1 November 2024

Corporates

Vajda-Papír Kft.
Hungary, Consumer Products

SCOPE

B+ STABLE

Key metrics

			Scope estimates	
Scope credit ratios	2022	2023	2024E	2025E
Scope-adjusted EBITDA/interest cover	0.6x	6.2x	5.3x	6.2x
Scope-adjusted debt/EBITDA	45.6x	3.3x	3.3x	2.7x
Scope-adjusted funds from operations/debt	-2%	25%	23%	29%
Scope-adjusted free operating cash flow/debt	-16%	-57%	-5%	11%

Rating rationale

Vajda-Papír is a leading consumer goods company in Hungary with a 30% market share in the household paper market. The group's business risk profile (assessed at BB-) benefits from good market positions in several European countries and maintains solid geographical diversification with more than 50% of its revenue coming from exports. The consolidation of Vajda-Papír Scandinavia (previously a sister company of Vajda-Papír) has had a positive impact on the size and profitability of the group. However, Vajda-Papír's limited size, low product diversification, below-average brand strength and historically volatile profitability continue to constrain the business risk profile.

Credit metrics have improved significantly since 2022, driven by the exceptional profitability in 2023 and a reduction in gross debt (due to the consolidation of an intercompany loan provided by Vajda-Papír Scandinavia). The financial risk profile (assessed at B+) is supported by the strong interest coverage, which we forecast at 5-7x. We expect leverage, as measured by Scope-adjusted debt/EBITDA, to remain below 3.5x in the next years and improve further as the group deleverages based on its debt amortisation schedule and accentuated by the end of the investment period, allowing cash flow cover to turn positive in 2025.

Outlook and rating-change drivers

The Stable Outlook reflects our view that credit metrics will continue to improve as exemplified by Scope-adjusted debt/EBITDA remaining well below 4x. This is based on the assumption that (1) there will be no significant investment capital expenditure plans and (2) that there will be no refinancing of the amortising debt by means of new debt despite the decline forecasted in the group's Scope-adjusted EBITDA margin, which we expect to remain in the low double digits, although remaining prone to volatility.

The upside scenarios for the ratings and Outlook are (collectively):

1. reduction of volatility in profitability;
2. improving Scope-adjusted debt/EBITDA to below 3.0x on a sustained basis.

The downside scenarios for the ratings and Outlook are (individually):

1. adverse market developments which could negatively impact profitability and credit metrics;
2. deterioration of Scope-adjusted debt/EBITDA to 5.0x or higher.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
1 Nov 2024	Upgrade	B+/Stable
3 Nov 2023	Outlook change	B/Stable
14 Jun 2023	No action (monitoring review)	B/Negative

Ratings & Outlook

Issuer	B+/Stable
Senior unsecured debt	B+

Analyst

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

Related Methodologies and Related Research

General Corporate Rating Methodology; October 2023

Consumer Products Rating Methodology; October 2024

ESG considerations for credit ratings of consumer goods companies

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
• Active in non-discretionary consumer products, with strong underlying demand for products • Completion of investment programme to ensure internal supply of base paper covering related manufacturing needs, mitigating the price volatility of that raw material • Leading market position in Hungary and notable market positions in several other European counties, with a solid customer portfolio of retail chain stores • Large proportion of debt at fixed rates resulting in a relatively strong interest cover	• Credit metrics are highly impacted by the volatility of input prices (especially for cellulose and gas) as they put pressure on profitability • Historically weak and volatile profitability, coupled with a short history of recovery to pre-Covid levels • Historically weak cash flow cover due to the group's investment programme • Liquidity issues in unfavourable market environments like in 2022

Positive rating-change drivers	Negative rating-change drivers
• Reduction of volatility in profitability (collectively with) • Improving Scope-adjusted debt/EBITDA to below 3.0x on a sustained basis	• Adverse market developments which could negatively impact profitability and credit metrics • Deterioration of Scope-adjusted debt/EBITDA to 5.0x or higher

Corporate profile

Vajda-Papír Kft. is a consumer goods group founded in 1999. It manufactures and sells selected hygiene paper products such as toilet paper, tissues, paper towels and napkins. Vajda-Papír is the market leader in Hungary (combining its private label and own brands). It exports to 24 countries, mostly in Europe. Vajda Real Estate was consolidated into Vajda-Papír Kft. in 2018. Vajda-Papír Scandinavia AS (previously a sister company of Vajda-Papír, that operates a household paper product manufacturing factory in Norway) was consolidated by means of capital increase with payments in kind in 2023. The group's majority shareholders are its founders, Attila Vajda and Szilvia Vajda Csata.

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	2.9x	0.6x	6.2x	5.3x	6.2x	7.1x
Scope-adjusted debt/EBITDA	10.8x	45.6x	3.3x	3.3x	2.7x	2.5x
Scope-adjusted funds from operations/debt	6%	-2%	25%	23%	29%	32%
Scope-adjusted free operating cash flow/debt	-66%	-16%	-57%	-5%	11%	12%
Scope-adjusted EBITDA in HUF m						
EBITDA	1,523	-360	8,452	7,907	7,916	7,914
Operating lease payments	521	782	1,215	1,240	1,265	1,290
Other items (i.e. changes in provisions)	106	257	644	-	-	-
Scope-adjusted EBITDA	**2,150**	**679**	**10,312**	**9,147**	**9,181**	**9,204**
Funds from operations in HUF m						
Scope-adjusted EBITDA	2,150	679	10,312	9,147	9,181	9,204
less: (net) cash interest paid	-745	-1,172	-1,650	-1,730	-1,492	-1,303
less: cash tax paid per cash flow statement	-18	-13	-233	-410	-429	-442
Funds from operations (FFO)	**1,387**	**-506**	**8,428**	**7,006**	**7,259**	**7,459**
Free operating cash flow in HUF m						
Funds from operations	1,387	-506	8,428	7,006	7,259	7,459
Change in working capital	-4,158	4,979	-8,508	-4,413	-561	-584
Non-operating cash flow	2,221	455	-4,717	-	-	-
less: capital expenditure (net)	-14,297	-9,226	-13,396	-3000	-3000	-3000
less: lease amortisation	-417	-626	-972	-992	-1,012	-1,032
Free operating cash flow (FOCF)	**-15,265**	**-4,924**	**-19,166**	**-1,399**	**2,687**	**2,843**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	641	1,016	1,407	1,482	1,239	1,045
add: interest component, operating leases	104	156	243	248	253	258
Net cash interest paid	**745**	**1,172**	**1,650**	**1,730**	**1,492**	**1,303**
Scope-adjusted debt in HUF m						
Reported gross financial debt	21,200	27,876	28,891	25,010	20,060	17,950
less: cash and cash equivalents	-1,244	-2,271	-13,767	-8,487	-6,224	-6,957
add: non-accessible cash	1,244	2,271	13,767	8,487	6,224	6,957
add: operating lease obligations	2,084	3,130	4,862	4,959	5,058	5,159
Scope-adjusted debt (SaD)	**23,284**	**31,005**	**33,753**	**29,969**	**25,118**	**23,110**

Table of Content

Environmental, social and governance (ESG) profile[1]

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 factors: credit neutral

Vajda-Papír was one of the first entities to issue a green bond under the NKP green bond programme, which has a comprehensive framework that sets multiple green objectives, mainly related to resource management, that the group must comply with before 2030. Vajda-Papír established a three-member green committee to monitor its bond covenant progress and achievements. In addition, the group is committed to providing annual updates regarding its usage of bond proceeds. In May 2022 the green bond's allocation report was published, which confirmed that the group has fulfilled its commitments.

Vajda-Papír's first ESG report was published in 2023, detailing the group's environmentally conscious operations, the characteristics of its energy-saving paper mill and its sustainable development.

Additionally, Vajda-Papír's dedication to sustainable forest management also provides a competitive advantage. The group focuses on minimising its environmental impact by continually improving energy efficiency and the share of renewable energy it uses. Vajda-Papír has product certifications, including from ISO, HACCP, FSC and Nordic Ecolabel, and these have become more important to its customers lately.

Overall, ESG factors have no impact on Vajda Papier's credit profile.

[1] 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- (unchanged)

The group's business risk profile is supported by its solid domestic position, moderate geographic diversification, and operations in the non-discretionary consumer goods industry. The consolidation of Vajda-Papír Scandinavia has had a positive impact on the group's size and profitability. However, the assessment remains constrained by the group's limited size, low product diversification (although with the completion of the second-phase of investment capex, the group now produces a surplus of base paper, which is sold to third parties), below-average brand strength and historically volatile profitability.

Industry risk profile: A

Vajda-Papír is active in the non-discretionary consumer products industry, which is characterised by low cyclicality, low substitution risk and medium barriers to entry. The group's products are household hygienic paper products. These are categorised as non-discretionary consumer products, which are less sensitive to the macroeconomic trends.

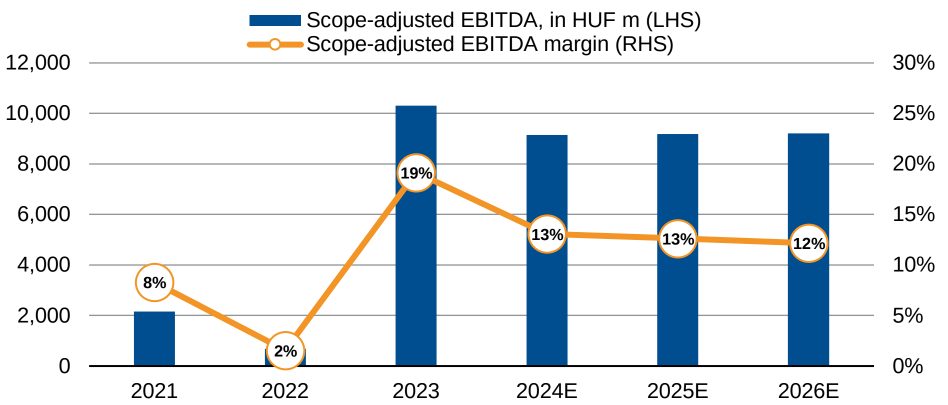
Moderate diversification with large proportion of export sales

Vajda-Papír estimates that it has around a 30%-35% market share in Hungary (including both private label and own brand sales) and has strong geographical diversification with more than 50% of sales from exports. The group also retains a balanced customer portfolio of well-established retailers with limited concentration. Demand for its non-discretionary products is expected to remain strong.

Exceptional profitability in 2023

Previously operating profitability was the main constraint of the assessment, however in 2023 market conditions became more favourable and input prices (i.e. for cellulose and energy) normalised compared to their elevated levels in 2022. In addition, the production of base paper exceeded the amount required for the group's production which supports a less volatile profitability by eliminating base paper suppliers. Vajda-Papír's operating profitability, as measured by the Scope-adjusted EBITDA margin, increased from 2% in 2022 to 19% in 2023. In 2024 we expect the Scope-adjusted EBITDA margin to decline to around 13% as the level achieved in 2023 is considered exceptional. This is due to (1) a change in consumer behaviour towards more budget-friendly private label products, (2) volatile input prices coupled with management's reluctance to implement hedging strategies and (3) pressure from customers to lower prices. We expect operating profitability to remain in the low double digits for the next few years.

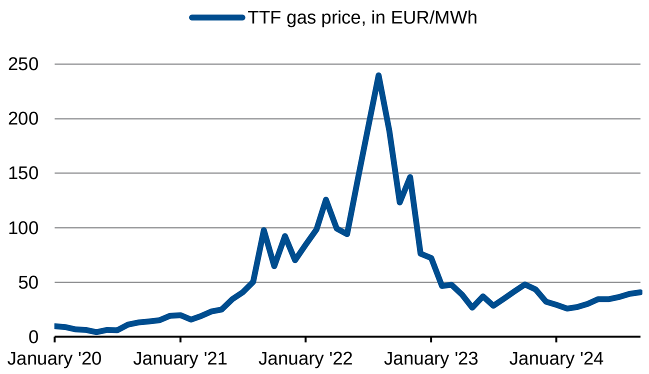
Figure 1: Operating profitability



Sources: Vajda-Papír, Scope (estimates)

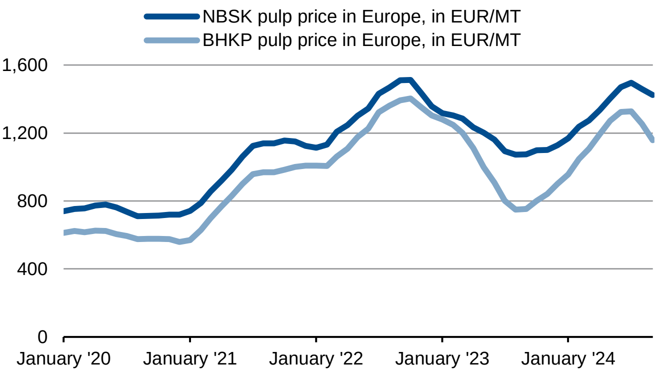
In addition to the private label products manufactured by Vajda-Papír, the group has several brands, each of which has a different price range to distinguish between premium and budget and to target a wide range of end-users. The group spends less than the peer average on advertising and marketing, historically at around 3% of its sales.

Figure 2: Development of gas price



Sources: Vajda-Papír

Figure 3: Development of pulp/cellulose price indices



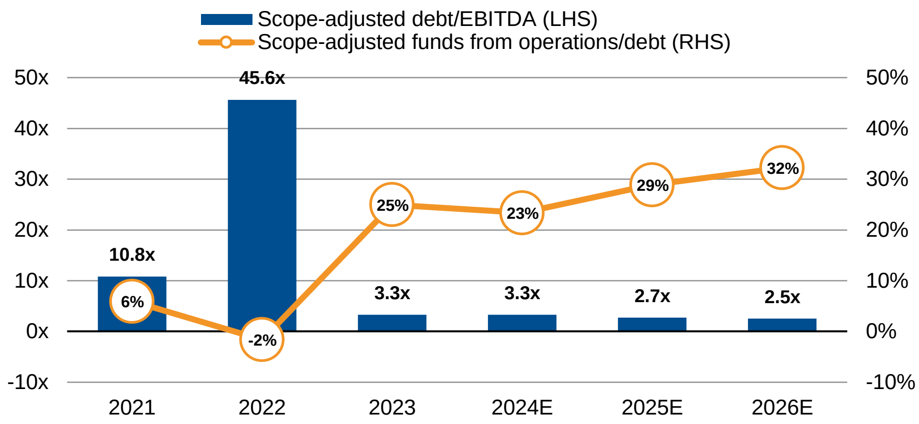
Sources: Vajda-Papír

Financial risk profile: B+ (revised from B-)

Strong improvement of credit metrics

The financial risk profile remains the main constraint of Vajda-Papír's issuer rating, however the positive impacts of (1) the exceptional operating profitability in 2023 as market conditions and input prices have normalised and (2) the reduction in debt (as a result of the consolidation of the HUF 4.5bn intercompany loan provided by Vajda-Papír Scandinavia) have led to stronger credit metrics.

Figure 4: Leverage



Sources: Vajda-Papír, Scope (estimates)

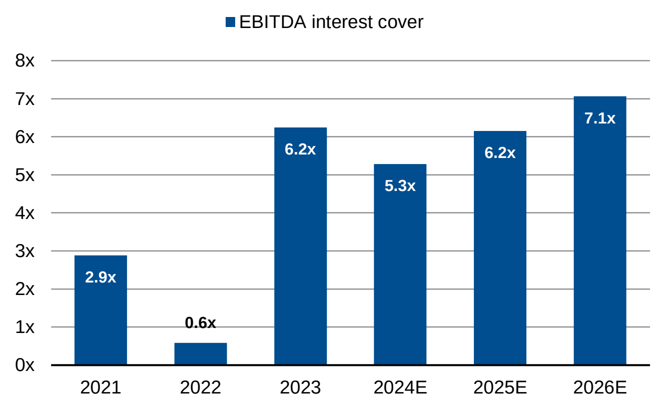
Credit metrics significantly improved compared to their deteriorated levels in 2022. Leverage metrics measured as Scope-adjusted debt/EBITDA improved to 3.3x from well over 6x, and Scope-adjusted funds from operations/debt increased to 25% from -2%. The group's interest cover improved to 6x in 2023 from 1x in 2022. The cash flow cover remained significantly negative in 2023 at -57% as the second phase of the base paper production investment was completed and activated.

Credit metrics expected to stabilise

Based on the group's debt amortisation schedule (as the bonds issued under the Bond Funding for Growth Scheme start amortising in 2025E and 2026E and the working capital lines are due to be repaid in 2025E) and the lack of significant investments planned in the mid-term the group is forecast to start deleveraging. As management does not plan to refinance the loans with new debt, credit metrics are forecast to improve significantly: Scope-adjusted debt/EBITDA is expected to decrease towards 2.5x and Scope-adjusted funds from operations/debt to rise above 30%. Additionally, with the completion of investment capex, cash flow cover is forecast to turn positive by 2025, further supporting the deleveraging strategy over the next few years.

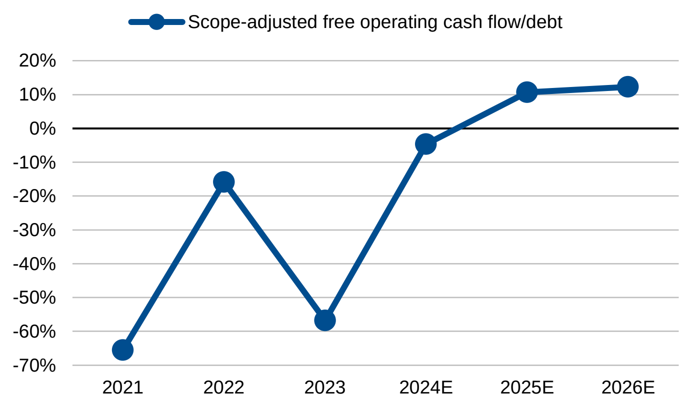
The strong interest coverage continues to support the financial risk profile, as majority of debt has fixed interest rates. The interest cover is forecast to improve further towards 7x.

Figure 5: Interest cover



Sources: Vajda-Papír, Scope (estimates)

Figure 6: Cash flow cover



Sources: Vajda-Papír, Scope (estimates)

Adequate liquidity

The assessment is backed by the ample free operating cash flow and cash and cash equivalents, furthermore if needed, can be supplemented with the annually rolled-over credit lines of circa HUF 6bn (as customary in Hungary). Cash and cash generation are forecasted to fully cover the HUF 4bn in bank debt maturing in the 12 months to year-end 2024 and the HUF 5bn bank debt maturing in 2025. We assume that upcoming debt maturities will be funded internally, without the need to contract new debt. Consequently, gross indebtedness is foreseen to decrease.

We highlight that Vajda-Papír's senior unsecured bonds issued under the Hungarian National Bank's Bond Funding for Growth Scheme have a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 11.2bn and HUF 9.9bn) if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 30 days). Such a development could adversely affect the group's liquidity profile. The rating headroom to entering the grace period is zero notches. Given the limited rating headroom, the group must at least maintain its current credit profile to avoid triggering the rating-related covenant.

Balance in HUF m	2023	2024E	2025E
Unrestricted cash (t-1)	2,271	13,767	8,487
Free operating cash flow (t)	-19,166	-1,399	2,687
Liquidity inventory (t-1)	3,614	2,996	4,154
Short-term debt (t-1)	2,222	3,881	4,950
Coverage	**Negative**	**>200%**	**>200%**

Supplementary rating drivers: +/- 0 notches

The ratings are unaffected by supplementary rating drivers. However, the weak predictability of the business plan and loose forecasting due to the group's lax hedging strategy is noted.

Long-term debt rating

Senior unsecured debt rating: B+

In November 2020, Vajda-Papír issued a HUF 11.2bn senior unsecured bond (ISIN: HU0000359989), followed by a second HUF 9.9bn senior unsecured green bond (ISIN: HU0000360474) in May 2021, both through the Hungarian central bank's Bond Funding for Growth Scheme. The bonds are guaranteed by VAJDA REAL ESTATE Kft., which is part of the same corporate group as Vajda-Papír. The bond proceeds were used for refinancing loans, investment capex to increase base-paper production and working capital financing. Both bonds have tenors of 10 years and fixed coupon rates of 3.5%. The bond repayment schedule is the same for the two bonds: in six instalments with 10% of the face value payable yearly starting in the fifth year and a balloon payment of 50% at maturity. Amortisation of the bonds commences in 2025 and 2026 respectively. In addition to the rating deterioration covenants, the bond covenants include non-payment, insolvency proceedings, cross-default, pari passu, negative pledge, change of control and dividend payment restrictions.

Our recovery analysis incorporates a hypothetical default scenario in 2026, based on the liquidation value of the group's assets and an assumed outstanding senior unsecured debt of HUF 17.9bn with available overdrafts fully drawn. We have equalised the senior unsecured debt rating with the B+ issuer rating despite estimating an 'above-average' recovery. This is because management's commitment to keep indebtedness stable will expire in 2025.

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

Disclaimer