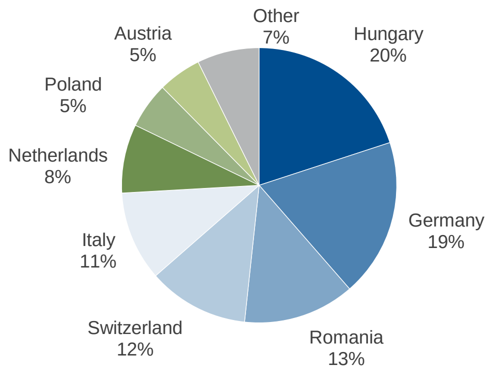
The company has low supplier concentration with the top 10 suppliers accounting for 20%-40% of total purchases over the past few years. A recent increase in concentration was primarily due to high energy costs related to the two main suppliers. In contrast, customer concentration is high, with the top 10 accounting for around 60% of total revenues. However, the associated credit risk is mainly mitigated by the solid credit quality of counterparties. Ethanol and animal feed are sold across Europe, mainly to Germany, Hungary, Romania, Italy and Poland.

Figure 3: Revenue breakdown by product



Sources: Pannonia Bio, Scope

Figure 4: Revenue breakdown by geographical area



Sources: Pannonia Bio, Scope

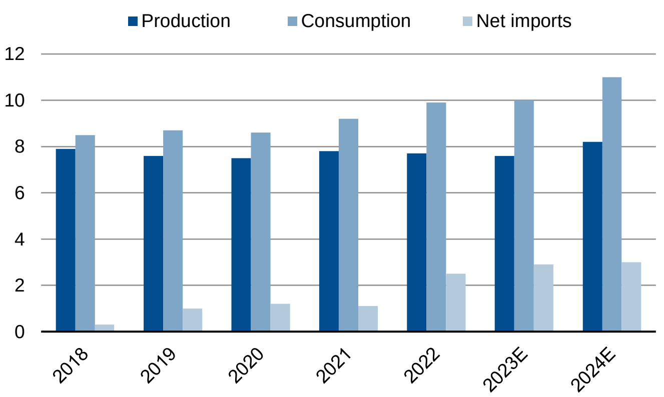
Weak product diversification and high volatility in commodity prices…

Performance volatility may also arise from weak product diversification. All of Pannonia Bio's main products are commodities, mainly ethanol. Commodity prices, such as for corn or ethanol, are highly volatile and Pannonia Bio is a pure price-taker. If crush spreads become extremely low or negative, the company may have to suspend operations, but this is unlikely to last for long under normal conditions (e.g. no severe geopolitical tensions or significant government intervention) thanks to the company's low costs. In such an environment, those with less favourable cost structures tend to cease operations first, reducing the overall supply of ethanol and pushing up its price. This occurred in 2018, when two plants halted production in Europe while Pannonia Bio was still able to generate positive margins.

…are partly offset by correlation between DDGS/corn prices and ongoing investments

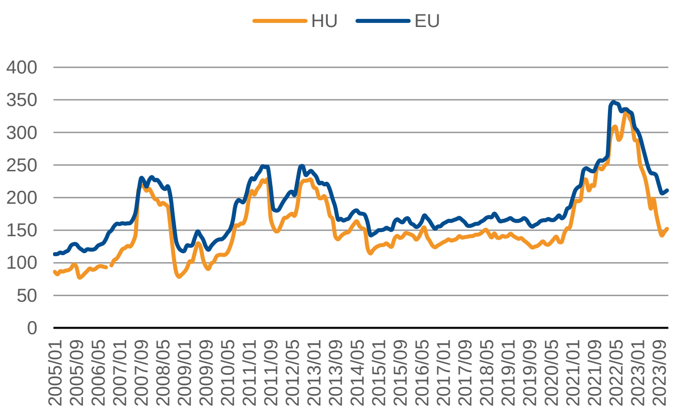
The high volatility of commodity prices is partly offset by the strong correlation between DDGS and corn prices, which provides a natural hedge. The company is also addressing this issue by continuing to optimise production and develop higher-value products, which should boost margins while reducing the volatility of overall performance.

Figure 5: EU and UK ethanol market (million cbm)



Sources: IHS Markit, Scope

Figure 6: Feed corn price (EUR/t)



Sources: Eurostat, Scope

Important investment plan completed

In 2023 Pannonia completed a major investment programme of around EUR 200m which included a barley plant (to process barley in addition to corn), a new corn milling system, expansion of biomethane and fertiliser production capacity, with commissioning started at YE 2022. In 2023 the company started production of Barley Protein Concentration and

Corn Protein Concentration which allows for high end application in aquaculture and pet food. Other important investments, such as the upgrading of the BPC plant to food grade, are planned for the following years and which would allow Pannonia to diversify it product portfolio moving towards non-commodity products.

Operating costs among the lowest in the industry

Pannonia's attitude to continuously invest in efficiency initiatives makes the plant's operating costs among the lowest in the European industry (ESG: credit-positive environmental risk factor). According to management, with the exception of the current European energy crisis, the plant has always aimed to maximise output since operations started in 2012. This was the case even with the challenging price development in 2014 and 2018 as well as during the Covid-19 lockdowns in 2020, when several producers had to (temporarily) suspend operations. In 2020, lower ethanol sales for fuel were offset by sales for the purpose of hand sanitisers and other disinfectants.

Competitive advantage thanks to proximity to low-price corn-producing areas and good logistical infrastructure…

The plant further benefits from its proximity to low-cost corn production areas in Hungary, Slovakia, Croatia, Serbia and Romania. Located on the banks of the Danube River, the site has good logistics infrastructure, including direct access for trucks, trains and barges.

…temporary affected by adverse harvest conditions in 2023

In 2022, cereal production across Europe was drastically affected by very dry weather conditions with temperatures being at the warmest levels in decades. Wheat prices rose in 2022 and part of 2023, mainly due to uncertainty about the course of the Russia-Ukraine conflict, and only began to fall in the second half of the year. In Hungary, extreme drought caused a drastic reduction in corn harvest with production unable to cover domestic demand. This resulted in local corn being priced at import parity with corn from other countries affecting Pannonia Bio's profitability. In 2024, we expect the improvement in local corn production to ease the pressure on Pannonia's input prices.

High import volumes putting downward pressure on ethanol prices…

High ethanol prices in Europe attracted record import volumes, despite significant import tariffs and shipping costs, while European producers faced pressure from high energy and logistics costs, exacerbated by the war in Ukraine. As a result, net imports, primarily from US and Brazil, hit a record high of 25%-29% of total European (EU and UK) consumption, causing European ethanol prices to fall, with crush margins reaching negative territory in Q4 2022 and remaining extremely low in Q1 2023. Furthermore, ethanol prices in 2023 were impacted also by a significant increase in imports of allegedly fraudulent advanced biofuels from China which caused prices to plummet and ultimately compressed sustainability premiums in various markets.

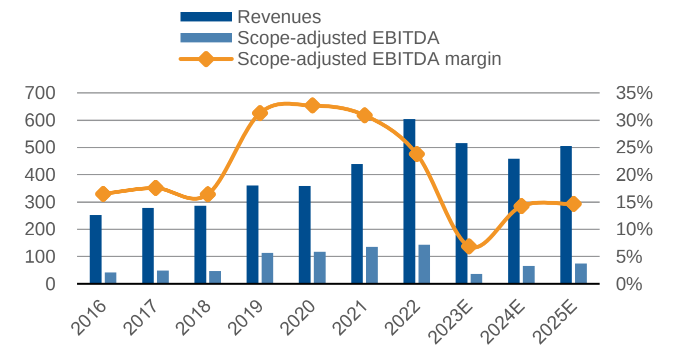
…with pressure expected to continue

We expect a slight increase in bioethanol demand supported also by the European legislation on the use of ethanol in the energy transition, which will not be fully met by increasing domestic production. Despite the sharp decline in European ethanol prices towards the end of 2023 and narrower price differential with other markets such as US and Brazil, we believe the European market will remain attractive with high import volumes over the next twelve months. In addition, we note that recent high levels of biofuel imports from China could further erode the competitive position and margins of local ethanol producers. Many European market participants have called for an investigation by the European Commission, which we understand is still ongoing. Nevertheless, we expect the raw material price environment to remain volatile, with crush margins most likely to stabilise below multi-year averages.

Extremely high energy costs burdening some producers more than others

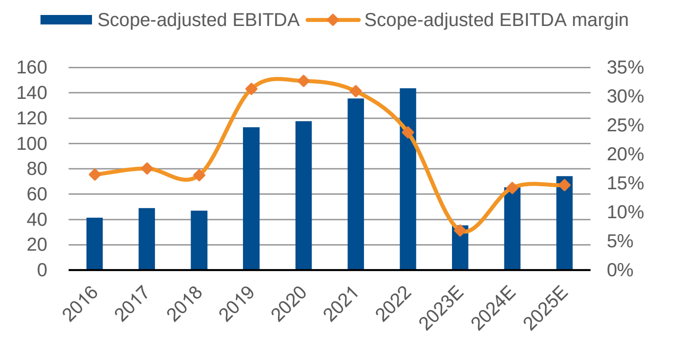
In the context of extremely high energy prices, selected Western European countries introduced measures to protect industry and households, which enabled ethanol producers in these countries to generate positive results and maintain output levels despite the general market environment. On the other hand, other producers, primarily in Central and Eastern Europe, including Pannonia Bio, which did not receive any government support, were forced to reduce or halt production. The company returned to full utilisation in Q2 2023 following some recovery in margins.

Figure 7: Revenues (EUR m, LHS), Scope-adjusted EBITDA (EUR m, LHS) and Scope-adjusted EBITDA margin (%,RHS)



Sources: Pannonia Bio, Scope estimates

Figure 8: Scope-adjusted EBITDA (EUR m, LHS) and Scope-adjusted EBITDA margin (%,RHS)



Sources: Pannonia Bio, Scope estimated

Profitability sharply declining in 2023

Over the cycle, Pannonia shows solid profitability with a Scope-adjusted EBITDA margin averaging 23% over the period 2015-2022. Based on interim reports and following discussions with management, we expect Scope-adjusted EBITDA to decline to around EUR 35m in 2023, with a Scope-adjusted EBITDA margin of around 7%, impacted by the adverse market and macroeconomic conditions mentioned above. We expect profitability to start recovering from 2024 onwards, albeit remaining below historical levels, continuing the trend already observed in the last quarter of 2023, with the ease of some pressure elements, such as corn supply conditions and lower energy costs. Some positive contribution is also expected from recent investments, such as the completion of the new barley plant. We expect the scope-adjusted EBITDA margin to be around 14%-15%. We note that some pressure from high import volumes from outside Europe will continue in the coming months; the risk of this situation persisting for an extended period could lead to a slow recovery in profitability and margins persistently below 15%, which could lead to a lower assessment of the business risk profile.

Financial risk profile: BBB-

Main assumptions

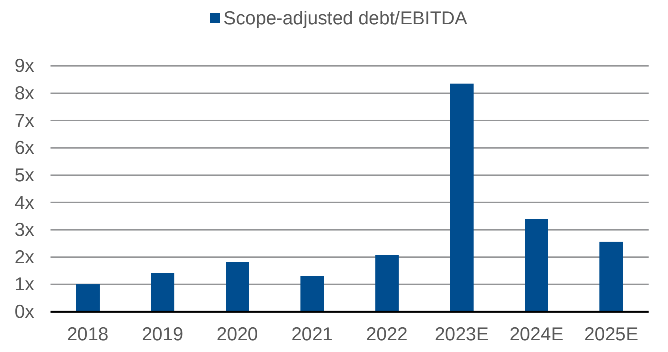
Our financial projections are mainly based on the following assumptions:

1. Growth in ethanol production from 519 MLY in 2023 to 584 MLY in 2024 and 628 MLY in 2025 following past and ongoing investments.
2. Gradual stabilisation of crush margins below multi-year averages.
3. Total investments including maintenance capex averaging EUR 19.5m per year.
4. Cash in from disposal of solar projects of EUR 21.9m of which EUR 11m as dividends and EUR 10.9m as loan repayment.
5. Loan repayments from subsidiary following the management indications.
6. 50% dividend payments subject to operating performance and covenants set by the bank loan agreement and approval by bank lenders.
7. Our expectations for 2023 are based on interim results and discussions with the company's management.

Key adjustments

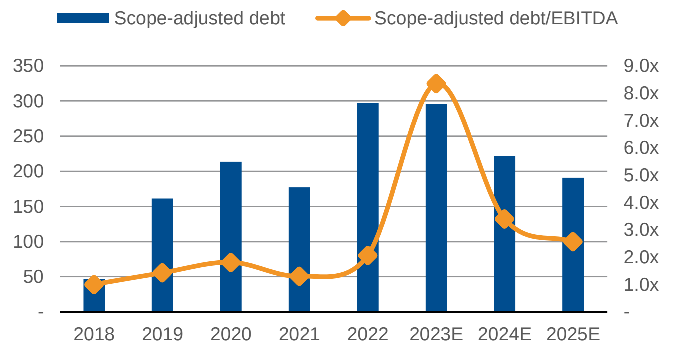
In line with our conservative approach, Scope-adjusted debt includes EUR 1m of restricted cash.

Figure 9: Scope-adjusted debt/EBITDA (x)



Sources: Pannonia Bio, Scope estimates

Figure 10: Scope-adjusted debt (LHS, EUR m) and Scope-adjusted debt/EBITDA (RHS, x)



Sources: Pannonia Bio, Scope estimates

Leverage to reach a peak high in 2023 before returning to more sustainable levels starting 2024

We expect leverage, as measured by Scope-adjusted debt/EBITDA, to increase to above 8.0x from 2023, despite Scope-adjusted debt remaining broadly stable at EUR 296m at the end of the year. This is mainly driven by an expected sharp decline in Scope-adjusted EBITDA to around EUR 35m, below our previous rating case, which was impacted by unforeseen and adverse market conditions during the financial year. In 2024-2025, we expect leverage to improve to more sustainable levels of around 2.5x-3.5x due to the reduced capex programme, a positive contribution from new capacity ramp-ups, proceeds from the sale of solar projects despite conservative commodity price assumptions, and dividend payments in 2025 assumed to be around 50% of the previous year's net profit. Instead, no dividend payment is expected in 2024 due to covenant restrictions. We expect EBITDA of around EUR 60m-80m per year in the next few years, compared to well over EUR 100m per year in 2019-2022.

Further increase in leverage limited by covenants

We understand that the dividends and investments are subject to both financial performance and covenants under the bank loan agreement. The company must obtain approval from lenders to (temporarily) exceed pre-defined thresholds. Additionally, according to management, all shareholders are prepared to fund the business if required.

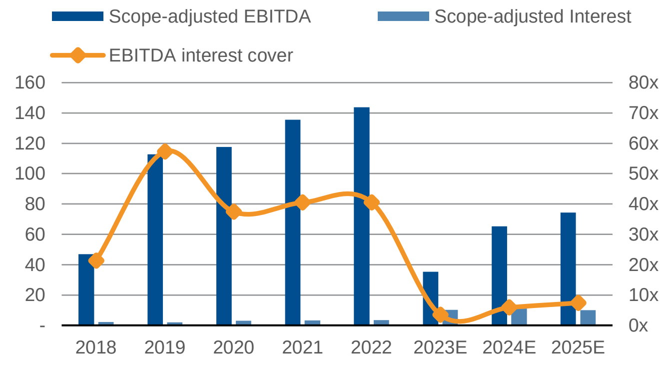
Base case assumes no use of European Investment Bank loans

In December 2022 the company signed a EUR 50m loan agreement with the European Investment Bank, which management decided to reduce to EUR 25m in 2023. The company is yet to utilise the facility and Scope's rating case has not incorporated any drawdown given the likely downsizing of the company's investment programme. Potential investments under evaluation are not included in our base case, which would be supported by the EIB funds in this case.

Weakening debt protection

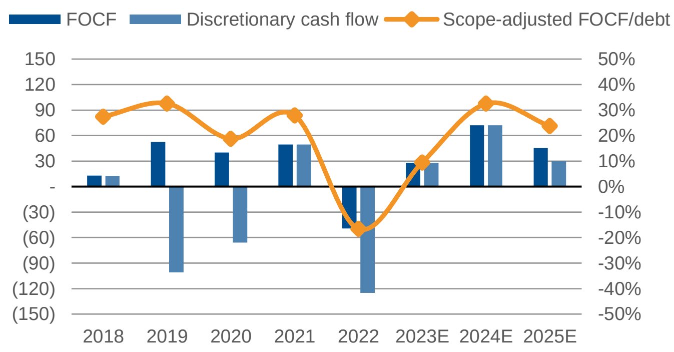
Historically, Pannonia Bio has displayed a very strong debt protection with Scope-adjusted EBITDA interest cover steadily above 10x between 2015 and 2022, despite increased financial liabilities to sustain capital expenditures and dividend payments. We project Scope-adjusted EBITDA to fall below 10x in 2023 and 2025, reaching an all-time low of below 4x in 2023 before gradually recovering in the following years; this is the result of increased interest expenses due to the current interest rate environment as well as Scope-adjusted EBITDA remaining below historical levels.

Figure 11: Scope-adjusted EBITDA, Scope-adjusted interest (LHS, EUR m) and Scope-adjusted interest cover (x, RHS)



Sources: Pannonia Bio, Scope estimates

Figure 12: FOCF (LHS, EUR m), Discretionary cash flow (LHS, EUR m) and Scope-adjusted FOCF/debt (RHS, %)



Sources: Pannonia Bio, Scope estimates

Good internal financing capacity

Despite our more conservative assumptions, we expect operating cash flow in 2023-2025 to be able to cover maintenance and large parts of development capex at the projected level. In 2023, we expect the sharp decrease in Scope-adjusted EBITDA to be partially compensated by working capital inflows, allowing Pannonia to entirely cover annual capex of around EUR 50m with Scope-adjusted FOCF/debt of around 9%. We expect cash flow cover to improve to around 25%-30% in 2024-2025 benefitting from an increase in margins compared to 2023 (albeit still below historical levels), cash inflows of EUR 22m from the disposal of its solar projects in 2024 and lower annual capex of EUR 19.5m on average. External financing may, however, be required for significant development projects.

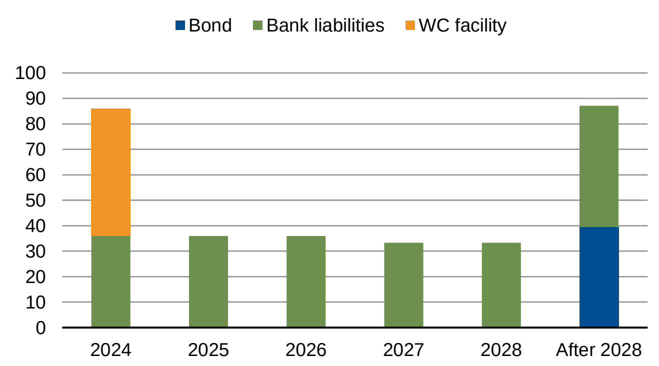
Disposal of solar projects

In May 2023, Pannonia Bio signed an agreement to dispose of its solar projects which was officially completed in September of the same year. The total consideration includes the transfer of shareholder loans and the issuance of loan notes, which we assume to generate a cash inflow of approximately EUR 22m for Pannonia in 2024.

Maturity profile remains balanced

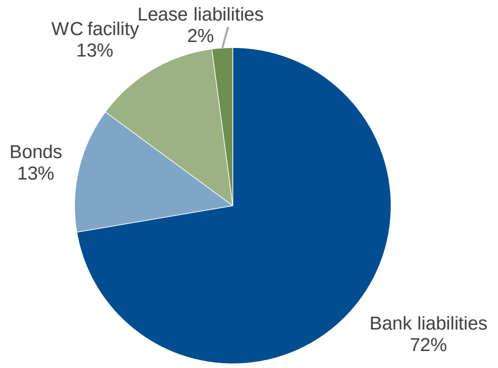
Pannonia Bio continues to be characterised by a largely balanced maturity profile. Bank loans are amortised quarterly, with the last payment is scheduled for 2031. The bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a tenor of 10 years. The bank loans are denominated in euro, while the bond is in Hungarian forint.

Figure 13: Maturity profile of long-term financial liabilities (EUR m)



Sources: Pannonia Bio, Scope estimates

Figure 14: Financial liabilities composition as of Decembre 2023



Sources: Pannonia Bio, Scope estimates

Adequate liquidity

While Pannonia Bio's liquidity remains adequate, we note a reduced headroom as some available options (such as the working capital facility) have been mostly utilised. We project the upcoming debt maturities to be covered by available, unrestricted cash and cash equivalents and undrawn committed credit lines of EUR 40m as of September 2023. In 2023 the liquidity ratio fell slightly below 100% due to the exceptionally weak profitability impacting FOCF generation, amid sustained capex levels and limited headroom from undrawn committed lines. This does not affect Pannonia's liquidity profile, given the company's track record and the fact that liquidity is expected to recover above 100% in the following years.

Breach in financial covenants most likely to be waived

We report that Pannonia has disclosed a breach of financial covenants (bank loans) in 2023 relating to cash flow cover, leverage and equity ratio, which has already been waived by the pool of lenders. The covenant will be re-tested in Q1 2024. Based on our projections, cash flow cover and leverage will still breach the covenant thresholds at the retest date. However, following communications with management and Pannonia's history with the committed banks, we expect that another breach will most likely be waived. Therefore, no impact on the liquidity assessment has been assumed at this stage. Nevertheless, we will continue to monitor developments closely in the coming months. The arising of any potential risk of Pannonia not obtaining a waiver would result in a multi-notch downgrade of the issuer rating.

Liquidity sources and uses in EUR m	2021	2022	2023E	2024E	2025E
Unrestricted cash (t-1)	34.2	53.0	42.9	22.1	58.1
Open committed credit (t-1)	35.0	45.0	0.0	10.0	10.0
Free operating cash flow (t)	49.4	-49.3	27.9	72.0	45.3
Short-term debt (t-1)	23.2	41.8	72.0	86.0	85.9
Coverage	**>200%**	**116%**	**98%**	**121%**	**132%**

Supplementary rating drivers: +/- 0 notches

Neutral financial policy

Pannonia Bio's financial policy is neutral for the rating. The return on invested capital through capex and dividend payments is maximised while maintaining the sustainability of the company's business model. Substantial cash outflows are further limited by covenants under the bank loan agreement, which require approval for temporary breaches of thresholds.

No impact from shareholder structure

Our assessment of the group structure indicates no impact (either negative or positive) from potential parent support.

Long-term ratings

Senior secured debt rating: BBB-

Our recovery analysis indicates an 'excellent' recovery for senior secured debt. These expectations translate into a BBB- rating for this debt category, one notch lower than the previous rating following the issuer's rating downgrade. The recovery is based on an expected liquidation value in a hypothetical default scenario in 2025.

Senior unsecured debt rating: BB

Our recovery analysis indicates an 'average' recovery for senior unsecured debt, including the HUF 15bn bond (ISIN: HU0000359112) issued under the Hungarian National Bank's Bond Funding for Growth Scheme. The recovery is based on an expected liquidation value in a hypothetical default scenario in 2025. These expectations translate into a BB for this debt category, in line with the issuer rating.

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

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