

Vajda-Papír Kft.

Hungary, Consumer Products


B+ STABLE

Corporate profile

Vajda-Papír Kft. is a consumer goods group founded in 1999. It manufactures and sells selected hygiene paper products like toilet paper, tissues, paper towels and napkins. Vajda-Papír is the market leader in Hungary (combining its private label and own brands) and exports products to 24 countries, largely in Europe. Since 2018, Vajda Real Estate has been consolidated into Vajda-Papír Kft. The group is privately owned by the founders, Attila Vajda (50%) and Szilvia Vajda Csata (50%).

Key metrics

Scope credit ratios	2019	2020	Scope estimates	
			2021E	2022E
EBITDA/interest cover (x)	5.4x	9.7x	3.0x	4.6x
Scope-adjusted debt (SaD)/EBITDA	10.5x	3.9x	11.0x	6.0x
Scope-adjusted FFO/SaD	8%	23%	6%	12%
FOCF/SaD	-17%	-6%	-61%	-17%

Rating rationale

Scope Ratings has today affirmed the B+/Stable issuer rating of Vajda-Papír Kft. and its consolidated subsidiaries. Simultaneously, the B+ rating on senior unsecured debt has also been affirmed.

The rating action reflects Vajda-Papír's comparatively strong business risk profile, which has remained unchanged in the past year, and has benefitted from increased demand for the group's products during the pandemic. The group has successfully obtained funding for its phase II investment plan amounting to HUF 16bn, in line with our previous base case projections from January 2021. The only adjustment is that the group accepted the additional 10% oversubscription, resulting in a face value of HUF 9.9bn. The phase II investment is on schedule, there are no cost or time overruns as of the publishing of the document. The plant is expected to be finished by Q1 2022 and the manufacturing and sales of base paper are expected to commence by the end of H1 2022.

Compared to our previous base case projection, unfavourable market developments have weakened Vajda-Papír's credit metrics. This has also resulted in a breach of the negative rating trigger, which we forecast will be temporary: the funds from operations/Scope-adjusted debt (SaD) credit metric in 2021E is forecasted to decrease slightly to below 10%. We had forecasted that credit metrics would deteriorate following a successful issuance of the second NKP bond, but credit metrics declined further due to significantly lower profitability than forecasted. This implies a reduction in Scope-adjusted EBITDA of around 25% compared to previous projections. The weaker performance is primarily due to soaring cellulose and gas prices.

Ratings & Outlook

Corporate ratings B+/Stable
Senior unsecured rating B+

Analysts

Vivianne Anna Kapolnai
+49 69 6677389 88
v.kapolnai@scoperatings.com

Related Methodology

Corporate Rating Methodology:
July 2021

Rating Methodology: Consumer
Products
September 2021

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

The group was in a similar situation in 2018 when the inflated price of cellulose (which accounts for the majority of material costs) created significant liquidity problems and negative profitability. This time round, however, Vajda-Papír has managed the unfavourable situation better than three years ago via a larger share of non-fixed price customer contracts, a notable safety inventory of raw materials and finished products for several months and the option to utilise trade credit. Finally, the new base paper manufacturing plant (phase II) is expected to eliminate Vajda-Papír's exposure to base paper price volatility and increase its profitability margin in the medium to long term. Despite the temporary weakening of credit metrics, we forecast that Vajda-Papír will achieve similar levels to our previous projections in one year's time.

We view some of Vajda-Papír's credit metrics for 2021 significantly weaker than what its financial risk profile assessment calls for. However, due to our forward-looking approach, this temporary weakening of selected credit metrics does not alter the overall financial risk profile assessment. We expect leverage to decline below 10x this year, before improving to levels of around 6x in 2022. We also expect negative free operating cash flow for 2021 and 2022 as a result of the ongoing phase II investment plans. Vajda-Papír has no additional debt beyond the two NKP bonds, which will not start amortising until 2024. Therefore, we assess the group's liquidity position as adequate.

Vajda-Papír's second bond is a green bond. The group was one of the first to issue a green bond within the NKP bond framework. The green bond's framework sets a list of objectives, primarily related to resource management, which the group must comply with by 2030 (positive ESG factor).

Outlook and rating change drivers

The Stable Outlook reflects Vajda-Papír's comparatively strong and unchanged business risk profile. It also incorporates our view that the impact of unfavourable market conditions on credit metrics is only temporary and that they will return to the levels we previously projected with a one-year lag. Moreover, we expect free operating cash flow to be positive in 2023 and liquidity to remain adequate in the medium term.

A negative rating action is possible if the weakened leverage metric of funds from operations/SaD remains below 10% on a sustained basis, either as a result of the unfavourable market conditions or delays related to Vajda-Papír's investment plans.

A positive rating action is currently remote, but could be warranted if SaD/Scope-adjusted EBITDA falls to below 4x on a sustained basis.

Rating drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"> • Group operates in non-durable consumer products industry with strong underlying demand for products, which is further strengthened by the pandemic • Sizeable internal supply of base paper after 2018, which will increase in 2022 to cover all base paper needs for manufacturing, helping secure higher profitability margins than in the past • Leading market position in Hungary and notable market positions in several European countries with solid customer portfolio of retail chain stores • One of the first Hungarian companies to issue a green bond within the NKP bond framework. 	<ul style="list-style-type: none"> • High exposure to volatility of input prices, especially for cellulose prices and gas prices • Historically weak profitability, coupled with short history of acceptable credit metrics • Group struggles with liquidity issues during unfavourable market environments, similar to the situation in 2018 • New substantial investment phase has hindered deleveraging in the medium term • Unfavourable market conditions regarding inflated cellulose prices have temporarily weakened profitability and credit metrics

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • Deleveraging to SaD/EBITDA of below 4x 	<ul style="list-style-type: none"> • Funds from operations/SaD of below 10% on a sustained basis



Financial overview

	Scope estimates			
Scope credit ratios	2019	2020	2021E	2022E
EBITDA/interest cover (x)	5.4x	9.7x	3.0x	4.6x
Scope-adjusted debt (SaD)/EBITDA	10.5x	3.9x	11.0x	6.0x
Scope-adjusted funds from operations/SaD	8%	23%	6%	12%
Free operating cash flow/SaD	-17%	-6%	-64%	-17%
Scope-adjusted EBITDA in HUF m	2019	2020	2021E	2022E
EBITDA	1,208	3,504	1,671	3,354
Operating lease payments in respective year	140	399	399	399
Other	-	-	-	-
Scope-adjusted EBITDA	1,348	3,903	2,070	3,753
Scope-adjusted funds from operations in HUF m	2019	2020	2021E	2022E
EBITDA	1,208	3,504	1,671	3,354
less: (net) cash interest as per cash flow statement	-221	-321	-609	-739
less: cash tax paid as per cash flow statement	-	-25	-36	-132
add: depreciation component, operating leases	112	319	319	319
Scope-adjusted funds from operations	1,099	3,477	1,345	2,803
Scope-adjusted debt in HUF m	2019	2020	2021E	2022E
Reported gross financial debt	13,609	13,700	21,100	21,100
less: hybrid bonds	-	-	-	-
less: cash and cash equivalents	-331	-6,567	-4,137	-341
add: cash not accessible	331	6,567	4,137	341
add: pension adjustment	-	-	-	-
add: operating lease obligations	559	1,596	1,596	1,596
Other	-	-	-	-
Scope-adjusted debt	14,168	15,296	22,696	22,696

Business risk profile assessment of BB remains unchanged

Business risk profile

We have assessed Vajda-Papír’s business risk profile at BB, supported by its solid domestic position and operations in the consumer goods industry, which has low cyclicality. The group calculates that it has an approximate 50% market share in Hungary, which includes its private label and own brand sales. One of the main rating constraints is Vajda-Papír’s high exposure to volatile cellulose prices, which are difficult to hedge. The group is investigating the potential to hedge more in the future however. Furthermore, Vajda-Papír will reduce its exposure to material cost volatility with the phase II investment plan.

Raw material prices have risen significantly in the past year. This has caused the group’s profitability to decline sharply, with its Scope-adjusted EBITDA margin halving since 2019.

Vajda-Papír’s dedication to sustainable forest management also provides a competitive advantage. The group focuses on minimising its environmental impact by continuously improving energy efficiency and the proportion of renewable energy used (natural gas and nuclear energy input sources at present). Vajda-Papír has product certifications including from ISO, HACCP, FSC and Nordic Ecolabel, which have become more important for customers lately.

Vajda-Papír has several brands, each of which have different price ranges to distinguish between premium and budget. In addition to its own brand and private label, the group has also produced for competitors with a shortage of capacity.

Figure 1: EBITDA and funds from operations/SaD (rhs)

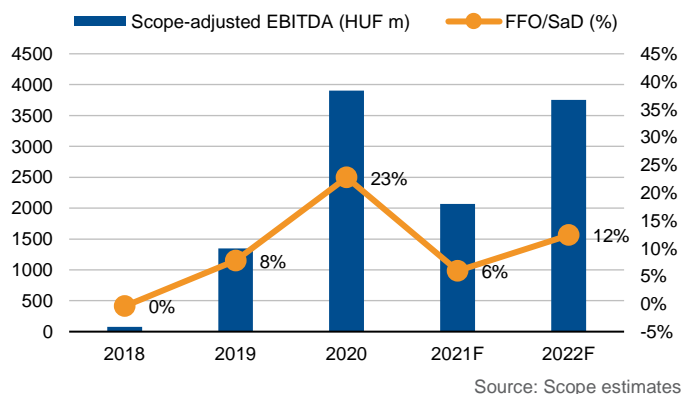
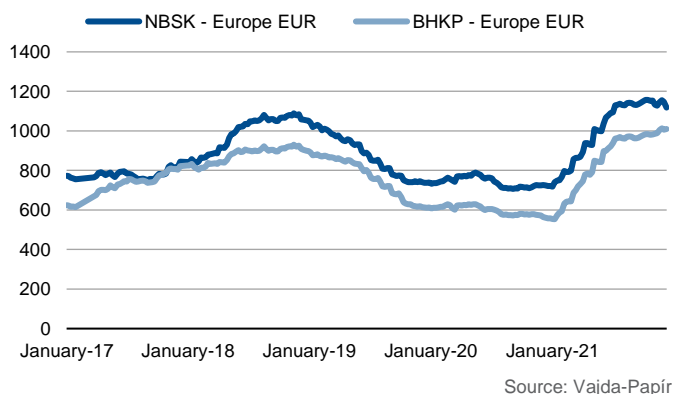


Figure 2: Development of pulp/cellulose price indices



Credit metrics have declined significantly due to unfavourable market conditions

Financial risk profile

Vajda-Papír’s financial risk profile is still weaker than its business risk profile, which has been further emphasised by unfavourable market conditions. Nevertheless, our analysis incorporates the positive developments (both group-level and market-level developments) that we expect to materialise in the coming year and impact credit metrics.

Despite significant demand for the group’s products, we estimate a strong decline in EBITDA for this year due to the material increase in prices, with negative free operating cash flow due to the ongoing investment plans, and SaD/EBITDA below 10x. We also expect market volatility to at least partially impact 2022 credit metrics.

Supplementary rating drivers

We make no explicit adjustment for supplementary rating drivers. However, we note that the group’s growth ambitions have increased over the last 12 months, with deleveraging



no longer the main financial goal. The positive Covid-19 effects on sales volumes led to a new investment in a face protection production facility and the decision to initiate the phase II investment. At the same time, we believe that management is firmly dedicated to achieving a more conservative capital structure than it was in the past so as to at least maintain its current credit rating. This was demonstrated by the capital injection of HUF 4bn which Vajda-Papír received from Hiventures, a Hungarian venture capital fund.

Long-term debt ratings

We have affirmed Vajda-Papír's B+ senior unsecured debt rating in line with its issuer rating. Recovery expectations are based on the expected liquidation value in a hypothetical default scenario in 2023, after the phase II investment plan has been completed. Although we expect an 'above average' recovery rate, we have not applied notching due to the group's weak financial risk profile.



Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Frankfurt am Main

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

Phone +49 69 66 77 389 0

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Paris

23 Boulevard des Capucines
F-75002 Paris

Phone +33 6 62 89 35 12

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

Disclaimer

© 2022 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Analysis GmbH, Scope Investor Services GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.