

# Nitrogenmuvek Zrt. Hungary, Integrated Chemicals



## Key metrics

| Scope credit ratios                             | 2020 | 2021 | Scope estimates |       |
|---|------|------|-----------------|-------|
|   |      |      | 2022E           | 2023E |
| Scope-adjusted EBITDA/interest cover            | 3.9x | 3.0x | 4.3x            | 3.1x  |
| Scope-adjusted debt (SaD)/Scope-adjusted EBITDA | 2.1x | 2.1x | 1.5x            | 1.6x  |
| Funds from operations/SaD                       | 33%  | 50%  | 48%             | 40%   |
| Free operating cash flow/SaD                    | 36%  | -10% | -5%             | 30%   |

## Rating rationale

Nitrogenmuvek's business risk profile is characterised by its position as the sole producer of nitrogen fertilisers in Hungary and its solid position in other countries in Central and Eastern Europe. However, its limited scale (sales of around EUR 250m) in relation to that of integrated chemical companies globally, and fertiliser companies in particular, hampers its market position.

From a financial perspective, we expect Nitrogenmuvek's credit metrics to remain solid despite the HUF 8.4 bn penalty payment imposed by the Hungarian Office of Economic Competition for cartel activity (see: **Nitrogenmuvek: Hungarian Office of Economic Competition (GVH) fine in line with Scope's expectations**). Following its appeal in October 2021, Nitrogenmuvek request for not paying the penalty payment until the final court decision. However, this was rejected in April 2022. The first hearing is expected to be in June 2022. This comes on top of a sharp increase in natural gas prices, logistics costs and temporary halt ammonia production in March 2022. That said, market prices for nitrogen fertilisers have also increased due to high soft-commodity prices following considerable demand for the plant season in spring and the Russian/Ukraine war. In this environment and given the uncertainty on the development of natural gas and fertiliser prices in 2022 and 2023, our expected credit ratios have remained in line with a BB+ rated financial risk profile. Despite a lack of access to external sources of liquidity, cash and free operating cash flow cover short-term debt.

## Outlook and rating-change drivers

**Scope Ratings GmbH (Scope) has today affirmed the BB-/Stable corporate issuer rating on Hungarian Nitrogenmuvek Zrt. The BB- senior unsecured debt rating was also affirmed.**

The Outlook is Stable. This assumes that funds from operations (FFO)/Scope-adjusted debt (SaD) remains above 15% in 2022, based on the key assumptions of our rating base case.

A positive rating action may be triggered if activities expanded, instance, through a higher profit contribution from crop trading together with reduced costs in the core business.

A negative rating action may be warranted if FFO/SaD persisted below 15%, for instance if penalties were higher and/or production outages more severe than in our base case.

## Ratings & Outlook

Issuer BB-/Stable  
Senior unsecured debt BB-

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## Related Methodology(ies) and Related Research

[Corporate Rating Methodology; July 2021](#)

[Rating Methodology: Chemical Corporates; April 2022](#)

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Bloomberg: RESP SCOP



## Rating history

| Date         | Rating action/monitoring review | Issuer rating & Outlook |
|--------------|---------------------------------|-------------------------|
| 01 June 2022 | Affirmation                     | BB-/Stable              |
| 07 July 2021 | Affirmation                     | BB-/Stable              |
| 02 July 2020 | New                             | BB-/Stable              |

### Positive rating drivers

- Hungary's sole producer of nitrogen-based fertilisers, with a solid position in other Central and Eastern European countries
- Genezis partner network and trading activities enable company to leverage on existing business with farmers
- Free operating cash flow will strengthen in the coming years with the end of the capex programme
- Solid profitability (18% average EBITDA margin in 2010-2021)
- Financial risk profile (assessed at BB+)

### Negative rating drivers

- Smaller than peers, leading to a lack of global outreach
- Weak diversification: one production site, leading to increased sensitivity to production outages; modest contribution of specialty chemicals to sales
- Profitability highly cyclical and subject to natural gas, electricity and nitrogen fertiliser prices
- History of high leverage and negative free operating cash flow
- Concentrated maturity profile

### Positive rating-change drivers

- FFO/SaD of above 30% on a sustained basis combined with an expansion of business activities

### Negative rating-change drivers

- FFO/SaD of below 15% on a sustained basis

## Corporate profile

Nitrogenmuvek Zrt., headquartered in Pétfürdő (Hungary), is a producer of various nitrogen-based fertilisers such as calcium ammonia nitrate (CAN), ammonia nitrate, urea-ammonium nitrate (UAN) and urea. The company also sells crop protection, pesticides and seeds to farmers in countries including Hungary, Austria, Slovakia, and the Czech Republic. Nitrogenmuvek spent substantial capex in 2013-19 to modernise and expand its production site. The Bige family owns Nitrogenmuvek. In 2021, sales were HUF 152.2bn and EBITDA was HUF 17.2bn.







## Financial overview

|   |               |               |               | Scope estimates |               |
|---|---------------|---------------|---------------|-----------------|---------------|
| Scope credit ratios                         | 2019          | 2020          | 2021          | 2022E           | 2023E         |
| Scope-adjusted EBITDA/interest cover        | 3.1x          | 3.9x          | 3.0x          | 4.3x            | 3.1x          |
| SaD/Scope-adjusted EBITDA                   | 3.3x          | 2.1x          | 2.1x          | 1.5x            | 1.6x          |
| Funds from operations/SaD                   | 15%           | 33%           | 50%           | 48%             | 40%           |
| Free operating cash flow/SaD                | 36%           | 36%           | -10%          | -5%             | 30%           |
| <b>Scope-adjusted EBITDA in HUF m</b>       |               |               |               |                 |               |
| EBITDA                                      | 17,596        | 23,051        | 17,157        | 24,500          | 17,814        |
| Operating lease payments                    | -             | -             | -             | -               | -             |
| Other items                                 | -12           | -4            | -31           | -10             | -10           |
| <b>Scope-adjusted EBITDA</b>                | <b>17,584</b> | <b>23,047</b> | <b>17,126</b> | <b>24,490</b>   | <b>17,804</b> |
| <b>Funds from operations in HUF m</b>       |               |               |               |                 |               |
| Scope-adjusted EBITDA                       | 17,584        | 23,047        | 17,126        | 24,490          | 17,804        |
| less: (net) cash interest paid              | -5,595        | -5,970        | -5,671        | -5,750          | -5,750        |
| less: cash tax paid per cash flow statement | -59           | -70           | -140          | -1,125          | -523          |
| add: dividends from associates              | -             | -             | -             | -               | -             |
| Change in provisions and other items        | -3,442        | -1,291        | 6,157         | 0               | 0             |
| <b>Funds from operations</b>                | <b>8,488</b>  | <b>15,716</b> | <b>17,472</b> | <b>17,615</b>   | <b>11,531</b> |
| <b>Free operating cash flow in HUF m</b>    |               |               |               |                 |               |
| Funds from operations                       | 8,488         | 15,716        | 17,472        | 17,615          | 11,531        |
| Change in working capital                   | 6,077         | 7,409         | -11,469       | -3,000          | 1,000         |
| Non-operating cash flow                     | 10,974        | -4,065        | -6,004        | -12,990         | -990          |
| less: capital expenditure (net)             | -4,887        | -1,956        | -3,431        | -3,500          | -3,000        |
| less: operating lease payments              | -             | -             | -             | -               | -             |
| <b>Free operating cash flow</b>             | <b>20,652</b> | <b>17,104</b> | <b>-3,432</b> | <b>-1,875</b>   | <b>8,541</b>  |
| <b>Net cash interest paid in HUF m</b>      |               |               |               |                 |               |
| Net cash interest per cash flow statement   | 5,595         | 5,970         | 5,671         | 5,750           | 5,750         |
| add: interest component, operating leases   | -             | -             | -             | -               | -             |
| Change in other items                       | 10            | 10            | 11            | 11              | 11            |
| <b>Net cash interest paid</b>               | <b>5,605</b>  | <b>5,980</b>  | <b>5,682</b>  | <b>5,761</b>    | <b>5,761</b>  |
| <b>Scope-adjusted debt in HUF m</b>         |               |               |               |                 |               |
| Reported gross financial debt               | 88,138        | 94,057        | 91,562        | 91,562          | 91,562        |
| add: subordinated (hybrid) debt             | -             | -             | -             | -               | -             |
| less: cash and cash equivalents             | -30,623       | -46,849       | -56,602       | -54,727         | -63,268       |
| add: non-accessible cash                    | -             | -             | -             | -               | -             |
| add: pension adjustment                     | -             | -             | -             | -               | -             |
| add: operating lease obligations            | -             | -             | -             | -               | -             |
| Other items                                 | 193           | 210           | 218           | 218             | 218           |
| <b>Scope-adjusted debt</b>                  | <b>57,708</b> | <b>47,418</b> | <b>35,178</b> | <b>37,053</b>   | <b>57,708</b> |

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## Environmental, social and governance (ESG) profile<sup>1</sup>

| 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)

## ESG profile: No adjustment

No key drivers of the credit rating action are considered ESG factors. We consider the main chemical industry risk to be on the environmental side, as chemical companies usually have a heavy focus on production. There is also litigation risk in the chemicals industry, given possible toxic effects on product users. Apart from the industry risks identified above, we see no company-specific ESG factors at this stage.

<sup>1</sup> 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.

**Blended industry risk profile: BBB**

**Business risk profile: B+**

We have assigned a blended industry risk of BBB given the industries in which Nitrogenmuvek operates as well as its EBITDA breakdown by divisions. This is based on our industry risk profiles for integrated chemicals (cyclicality: high; market entry barriers: high; substitution risk: medium) and trading (cyclicality: high; market entry barriers: low; substitution risk: low).

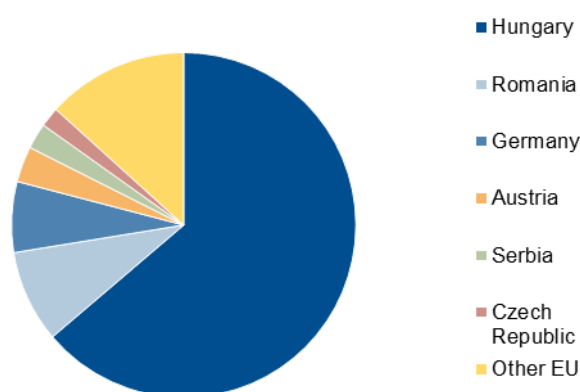
**Leading producer in Hungary with a favourable cost position**

Nitrogenmuvek is Hungary's sole producer of nitrogen fertilisers. The company's modernisation and expansion of its production site has led to a favourable cost position, with solid gross margins and profitability. As a member of the Genezis partner network, the company also covers the marketing and distribution of final products (branded Genezis in Hungary) to farmers. The company estimates its customer retention at around 69%. Since 2014, Nitrogenmuvek has traded crops and distributed seeds and pesticides. As farmers tend to buy products from one source, Nitrogenmuvek is reinforcing its market position by deepening its relationships with farmers.

**Weak diversification**

Diversification is the weak point in Nitrogenmuvek's business risk profile. The company only operates one production site and its portfolio mainly consists of commodity products. This makes it vulnerable to production outages and results in a heavy dependency not only on the agricultural industry but also on prices for nitrogen fertilisers and natural gas (more than 30% of operating expenses). On the positive side, as the production of CAN also requires calcium and magnesium, dolomite is obtained from a nearby mine (under a long-term supply contract). Nitrogenmuvek also benefits from the diversification of its portfolio with the ramp-up of its trading activities, its various byproducts (e.g. from ammonia production), and some product diversity as the product portfolio includes urea, urea-ammonium nitrate, and prilled and granulated CAN. Although Nitrogenmuvek has some concentration on Hungary, which accounts for roughly 64% of sales, this is mitigated by the size of its customer portfolio (around 13,000 farmers) and its activities in numerous other Central and Eastern European countries.

**Figure 1: Sales by country (2021)**



Source: Nitrogenmuvek, Scope

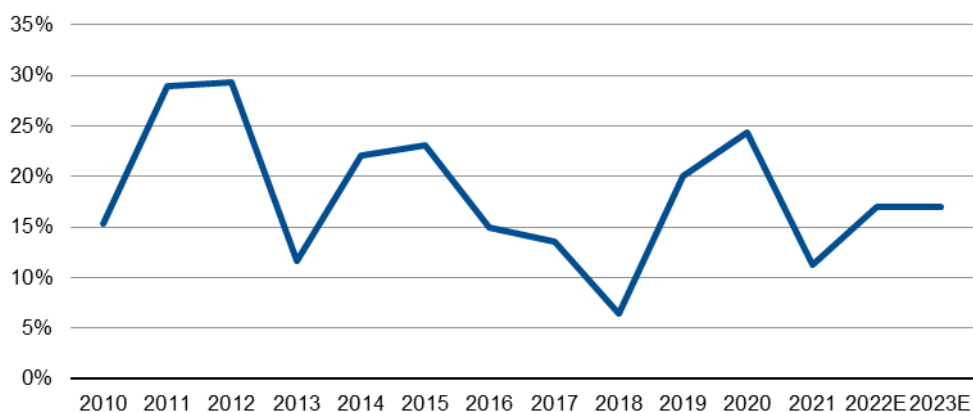
Solid profitability held back by recording of provision for the GVH....

... but low overall visibility on how natural prices will develop in 2022 and 2023

In accordance with our chemical corporates rating methodology, we assess operating profitability by considering the peak-to-trough EBITDA margin. Nitrogenmuvek's profitability in 2010-2021 averaged 18%, which is positive for the rating, although it is highly cyclical and subject to natural gas, electricity and nitrogen fertiliser prices. In 2021, profitability was held back by the recording of the provision for the Hungarian Office of Economic Competition case and a difficult trading environment in September/October 2021. At this time, natural gas prices increased significantly, while nitrogen fertiliser prices followed this move with a delay. This motivated several producers to temporarily shut down their production, especially for ammonia.

In the current year, profitability is heavily impacted by skyrocketing natural gas prices, higher logistic costs and temporary halt ammonia production in March 2022. While Nitrogenmuek recorded a good first quarter of 2022, benefiting from higher nitrogen fertiliser prices and farmers' strong prebuying activity, we think tailwinds will ease in the second quarter. That said, our projections of the company's results, especially for 2023, incorporate low overall visibility on how natural gas and fertiliser prices will evolve.

**Figure 2: Profitability (EBITDA margin)**



Source: Nitrogenmuvek, Scope estimates

## Financial risk profile: BB+

Key adjustments of the rating case include:

- 80% of provisions for environmental protection (contingent liabilities) are included in SaD and 5% of contingent liabilities included in Scope-adjusted interest expense to reflect the interest proportion of these liabilities
- Interest adjusted for (estimated) contingent liabilities

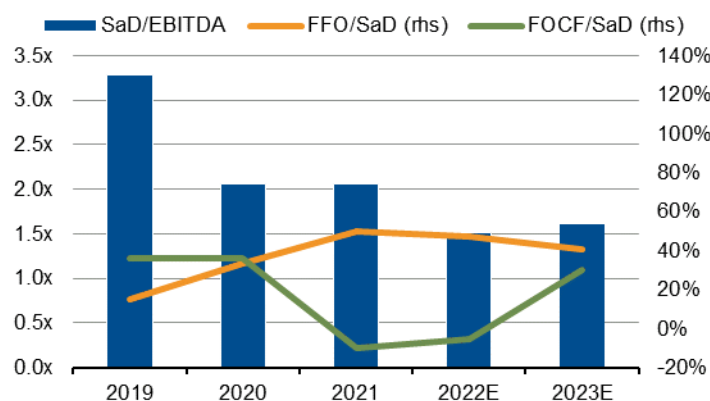
## Financial risk profile: BB+

We continue to rate Nitrogenmuvek's financial risk profile at BB+, based on solid credit ratios, deleveraging after the capex cycle and solid free operating cash flow generation. This provides strong support for the company's issuer rating.

## Penalty payment of HUF 11.0bn to settle GVH case

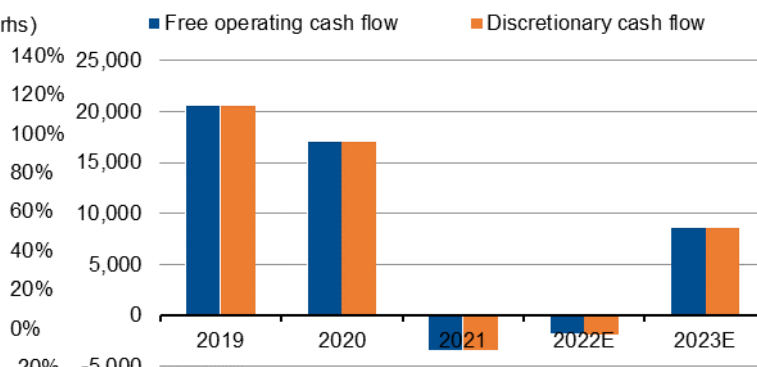
In October 2021, the Hungarian Office of Economic Competition gave nine companies in the Hungarian fertiliser industry a combined fine of HUF 14.1bn for forming a cartel (see: **Nitrogenmuvek: Hungarian Office of Economic Competition (GVH) fine in line with Scope's expectations**). Following its appeal in October 2021, Nitrogenmuvek request for not paying the penalty payment until the final court decision. This was rejected in April 2022. The first hearing is expected to be in June 2022. The court ordered the company to pay HUF 8.4bn to settle the case, which is reflected in our financial projections for 2022.

Figure 3: Credit metrics



Sources: Nitrogenmuvek, Scope

Figure 4: Free operating and discretionary cash flow



Sources: Nitrogenmuvek, Scope

## Key assumptions for 2022 and 2023...

From a business point of view, the company's operations are heavily impacted by skyrocketing natural gas prices, higher logistic costs and temporary halt ammonia production in March 2022. Market prices for nitrogen fertilisers have also increased due to high soft-commodity prices following considerable demand for the plant season in spring and the Russian/Ukraine war. The company recorded a good first quarter in 2022, benefiting from higher nitrogen fertiliser prices and strong pre-buying among farmers, we think these tailwinds will ease in the second quarter.

## ...incorporate low visibility on how natural gas and nitrogen fertiliser prices will develop

That said, our projections for the company's results, especially for 2023, incorporate low overall visibility on how natural gas and fertiliser prices will evolve. We also understand that financial results were negatively impacted by a shutdown for maintenance in June 2022. Given company's focus on CAN it benefits of currently higher nitrogen premiums, compared to other nitrogen fertiliser. Moreover, high soft commodity are an strong incentive for farmer for applying fertilizers in order to maximize their output. On the positive side, Nitrogenmuvek's credit metrics are supported by: i) limited investments in property, plant and equipment as the second capex cycle is expected to be delayed; ii) decent balance sheet liquidity; and iii) a financial policy of no shareholder remuneration via dividends.

**Figure 1: Liquidity**

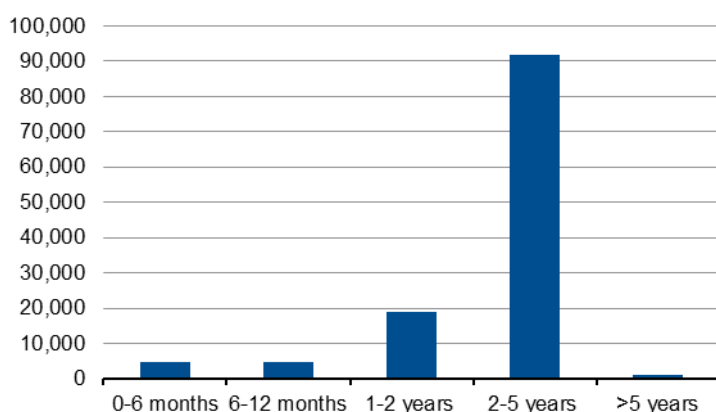
| Balance in HUF m                  | 2019        | 2020         | 2021         |
|-----------------------------------|-------------|--------------|--------------|
| Unrestricted cash (t-1)           | 16,032      | 30,623       | 46,849       |
| Open committed credit lines (t-1) | 1,225       | -            | -            |
| Free operating cash flow          | 20,652      | 17,104       | -3,432       |
| Short-term debt (t-1)             | 6,666       | 3,408        | 3,765        |
| <b>Coverage</b>                   | <b>5.5x</b> | <b>14.0x</b> | <b>11.5x</b> |

Sources: Nitrogenmuvek, Scope

**Liquidity: adequate, but concentrated maturity profile**

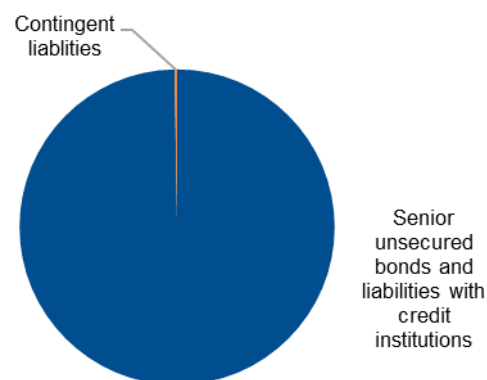
Nitrogenmuvek's liquidity continues to be adequate despite a concentrated maturity profile. Its EUR 200m bond (ISIN: XS1811852521; EUR 200m) matures in 2025, dominating gross debt. Despite a lack of access to external sources of liquidity, cash and free operating cash flow cover short-term debt.

**Figure 5: Maturity profile (HUF m; 31 December 2021)**



Source: Nitrogenmuvek, Scope

**Figure 6: Composition of SaD (2021)**



Source: Nitrogenmuvek, Scope

**Supplementary rating drivers: +/- 0 notches**

**No adjustments made**

We continue to make no adjustment for supplementary rating drivers (financial policy, peer context, parent support, governance and structure).

**Importance of financial policy and**

Our view on Nitrogenmuvek's financial policy remains positive, based on achieved deleveraging and our understanding that ratios on leverage before 2019 are a thing of the past. We reflect this in our assessment of company's financial risk profile.

**...governance and structure**

Mr. Laszlo Bige, the majority shareholder, has a pending litigation with the Hungarian government and authorities. That said, we do not think Nitrogenmuvek's will be directly affected by this issue.

**Long-term and short-term debt ratings**

**Rating for senior unsecured debt: BB-**

All senior unsecured debt (ISIN: XS1811852521, EUR 200m) has been affirmed at BB-, the same level as the issuer rating. Our recovery analysis is based on a hypothetical default scenario in 2022, including the following key assumptions: i) provisions for environmental protection are ranked above senior unsecured debt; ii) bank debt is ranked pari passu to senior unsecured debt; and iii) the committed credit line is fully drawn. The outcome of our recovery analysis indicates an 'average recovery' for senior unsecured debt.





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