SCOPE | Ratings

AXIÁL Javító, Kereskedelmi és Szolgáltató Kft

Hungary, Retail

Issuer

BB

Outlook

Stable

Senior unsecured debt

BB+

Rating composition

Business risk profile		
Industry risk profile	BB	BB-
Competitive position	BB-	
Financial risk profile		
Credit metrics	BB+	BB+
Liquidity	+/-0 notches	
Standalone credit assessment		**BB**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BB**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	8.1x	8.2x	7.8x	9.7x
Scope-adjusted debt/EBITDA	2.1x	1.5x	1.9x	1.4x
Scope-adjusted funds from operations/debt	28%	48%	44%	61%
Scope-adjusted free operating cash flow/debt	-48%	59%	37%	38%
Liquidity	49%	102%	286%	222%

Rating sensitivities

The upside scenarios for the ratings and Outlook is:

- Improved business risk profile linked to significant growth in size paired with greater geographical diversification (remote)

The downside scenario for the ratings and Outlook is:

- Debt/EBITDA moving towards 4.0x

**All credit metrics refer to Scope-adjusted figures.*

Lead Analyst

Claudia Aquino

+49 30 27891-599

c.aquino@scoperatings.com

Related methodologies

General Corporate Rating Methodology, February 2025

Retail and Wholesale Rating Methodology; April 2024

Table of content

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Good profitability with EBITDA margin of 12%-13% and EBITDA return on assets of 18%-22%	• Lack of geographical diversification
• Among top three dealers in agricultural machinery sector in Hungary with a leading position in spare parts activity and a market share of 20%-25%	• Relatively small scale
• Exclusive distributor for several globally well-known brands, such as Claas, Manitou, Horsch and Hyundai	• Dependence on agricultural subsidies, which determine fluctuations in EBITDA and cash flows
• Relative importance of agriculture for Hungarian population and economy...	• ...but ageing, shrinking agricultural labour force could lead to a lower number of customers, thus decreasing sales

2. Rating Outlook

The Stable Outlook is based on projected leverage (debt/EBITDA) of around 1.5x in the medium term, following a temporary peak at approximately 2x in 2025. We expect this peak due to lower EBITDA, caused by a higher cost of sales, with a subsequent improvement supported by the anticipated resumption of subsidies by year-end 2025. The Outlook also assumes that liquidity will remain adequate.

3. Corporate profile

Founded in 1991 and headquartered in Baja, AXIÁL offers a comprehensive range of products and services for the agricultural sector, including: agricultural machinery; spare parts; service and maintenance; machine rental; financial services; and used machinery. AXIÁL's primary focus is on the agricultural industry (agricultural machinery accounting for almost 50% of total turnover) and to a lesser extent on the construction, material handling and warehousing industries.

The company is fully owned by Mr. Zsolt Harsányi (50%) and Dr. Gyöngyi Harsányi Fodor (50%).

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
6 May 2025	Outlook change	BB/Stable
7 May 2024	Outlook change	BB/Negative
15 May 2023	Affirmation	BB/Stable

5. Financial overview (financial data in HUF m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	33.4x	8.1x	8.2x	7.8x	9.7x	11.0x
Debt/EBITDA	0.6x	2.1x	1.5x	1.9x	1.4x	1.2x
Funds from operations/debt	221%	28%	48%	44%	61%	71%
Free operating cash flow/debt	79%	-48%	59%	37%	38%	35%
Liquidity	214%	49%	102%	286%	222%	378%
EBITDA						
Reported EBITDA	25,146	20,622	18,821	14,199	15,669	15,401
add: recurring dividends from associates	22	40	-	30	30	30
Other items (incl. one-offs)[1]	(3,771)	(4,009)	(354)			
EBITDA	**21,397**	**16,653**	**18,467**	**14,229**	**15,699**	**15,431**
Funds from operations (FFO)						
EBITDA	21,397	16,653	18,467	14,229	15,699	15,431
less: interest	(641)	(2,054)	(2,245)	(1,829)	(1,627)	(1,407)
less: cash tax paid	(985)	(445)	(589)	(336)	(496)	(491)
Other non-operating charges before FFO	9,874	(4,314)	(2,636)	-	-	-
Funds from operations	**29,645**	**9,840**	**12,997**	**12,064**	**13,576**	**13,533**
Free operating cash flow (FOCF)						
Funds from operations	**29,645**	**9,840**	**12,997**	**12,064**	**13,576**	**13,533**
Change in working capital	(9,385)	(15,536)	5,521	1,482	1,276	(12)
less: capital expenditures (net)	(9,718)	(11,168)	(2,423)	(3,500)	(6,500)	(6,800)
Free operating cash flow	**10,542**	**(16,864)**	**16,095**	**10,046**	**8,353**	**6,721**
Interest						
Net cash interest per cash flow statement	641	2,054	2,245	1,829	1,627	1,407
Interest	**641**	**2,054**	**2,245**	**1,829**	**1,627**	**1,407**
Debt						
Reported financial (senior) debt	25,273	40,582	38,635	31,625	26,560	24,495
less: cash and cash equivalents[2]	(12,248)	(5,656)	(12,390)	(5,227)	(5,485)	(6,346)
add: non-accessible cash	405	405	1,002	1,002	1,002	1,002
Debt	**13,430**	**35,331**	**27,248**	**27,401**	**22,077**	**19,151**

[1] In 2022 and 2023 profit from asset disposal (profit from the sale of rental machines after they are returned from customers). From 2024 on we no longer adjust this item as it is considered recurring. In 2024 the other item is change in provision.

[2] Differs from the cash shown in table 1 as we only consider 90% cash netting to account for business seasonality.

6. Environmental, social and governance (ESG) profile[3]

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)

ESG factors: credit-positive credit-negative credit-neutral

No dedicated ESG strategy

AXIÁL has no dedicated ESG strategy. As a wholesaler, it is exposed to the shortage of raw materials and natural resources but also to reputational risks (labour force management). The environmental management of a shop (costs related to refurbishment or energy) and the environmental footprint linked to logistics are the main environmental factors of relevance to the company.

AXIÁL is committed to reducing its carbon footprint and aims to cut its energy consumption and emissions in its outlets. It also uses solar panels and electric cars as well as being involved in tree-planting programmes. With regard to social responsibility, AXIÁL is training the next generation of farmers by developing close relations with relevant educational institutions, hiring interns and participating in graduate programmes.

[3] 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.

7. Business risk profile: BB-

AXIÁL is a discretionary retailer. We consider this industry to have low entry barriers, low substitution risk and medium cyclicality.

Industry risk profile: BB

The issuer's business risk profile continues to be supported by its profitability and market positioning in Hungary. Its small size and lack of diversification are negative rating drivers.

According to 2023 World Bank data, agriculture, fishing and forestry represented 4.7% of GDP in Hungary in 2023, which is above the euro area average of 1.5%. As agriculture is still relatively important for the Hungarian population, we expect AXIÁL's business to be protected in the medium term, underpinned by strong government support for the sector.

Relative importance of agriculture for Hungary supports the business

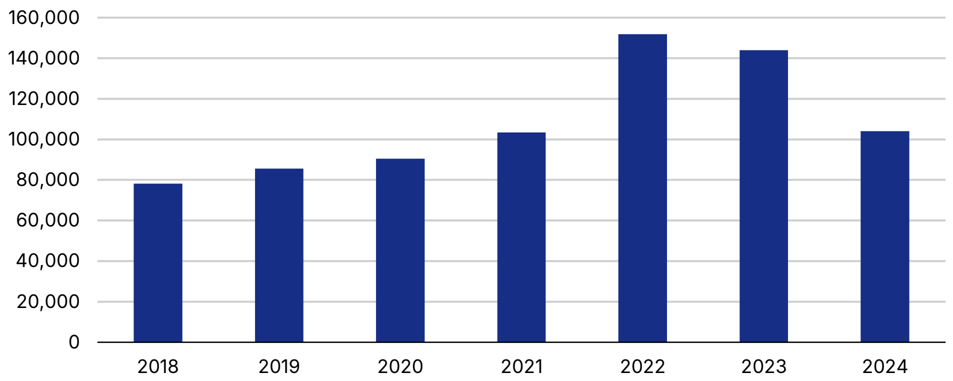
AXIÁL holds a leading position in Hungary in agricultural machinery distribution and spare parts distribution. Over the last few years, its market share has been relatively unchanged in the agricultural machine (18.3% in 2024) and telehandler (49% in 2024) product segments. In all the other product segments AXIÁL holds a leading market position (50% In spare parts, 17% in construction machinery). We expect the company's share in the Hungarian market to remain protected thanks to i) its strong customer service; ii) exclusive distribution of several well-known brands such as Claas and Manitou, and iii) the relatively consolidated market, with the top three players, including AXIÁL, accounting for 80% of exported agricultural machine distribution in Hungary.

Solid positioning in all market segments…

Nonethless, the company's market share is constrained by: i) the ageing and declining agricultural population, which may constitute a long-term threat; ii) its relatively small size, with revenue of EUR 0.2bn in 2024 (EUR 0.3bn in 2023); iii) the close correlation between revenue and government subsidies; and iv) expected limited growth opportunities, as demand appears to be quite saturated.

…but limited growth opportunities

Figure 1: Revenue growth over years (HUF m)



Sources: AXIÁL, Scope

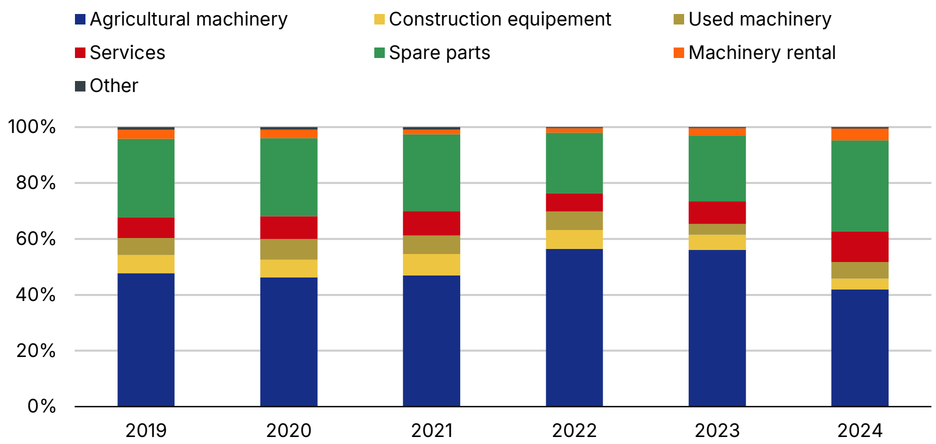
AXIÁL's lack of geographic diversification limits the assessment of its business risk profile, as its performance is solely correlated with Hungary's macroeconomic and climatic conditions. For example, in 2024 a lack of government subsidies and adverse weather conditions caused most farmers to postpone purchases and investments, reducing the issuer's revenue compared to the previous year.

Lack of geographical diversification poses volatility risk

We consider the company's product offer to be highly cyclical. However, AXIÁL partially mitigates cyclicality by offering a wide range of products and services within the agricultural industry. Among those, the strong focus on aftersales (11% of revenue in 2024) is positive, as it represents more recurring revenue than machine sales. The issuer is also active in the machine rental business (5% of revenue in 2024), which helped to partially mitigate the revenue drop in 2024.

Good stream of products within the industry

Figure 2: Revenue by product category



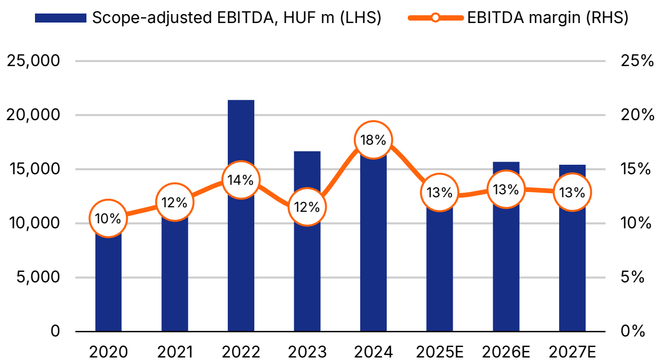
Sources: AXIÁL, Scope

Solid profitability

AXIÁL's business risk profile benefits from strong profitability compared to retail peers, with an EBITDA margin between 10% and 17% in 2020-2024. While revenues were exceptionally high in 2023 due to government incentives for the agricultural sector, they declined significantly in 2024. Efficient inventory management enabled the issuer to adjust swiftly, and the strategic shift towards increased used machine sales resulted in a higher EBITDA margin in 2024. We expect profitability to decline to around 13% in 2025 (from 17.7% in 2024), driven by a higher cost of sales. This is due to a shift in the product mix towards more new equipment sales. 2024 saw a higher proportion of used equipment sales (used equipment is likely to have a lower cost of goods sold relative to its selling price). In 2026 and 2027 we expect EBITDA to remain relatively stable and the profit margin to stabilize at around 12%-13%. This should be driven by new government subsidies, which are likely to be granted between the end of 2025 and 2026, and better weather conditions.

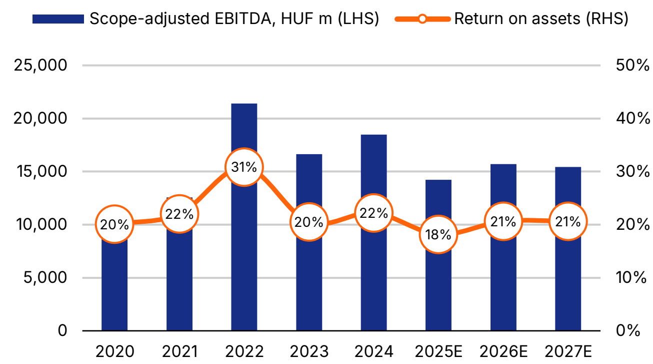
The Scope-adjusted EBITDA return on assets is anticipated to remain relatively stable in the base case, driven by consistent EBITDA (after a decline in 2025) and efficient inventory management.

Figure 3: EBITDA margin



Sources: AXIÁL, Scope estimates

Figure 4: EBITDA return on assets



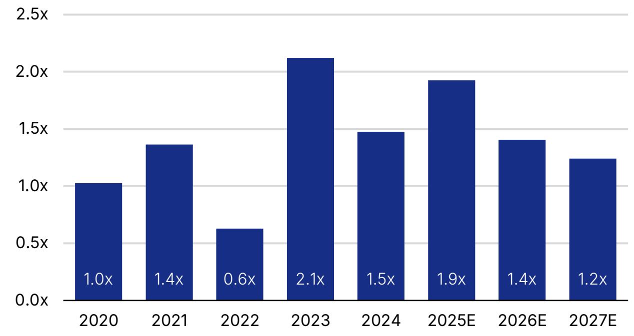
Sources: AXIÁL, Scope estimates

8. Financial risk profile: BB+

Leverage to weaken pressured by decline in EBITDA in 2025

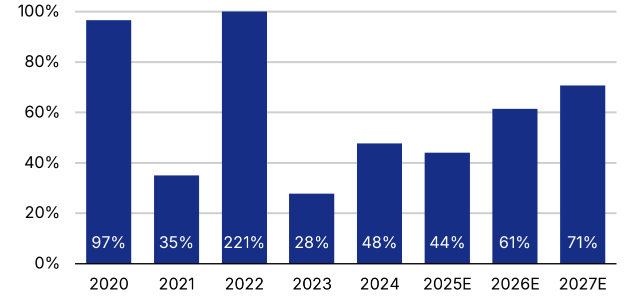
Leverage, as measured by debt/EBITDA, has exhibited some volatility historically, driven by the cyclicality of the business, but remains largely within our rating case. We anticipate that leverage will increase in 2025 due to a projected decline in EBITDA. This is expected to temporarily push the ratio to around 2.0x. However, we expect a subsequent decrease in leverage to around 1.5x, driven by a recovery in EBITDA, supported by: i) new government subsidies starting in Q3 2025 and mostly in 2026; ii) better weather conditions; and iii) a gradual reduction in debt.

Figure 5: Debt/EBITDA



Sources: AXIÁL, Scope estimates

Figure 6: FFO/debt



Sources: AXIÁL, Scope estimates

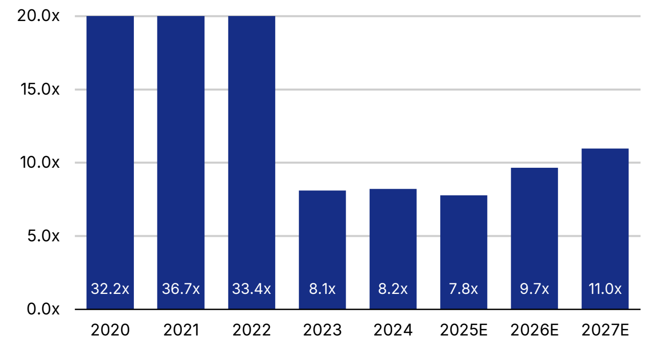
Interest cover remains solid despite the increase in debt

EBITDA interest cover has been largely above 10x in the past. However, from 2023 on, higher interest rates and the larger amount of debt needed to finance the rental machines and inventory, dragged the ratio down to around 8x. We project that interest cover will slightly fall in 2025, to below 8x, before potentially stabilizing between 9x and 11x afterwards, supported by increasing EBITDA, lower debt and more favourable interest rates.

Improved cash flow thanks to better inventory management

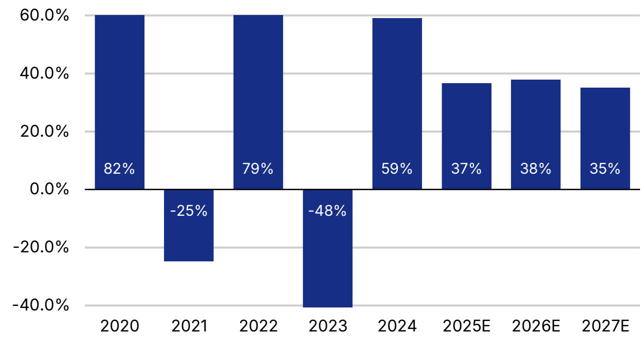
FOCF has fluctuated over the years. Historically, the primary negative drivers have been high capital expenditure and negative net working capital. For instance, in 2021-2023, supply chain disruptions caused a slowdown in inventory clearance. We note a positive shift in AXIÁL's working capital management in 2024, evidenced by a decrease in inventory levels and an increase in the average days payables outstanding. We anticipate a further reduction in inventory as supply chain issues have been resolved and the issuer is committed to improved inventory management, aiming to align levels with demand.

Figure 7: EBITDA interest cover



Sources: AXIÁL, Scope estimates

Figure 8: FOCF/debt



Sources: AXIÁL, Scope estimates

Table 1. Liquidity sources and uses (in HUF m)

	2024	2025E	2026E
Unrestricted cash (t-1)[4]	5,251	12,764	4,805
Open committed credit lines (t-1)	1,208	1,020	1,020
FOCF (t)	16,095	10,046	8,353
Short-term debt (t-1)	22,158	8,338	6,393
Liquidity	**102%**	**286%**	**222%**

Source: AXIÁL, Scope estimates

[4] Differs from the unrestricted cash in Paragraph 5. Financial overview as for the net debt calculation we only consider 90% cash netting to account for business seasonality

Our previous assessment of inadequate liquidity was trigged by a rise in short-term debt (HUF 22.1bn as at year-end 2023) used for inventory financing. In 2024, the issuer lengthened the maturity of this debt to 2026. In addition, the inventory financing loan maturing in 2026 (HUF 21.8bn at year-end 2024) is a revolving credit line, rather than a lump-sum repayment. Its limit is set under a bi-annual framework agreement with the banks. The issuer can utilize this credit within the limit based on inventory needs, with repayment triggered by machine sales or the maturity date. Considering the history of successful renewals and the credit line's nature – linked to and secured by inventory – we now consider liquidity adequate.

We note that the bond issue under the Hungarian Central Bank's Funding for Growth scheme has no rating deterioration covenant.

9. Debt rating

Senior unsecured debt rating: BB+

In September 2020, AXIÁL issued a HUF 15bn senior unsecured bond (ISIN: HU0000359930) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond proceeds were fully used to refinance its short-term financial debt. The bond has a tenor of 10 years and a fixed coupon of 2.0% with a bullet maturity. It has no accelerated repayment clause, but bond covenants include a pari passu clause and negative pledge.

We have affirmed the senior unsecured debt category at BB+. The assessment reflects a hypothetical default scenario in 2026 and is based on a liquidation value of HUF 47bn available to creditors. This compares to HUF 15.7bn of senior secured debt, a HUF 0.6bn undrawn credit line and a HUF 15bn senior unsecured bond and results in an excellent recovery of 100%.We have not upgraded the issuer rating by more than one notch to reflect the risk of volatility in the capital structure and the risk of the introduction of secured debt on the path to default.

Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com

in
Bloomberg: RESP SCOP
Scope contacts
scoperatings.com

Disclaimer