Aranynektár Kft. (Fulmer)
Hungary, Consumer Products

SCOPE B STABLE

Key metrics for Fulmer GmbH Magyarországi Fióktelepe (Fulmer Hungarian Branch)

			Scope estimates	
Scope credit ratios	**FY 2023**	**FY 2024**	**FY 2025E**	**FY 2026E**
Scope-adjusted EBITDA/interest cover	>20x	>20x	11.7x	12.3x
Scope-adjusted debt/EBITDA	2.8x	2.2x	2.1x	2.0x
Scope-adjusted funds from operations/debt	35%	43%	42%	43%
Scope-adjusted free operating cash flow/debt	-66%	-31%	24%	-1%

Rating rationale

Aranynektár's issuer rating continues to be determined by the credit quality of its sister company Fulmer GmbH's Hungarian Branch (Fulmer).

Fulmer's business risk profile (assessed at B, unchanged) is weak due to low and volatile profitability, low customer diversification, low revenue (HUF 5.7bn in FY 2024) and hence low market share. The unchanged assessment takes into account an increasing share of branded products and a good visibility of the order book over the next twelve months.

Fulmer's financial risk profile (assessed at BB+, unchanged) is supported by good leverage of Scope-adjusted debt/EBITDA of 2.2x in FY 2024 which we expect to stay well below 3.0x (with intra-year volatilities) and a strong Scope-adjusted EBITDA/interest cover over the forecasted period. We expect cash flow cover to remain low and under pressure given capex plans for FY 2025–2026, which constrains the rating.

We have applied a one-notch negative adjustment to the rating, reflecting the governance and structure as a supplementary rating driver.

Outlook and rating sensitivities

The Stable Outlook reflects the good leverage after completing the HUF 2.0bn capex programme started in 2020, some loss of export volumes and an inflation shock on the EBITDA margin, from which the company is recovering. The Outlook incorporates the assumption that Fulmer will at least maintain its current financial metrics as input prices normalise and demand is predictable over the next 12 months.

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

1) improved business risk profile (reduced customer concentration, increased size, Fulmer's EBITDA margin of at least 10% on a sustained basis) while improving free operating cash flow/debt above 10%
2) removal of the negative rating adjustment for governance and structure (remote)

The **downside scenario** for the ratings and Outlook is:

1) Scope-adjusted debt/EBITDA increasing above 4.0x on a sustained basis

Ratings & Outlook

Issuer rating	B/Stable
Senior unsecured guaranteed bond rating	B+

Lead Analyst

Barna Gáspár
+49 30 27 89 1325
b.gaspar@scoperatings.com

Related Methodologies

General Corporate Rating Methodology; October 2023

Consumer Products Rating Methodology; October 2024

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

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

info@scoperatings.com
www.scoperatings.com

in

Bloomberg: RESP SCOP

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
5 Nov 2024	Affirmation	B/Stable
9 Nov 2023	Affirmation	B/Stable
9 Nov 2022	Affirmation	B/Stable

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Moderate geographical diversification • Development of a branded label, albeit gradual • Strong EBITDA/interest cover and good leverage • Resilient business operations	• Small group size increases vulnerability to externalities • Strong exposure to a single customer • Large share of private labels weighing on profitability • Complex corporate structure on intergroup lending which can affect creditors and high key person risk (ESG factor: credit-negative) • High historical variations in net working capital expected to continue putting pressure on free operating cash flow and intra-year liquidity

Positive rating-change drivers	Negative rating-change drivers
• improved business risk profile (reduced customer concentration, increased size, Fulmer's EBITDA margin of at least 10% on a sustained basis) while improving free operating cash flow/debt above 10% • removal of the negative rating adjustment for governance and structure (remote)	• Scope-adjusted debt/EBITDA increasing above 4.0x on a sustained basis

Corporate profile

Aranynektár Kft. packages honey for its sister company Fulmer Hungarian Branch, a Hungarian honey processing company. Both entities are owned either directly or indirectly by Ferenc Takács. As an integrated contractor, Aranynektár generates revenue fixed in advance by Fulmer to cover its operating expenses and produce a margin. The raw material (honey) is collected mainly from Hungary which is complemented by honey sourced from special regions like the Black Forest, from Southern Europe and depending on geopolitical considerations, partially from Ukraine.

Financial overview (Fulmer)

				Scope estimates	
Scope credit ratios[1]	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025E**	**FY 2026E**
Scope-adjusted EBITDA/interest cover	Net interest income	59.5x	31.5x	11.7x	12.3x
Scope-adjusted debt/EBITDA	1.1x	2.8x	2.2x	2.1x	2.0x
Scope-adjusted funds from operations/debt	97%	35%	43%	42%	43%
Scope-adjusted free operating cash flow/debt	-38%	-66%	-31%	24%	-1%
Scope-adjusted EBITDA in HUF '000					
EBITDA	1,199,216	468,476	602,818	629,563	660,833
Scope-adjusted EBITDA	**1,199,216**	**468,476**	**602,818**	**629,563**	**660,833**
Funds from operations in HUF '000					
Scope-adjusted EBITDA	1,199,216	468,476	602,818	629,563	660,833
less: (net) cash interest paid	133,679	-7,871	-19,141	-53,786	-53,786
less: cash tax paid per cash flow statement	0	0	-494	-12,216	-26,805
Funds from operations (FFO)	**1,332,895**	**460,605**	**583,183**	**563,560**	**580,241**
Free operating cash flow in HUF '000					
Funds from operations	1,332,895	460,605	583,183	563,560	580,241
Change in working capital	-645,415	-744,416	-192,156	132,520	-168,891
Non-operating cash flow	-7,622	-39,757	-13,925	-20,620	-20,620
less: capital expenditure (net)	-1,203,994	-556,692	-793,230	-350,000	-400,000
Free operating cash flow (FOCF)	**-524,136**	**-880,260**	**-416,128**	**325,460**	**-9,270**
Net cash interest paid in HUF '000					
Net cash interest per cash flow statement	-133,679[2]	7,871	19,141	53,786	53,786
Net cash interest paid	**-133,679**	**7,871**	**19,141**	**53,786**	**53,786**
Scope-adjusted debt in HUF '000					
Reported gross financial debt	1,369,201	1,332,346	1,344,660	1,344,660	1,344,660
less: cash and cash equivalents[3]	1,631,204	710,849	138,749	437,062	398,008
add: non-accessible cash	-1,631,204	-710,849	-138,749	-437,062	-398,008
Scope-adjusted debt (SaD)	**1,369,201**	**1,332,346**	**1,344,660**	**1,344,660**	**1,344,660**

[1] Accounting year ends 31 May
[2] Interest received on high cash balance
[3] No netting of cash applied for this rating category

Table of Content

Key metrics for Fulmer GmbH Magyarországi Fióktelepe (Fulmer Hungarian Branch) 1

Rating rationale 1

Outlook and rating-change drivers 1

Rating history 2

Rating and rating-change drivers 2

Corporate profile 2

Financial overview (Fulmer).................... 3

Environmental, social and governance (ESG) profile 4

Business risk profile: B 5

Financial risk profile: BB+ 7

Supplementary rating drivers: - 1 notch .. 9

Long-term debt rating 9

Environmental, social and governance (ESG) profile[4]

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)

Focus on environmental footprint, but governance is impaired by small management, limited reporting and group structure

Aranynektár and Fulmer do not have a dedicated ESG strategy. The production facility is under expansion, with new buildings and modernisation from a relatively old technological base. Energy efficiency measures are a priority to manage the increasing cost base. Own solar energy production limits the group's environmental footprint and will be further extended.

Governance is similar to that of many small family business: management, accounting and controlling are limited, and decision making is flat and mostly driven by the owner, entailing some key person and management risk. Generation change is ongoing which should replace the current very manual bookkeeping and planning processes. Still, we flag key person risks related to the current management team.

The bond was structured in quite a complex manner as the main revenue is generated by Fulmer whereas the bond was issued by the sister company Aranynektár, which derives all its revenue from Fulmer. As such, debt protection at the level of Aranynektár is largely dependent on a seamless integration of the company within the group and an uninterrupted relationship to the guarantor Fulmer.

[4] 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: B

Fulmer determines the credit quality of Aranynektár

Due to the close relationship between Aranynektár and Fulmer, we have performed a credit quality assessment of the latter. Although Aranynektár is the issuing entity, the debt servicing obligations lie with Fulmer because the intercompany loan matches the bond features issued by Aranynektár to Fulmer. As a consequence, and due to the co-dependency between the two entities and the guarantee provided by Fulmer for the bond issued in 2020, our rating focuses on the credit quality of Fulmer rather than that of Aranynektár.

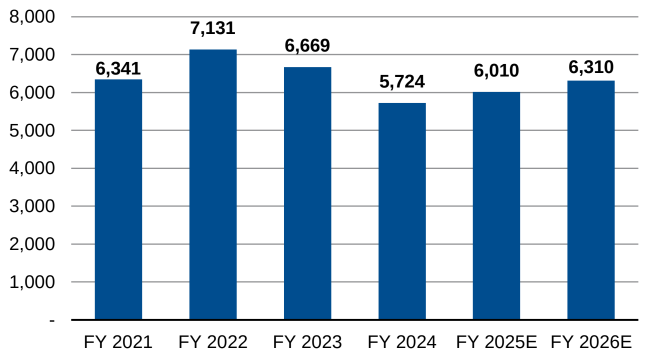
Industry risk profile: A

Aranynektár packages honey for Fulmer and is therefore a B2B services company. The credit quality of Aranynektár is fully dependant on that of Fulmer. We assess the honey business of Fulmer within the non-durable consumer products industry, which has low cyclicality and medium barriers to entry because it buys raw honey, packages it and sells it to retailers, and demand is not really cyclical or even countercyclical as proven during the Covid-19 pandemic. We therefore apply the non-durable consumer products industry risk assessment of A. However, in light of Fulmer's limited outreach and generally significant vulnerability to key customers and economic developments, the industry risk profile is not deemed to provide support to the rated entity's business risk profile.

Weak market positioning detrimental to the rating

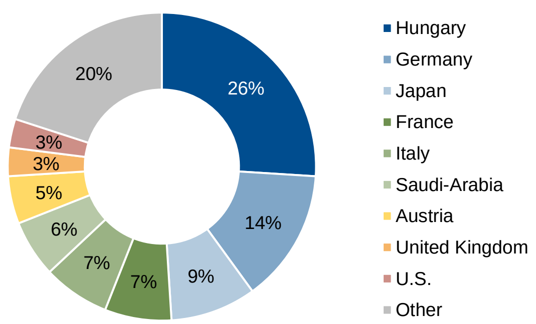
Fulmer is strong in Hungary but weak in Europe, with market shares estimated at close to 20% and 5% respectively. The company plans to boost brand recognition by increasing the number of its own labels (currently at one-third of sales according to management). Fulmer's small size constrains the rating because it implies vulnerability to unexpected externalities as seen in FY 2023. Overall, Fulmer is a small consumer products producer company which has a significant size in its niche market.

Figure 1: Fulmer's revenue (HUF m)



Sources: Fulmer, Scope estimates

Figure 2: Fulmer's geographical outreach in FY 2024



Sources: Fulmer, Scope estimates

Small consumer products producer, large in its niche market

Fulmer's revenues are low for a consumer products company, at HUF 5.7bn in FY 2024 – financial year ending 31 May 2024 – (down from HUF 6.7bn in FY 2023). The 14.2% decrease of revenues in FY 2024 is due to the significant drop in the price of raw honey following the cancellation of customs from Ukraine and increasing Chinese imports, which resulted in low agricultural input prices. The small size is explainable with the niche product but also points out the risks of focusing on a single product category.

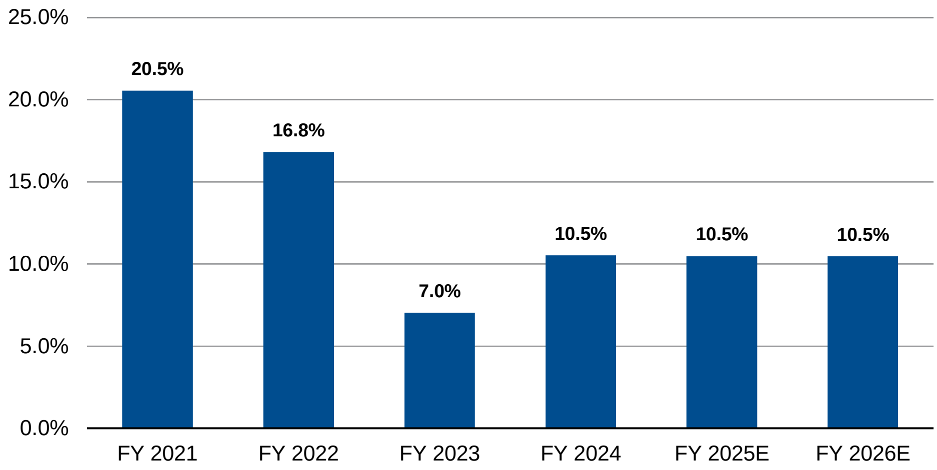
Low diversification due to mono-product focus and customer concentration

Export markets are well diversified: one fourth of revenues arise from the domestic Hungarian market, the remaining from 35 export countries (Germany 14%, Japan 9%, Italy 7%, France 7%, Saudi Arabia 6% etc). Access to certain export markets is given by a single trade partner. The packaging of premium-priced honey, exported to the Middle East, has decreased after a significant export partner had financial difficulties. This resulted in partial loss of the market for Fulmer.

Fulmer's mono-product focus is detrimental to the rating given that a poor harvesting year could heavily impact revenue once inventory is depleted. This is somewhat mitigated by the build-up of raw honey inventories for up to one full season, therefore a bad agricultural year can be mitigated.

Lower operating profitability on medium-term

Figure 3: Fulmer's operating profitability (Scope-adjusted EBITDA margin)



Sources: Fulmer, Scope estimates

In FY 2024, Scope-adjusted EBITDA margin was 10.5% (up from 7.0% YoY) while Scope-adjusted EBITDA increased to HUF 603m (up from HUF 468m YoY). We expect Fulmer to keep at least a 10% EBITDA margin in FY 2025-2026.

Operating profitability is very volatile due to customer concentration and fluctuating costs (increasing labour cost, volatile raw honey and energy price, increasing auxiliary material prices). Ongoing efforts to develop further export markets, automation projects and investments in solar power generation (covering 25% of own usage, to be increased to 50% on medium-term) support our expectation of at least flat operating profitability.

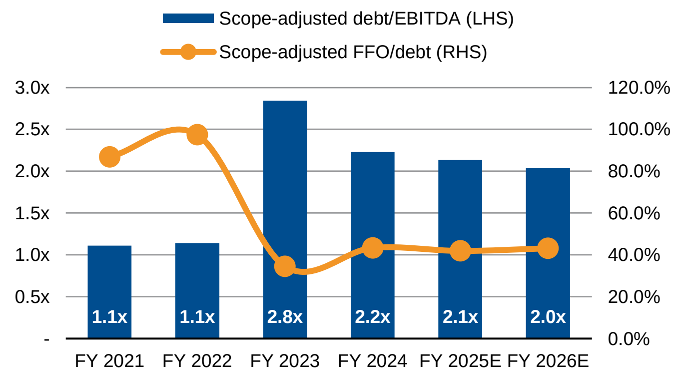
Financial risk profile: BB+

Assumptions and history

Aranynektár issued a HUF 1.0bn bond in 2020 that matures in 2030. It has a fixed coupon, which is highly advantageous in the current interest rate environment, and is guaranteed by Fulmer. Aranynektár transferred the proceeds to Fulmer via an intercompany loan designed to align with the bond's features (including coupons, repayment schedule and maturity). As Aranynektár's cash generation limits its ability to repay the coupons and the bond, Fulmer will pay the interest and repay the bond to Aranynektár, which will in turn repay bondholders.

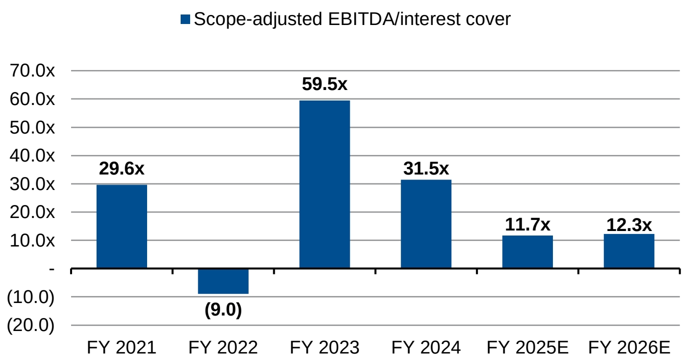
In 2020, Aranynektár and Fulmer changed the end of their fiscal year from December to May, in line with the honey production cycle. Inventories at the end of May are significantly lower than at the end of December. This means the financials look slightly better in May given how inventory affects net working capital (cash balance, Scope-adjusted debt/EBITDA).

Figure 4: Leverage metrics



Sources: Fulmer, Scope estimates

Figure 5: Debt protection



Sources: Fulmer, Scope estimates

Good leverage despite volatile metrics

Fulmer is a family-owned business, whist has been operating with very low leverage. Prior to 2023, the company had a net cash position. With ongoing generation change, a significant capex plan was executed, resulting in still reasonable indebtedness peaking in FY 2023 at Scope-adjusted debt/EBITDA of 2.8x. Leverage improved in FY 2024 in line with our expectations due to stabilising EBITDA amid the demand and input price shocks in FY 2023.

Scope-adjusted Debt/EBITDA recovered to 2.2x in FY 2024 due to recovering EBITDA of HUF 0.6bn (+28% YoY) and flat gross debt of HUF 1.4bn. We expect Scope-adjusted debt/EBITDA to remain well below 3.0x in FY 2025-2026 (including intra-year fluctuations).

No netting of cash is applied for this rating category.

Fulmer's Scope-adjusted funds from operations/debt is good, with 43% in FY 2024 (up from 35% YoY). We expect Fulmer to maintain at least the current level in the next two to three years as input prices normalise, raw materials are secured and pressure from wage inflation is mitigated by automation, especially in the flagship product packaging line (honey with honeycomb).

Strong EBITDA interest cover

Drawn debt at end of FY 2024 consists mainly of a long-term fixed coupon bond of HUF 1.0bn and HUF 0.2bn overdraft (EUR denominated credit line up to EUR 1.3m).

Scope-adjusted EBITDA interest cover is hence not under pressure from the high HUF interest rates, which are still well above 5%. Furthermore, with current deposit rates well above the bond coupon, the Scope-adjusted EBITDA/interest cover was exceptionally strong in FY 2022-FY 2024 due to interest received. In the forecast for FY 2025-FY 2026, we assumed no significant interest received as cash levels have decreased. Even so Scope-adjusted EBITDA/interest cover remains strong at well above 10x.

Fluctuating free operating cash flow due to capex and working capital swings

In FY 2024, Scope-adjusted free operating cash flow/debt was negative at -31%, up from -66% in FY 2022. The negative values in FY 2023-2024 are due to lower profitability than in FY 2022, significant working capital increase (raw honey stocked) coupled with the previously budgeted investment programme. We expect this metric to improve but to remain volatile.

Due to volatility of credit metrics which could happen for business reasons (low customer diversification - loss of anchor customer, small size), the BB+ financial risk profile only provides little support to the overall standalone credit assessment which stands at B+.

Adequate liquidity

The liquidity ratio was close to 200% at end-FY 2024 despite negative free operating cash flow because the sources were secured via the bond issuance in 2020 and hence a high cash balance was maintained. Cash balance decreased to HUF 0.2bn at end-FY 2024 as working capital expanded and investments were made.

Balance in HUF '000	FY 2025E	FY 2026E
Unrestricted cash (t-1)	138,749	437,062
Open committed credit lines (t-1)	-	-
Free operating cash flow (t)	325,460	(9,270)
Short-term debt (t-1)	160,023	160,023
Coverage	**>200%**	**>200%**

There is no significant short-term debt. As the bond matures in 2030, there is no upcoming large refinancing risk. Furthermore, the liquidity ratio calculation excludes the HUF 0.5bn (EUR 1.3m) partially unused working capital facility because it is short-term and uncommitted. Intra-year liquidity is volatile and nominal cash level is low with no long-term committed financing sources available. Therefore, no notching was considered despite a good coverage ratio.

We highlight that Aranynektár Kft.'s senior unsecured guaranteed bond (ISIN: HU0000359559) issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 1.0bn) if the debt rating of the bond stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 15 days). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is zero notches. In addition to the rating deterioration covenant, bond covenants include a list of soft covenants, among others cross default and change of control.

There is limited rating headroom as the senior unsecured guaranteed bond is rated B+, one notch above the issuer rating. Given the limited rating headroom, the company must at least maintain its current credit profile to avoid triggering the rating-related covenant. This means worsening recovery expectation for example due to increase in secured debt may result in a downgrade of the bond which would trigger the rating deterioration covenant.

Supplementary rating drivers: - 1 notch

Negative rating adjustment for governance and structure

We applied a negative one-notch adjustment to the standalone credit assessment for governance and structure under supplementary rating drivers due to i) structural complexity: the bond was issued by Aranynektár Kft. (a Hungarian limited liability company), but its debt is serviced by Fulmer GmbH (a German limited liability company's Hungarian branch), as Aranynektár lent the proceeds of the bond to Fulmer (an unconsolidated sister company); and ii) the small management team entailing some key person risk in finance functions and highly manual accounting and planning processes (ESG: credit-negative governance factors).

Long-term debt rating

Senior unsecured guaranteed bond rating: B+

We have affirmed the B+ rating on the senior unsecured bond issued by Aranynektár which is guaranteed by Fulmer. We calculated an 'above-average' recovery following a hypothetical default in FY 2026 and therefore maintain one notch of uplift on the assigned issuer rating.

In April 2020, Aranynektár issued a HUF 1.0bn senior unsecured bond (ISIN: HU0000359559) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond proceeds were used to expand working capital and capex. The bond has a tenor of 10 years and a fixed coupon of 3.5%. Bond repayment is bullet with the full notional payable in 2030 at maturity. In addition to the rating deterioration covenant, bond covenants include a list of qualitative covenants, among others cross default and change of control.

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