Zalaco Sütőipari Zrt

Hungary, Consumer Products

Issuer
BB-

Outlook
Stable

Senior unsecured debt
BB

Rating composition

Business risk profile		
Industry risk profile	A	B+
Competitive position	B	
Financial risk profile		
Credit metrics	BBB-	**BBB-**
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**	**2025P**	**2026E**
Scope-adjusted EBITDA interest cover	Net interest	Net interest	Net interest	Net interest
Scope-adjusted debt/EBITDA	1.2x	1.0x	1.0x	1.2x
Scope-adjusted funds from operations/debt	84%	97%	100%	80%
Scope-adjusted free operating cash flow/debt	58%	38%	66%	31%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenario for the ratings and Outlook:

- Overall improvement of the company's BRP due to improved diversification and/or significantly increased scale (deemed remote)

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

- Debt/EBITDA at around 3.0x
- EBITDA margin deteriorating to or below 15%

*All credit metrics refer to Scope-adjusted figures.

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Related methodologies

General Corporate Rating Methodology, Feb 2025

Consumer Products Rating Methodology, Oct 2025

Table of content

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Relatively high profitability margin in a fragmented industry • Vertically integrated value chain and business operations • Operational sustainability following decades of partnerships with international value chains • A healthy balance sheet, reflected by fixed interest-bearing debt of HUF 4.4 bn, leading to strong leverage and interest coverage ratios	• Low scale compared to its international peers and largest national player (Fornetti) • High customer and geographical concentration risk • Potential expansion strategies expected to put pressure on cash flows in the medium term

2. Rating Outlook

The **Stable Outlook** reflects our expectation that Zalaco will sustain organic revenue growth yielding to profitability margins around 20% and debt/EBITDA ratio of around 1.0x in the near-term. The Outlook takes into consideration possible investments in capacity expansion and elevated capex in the next three years.

3. Corporate profile

50 years of operations in 2025

Zalaco Sütőipari Zrt., was founded in 1950 and since 1975 it is fully owned by the Berta family, is manufacturer and distributor of frozen and fresh bakery products, as well as managing and operating its own retail stores in the western Hungary.

Operations in western Hungary

The company distributes almost 400 bakery and confectionery products in Hungary, mostly, but also in neighbouring countries. The company has established production plants in Zalaegerszeg, Ajka and Sopron.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
03 Feb 2026	Affirmation	BB-/Stable
04 Feb 2025	Affirmation	BB-/Stable
01 Mar 2024	Upgrade	BB-/Stable

5. Financial overview (financial data in HUF m)

			Scope estimates		
Scope credit ratios	**2023**	**2024**	**2025P**	**2026E**	**2027E**
EBITDA interest cover	negative	negative	negative	negative	negative
Debt/EBITDA	1.2x	1.0x	1.0x	1.2x	1.2x
Funds from operations/debt	84%	97%	100%	80%	79%
Free operating cash flow/debt	58%	38%	66%	31%	41%
Liquidity	>200%	>200%	>200%	>200%	No (Re)-financing needs
EBITDA					
Reported EBITDA	5,054	5,433	5,413	5,388	5,339
add: operating lease payments	406	502	551	634	666
add: recurring dividends from associates	2	2	3	3	3
Other items (incl. one-offs)	(7)	(1)	(13)	-	-
EBITDA	**5,455**	**5,936**	**5,953**	**6,025**	**6,009**
Funds from operations (FFO)					
EBITDA	5,455	5,936	5,953	6,025	6,009
less: interest	152	146	164	63	26
less: cash tax paid	(240)	(142)	(216)	(133)	(123)
Other non-operating charges before FFO	0	63	94	-	-
Funds from operations	**5,367**	**6,003**	**5,996**	**5,956**	**5,912**
Free operating cash flow (FOCF)					
Funds from operations	5,367	6,003	5,996	5,956	5,912
Change in working capital	(325)	(886)	(150)	(99)	(81)
Non-operating cash flow	(25)	361	350	46	46
less: capital expenditures (net)	(978)	(2,663)	(1,753)	(3,008)	(2,197)
less: lease amortisation	(359)	(453)	(491)	(571)	(599)
Free operating cash flow	**3,679**	**2,362**	**3,952**	**2,325**	**3,081**
Interest					
Net cash interest per cash flow statement	(199)	(195)	(224)	(127)	(93)
add: interest component, operating leases	47	50	60	63	67
Interest	**(152)**	**(146)**	**(164)**	**(63)**	**(26)**
Debt					
Reported financial (senior) debt	5,435	5,221	4,779	6,150	6,150
less: cash and cash equivalents[1]	(6,038)	(7,227)	(9,710)	(12,388)	(13,507)
add: non-accessible cash[1]	6,038	7,227	9,710	12,388	13,507
add: operating lease obligations	941	996	1,196	1,269	1,332
Debt	**6,376**	**6,217**	**5,975**	**7,419**	**7,482**

[1] No cash netting applied.

6. Environmental, social and governance (ESG) profile[2]

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)	credit-neutral
Efficiencies (e.g. in production)	credit-neutral	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	credit-neutral
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)	credit-neutral
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)	credit-neutral

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

Neutral governance-related ESG factors

Zalaco's governance-related ESG factors are supported by clear reporting, where stakeholders benefit from good access to information. The company operates with a straightforward organizational profile, reflecting its long-standing family ownership structure, cautions approach towards M&As and shareholder friendly policies.

Inefficiency in production

It is worth noting, however, that costs of production waste continue to generate a reduction in gross margins (approx. 5%). This factor did not result in a rating adjustment under supplementary rating drivers but it is taken into consideration in our assessment of the company's operating profitability and its overall blending in Zalaco's competitive positioning.

2 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: B+

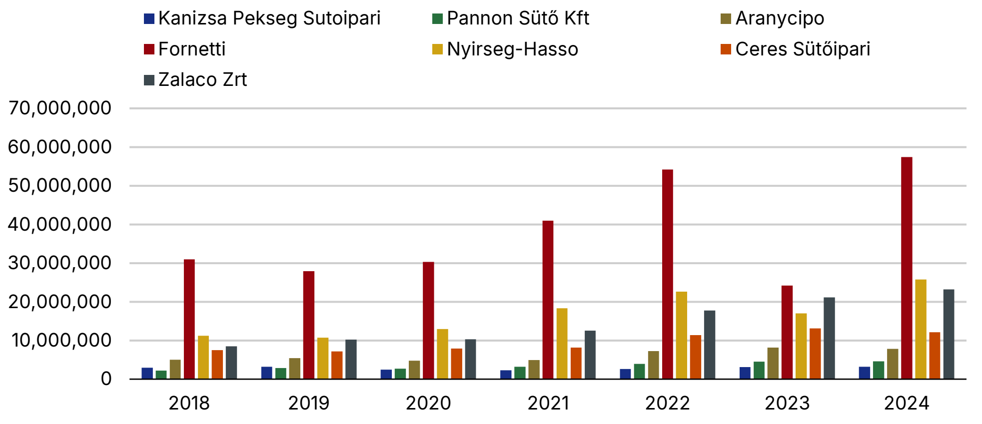
Credit supportive industry risk profile: A

Zalaco's business risk profile continues to be supported by strong profitability, (ahead of peers), a well-known regional brand and the robust industry environment for non-discretionary consumer products but constrained by limited product and geographical diversification as well as small market footprint.

Small size but strong regional brand

Zalaco operates in a highly fragmented industry (bakery) in Hungary, however being the biggest and most well-known bakery in the western region of the country, holding a significant market positioning in that area. But at a national level, Zalaco remains small, despite estimated to be the third largest company in this sector in Hungary, with revenues of approximately HUF 25bn (approx. EUR 62m) as of 2025. The company operates significantly behind the largest national player, Fornetti (HUF 57bn or EUR 140m), and closely follows the second player Nyirseg-Hasso (HUF 25.7bn or EUR 67m).

Figure 1: Zalaco's local peers' revenue development (HUF)

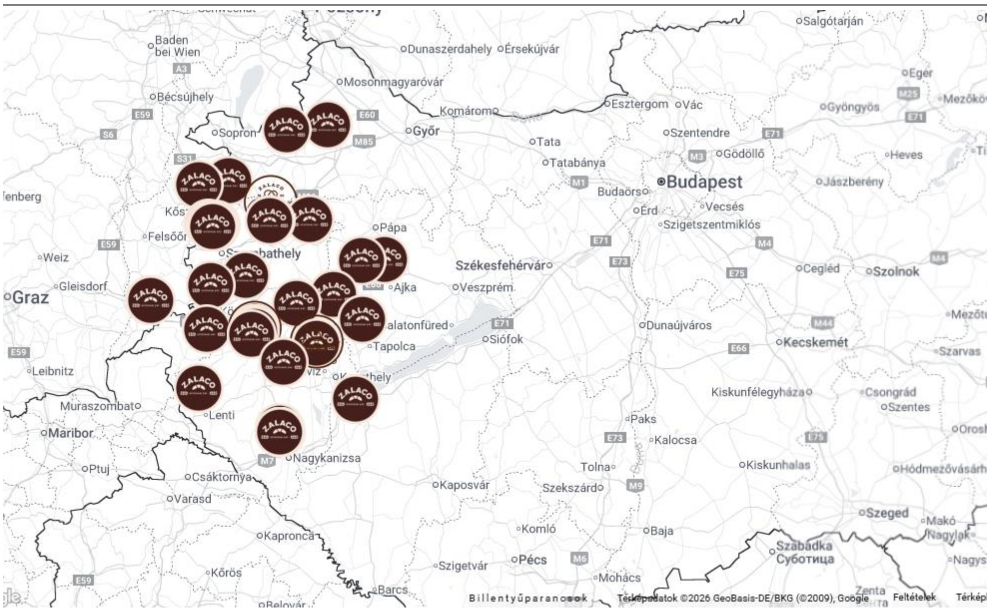


Source: Zalaco, Scope estimates

Weak diversification

Zalaco shows a weak geographical diversification, with all retail stores and majority of sales coming from these 3 counties in Western Hungary (Zala, Vas and Gyor-Moson-Sopron). Furthermore, the majority of the production is also concentrated in the manufacturing facility (and HQ) located in Zalaegerszeg.

Figure 2: Zalaco's regional presence in Hungary



Source: Zalaco

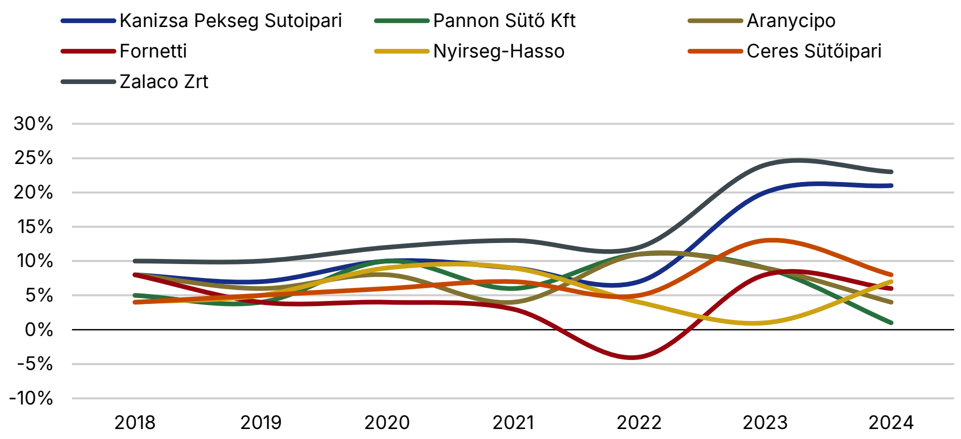
The company's sales are heavily concentrated on the partnership with Lidl, which contributed to over 50% of total sales in the past four years. This solid partnership, however, also allows Zalaco's product expansion into the whole market of Hungary, as well as within neighbouring countries (Slovakia, Czech, Austria, Croatia and Slovenia). Nevertheless, since 2018, Zalaco also exports its products directly to partners in nearby countries (approx. 8% of sales in 2025), through its frozen bakery products segment.

High dependence on a single customer

In 2024 and 2025, Zalaco delivered steady and solid operating performance, with year-on-year revenue growth of 9.8% and 7.1%, respectively, while maintaining an EBITDA margin above 20% (a level significantly higher than peers, whose margins remain below 10%). This strong trajectory reflects the continued improvement in the company's retail segment and the stable performance of its high-margin frozen bakery products. These positive developments were partially offset by a year-on-year decline in fresh product sales. While operations are currently running close to full capacity, the retail segment is still expected to offer additional growth potential of approximately 10%–15% in 2026 through efficiency strategies.

Strong profitability margins ahead of peers

Figure 3: Zalaco's local peers' margin development (EBITDA margin)



Source: Zalaco, Scope estimates

EBITDA growth, and its maintenance at approximately HUF 6bn (HUF 5.9bn in 2024) were supported by improvements in Zalaco's cost structure, particularly in utilities and key raw materials such as flour and margarine, alongside effective pricing actions. EBITDA margin has been volatile over the past years, but we expect it to remain in the 20–22% range in the near term, largely because the company is operating close to maximum capacity and limited ability to expand production in the short run. As a result, profitability will depend on pricing dynamics for finished goods (closely tied to Hungary's inflation outlook) and on fluctuations in raw material costs, which continue to be influenced by agricultural commodity trends and broader global supply-chain conditions.

Limited capacity and costs constraining EBITDA growth

8. Financial risk profile: BBB-

Strong FRP supported by low leverage

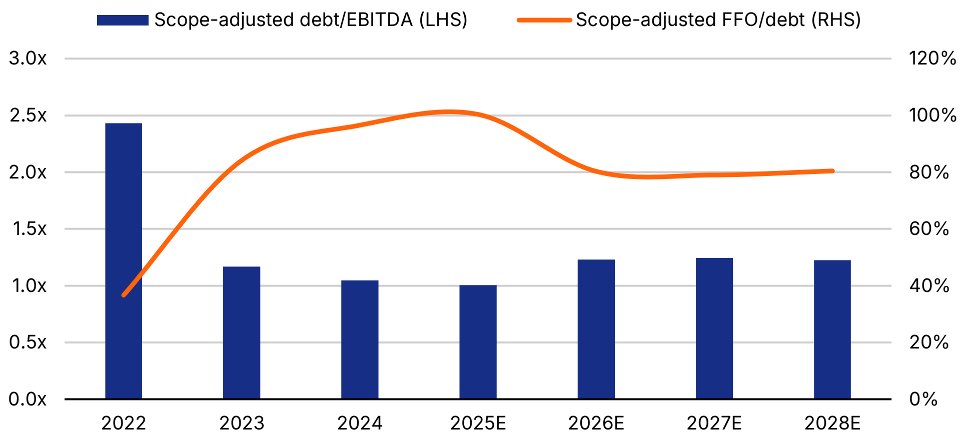
Zalaco's good financial risk profile remains stronger than its business risk profile and supports the overall issuer rating. The company's sound growth sustained strong credit metrics in 2024 and 2025. Leverage, as measured by debt/EBITDA (excluding cash netting), decreased to 1.0x in 2024 (vs 1.2x in 2023) and was kept flat in 2025; similarly, funds from operations/debt approached 100% in 2025 due to solid EBITDA growth in absolute terms while indebtedness remained moderate. We highlight that Zalaco could repay all its debt with the cash available on its balance sheet.

Our leverage assessment does not include the netting of cash, as the high cash balance is expected to be partly utilised rather than serving solely as a liquidity buffer.

Sustained strong leverage albeit investment heavy cycle

Going forward, we anticipate leverage to slightly increase back to 1.2x as EBITDA growth should be pressured by rising in operational costs and debt should slightly increase to support the financing of the new factory investment.

Figure 4: Zalaco's leverage development

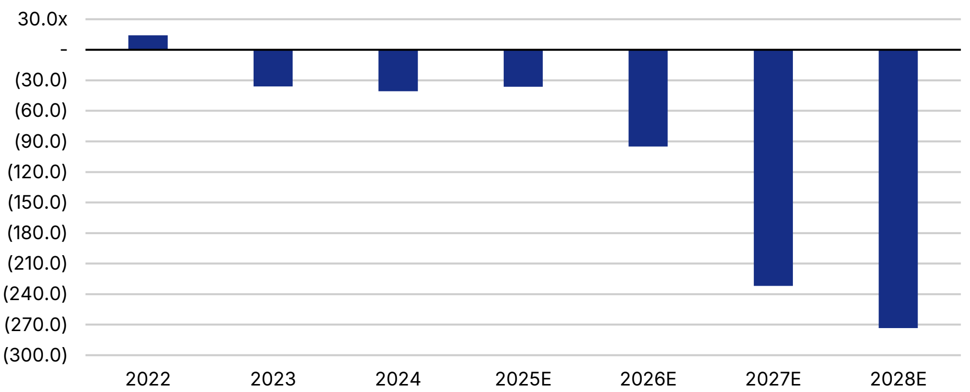


Source: Zalaco, Scope estimates

New hybrid factory in Zalaegerszeg

In 2024, the company planned to invest in a new field in Varpalota to build a new manufacturing facility which could further benefit business expansion and eventual accession to Budapest market. However, given that the deal did not materialise, Zalaco has now redirected these efforts into acquiring a greenfield (5 hectares) nearby the existing plant in Zalaegerszeg and subsequently constructing a new manufacturing facility to support production and potentially support capacity expansion. If successful, a new operating factory is expected to be in place by 2028.

Figure 5: Zalaco's interest cover development



Source: Zalaco, Scope estimates

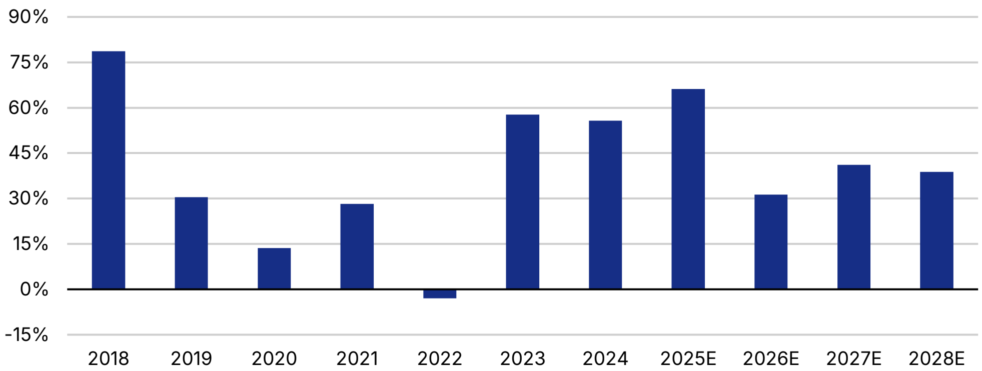
We expect Zalaco to generate positive net cash interest throughout the projected period due to its substantial cash buffer. Although interest payments are expected to rise in the assumption of a new debt issued to finance the new factory at a higher effective interest rate, the interest income from the company's robust cash balances should more than offset interest payments. Moreover, our expectation is that Zalaco will continue generating positive FOCF thanks to disciplined capex; however, in the near-term, a lower magnitude (approximately HUF 2bn in 2026-2028 vs approximately HUF 4bn in 2025) due to the upcoming investment-heavy cycle.

Net interest position despite potential debt increase

We also do not expect any M&As in the next three years and dividends payments should be sufficiently covered by FOCF generation in 2026-2028, remaining at 25% of previous year's net income as per the bond prospectus.

No M&A expected

Figure 6: Zalaco's cash flow cover development



Source: Zalaco, Scope estimates

Zalaco's liquidity remains adequate. This is mainly driven by a limited short-term debt position and sound EBITDA cash conversion. While the expected increase in maintenance and development capex in upcoming years will pressure FOCF generation, the company's significant cash buffer remains substantial to fully cover financing and refinancing needs.

Adequate liquidity

Zalaco's senior unsecured bond 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 4.4bn) if the debt rating of the bond 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 company's liquidity profile. The rating headroom to entering the grace period is three notches. We therefore see no significant risk of the rating-related covenant being triggered.

No significant risk of bond covenant being triggered

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

	2024	2025P	2026E
FOCF (t)	2,362	3,952	2,325
Short-term debt (t-1)	210	709	129
Liquidity	**>200%**	**>200%**	**>200%**

Source: Zalaco, Scope estimates

9. Supplementary rating drivers: +/- 0 notches

Supplementary rating drivers have no impact on the issuer rating. We assess the company's financial policy, including M&A strategy and dividends payment (capped at 25% of previous year's net income, in line with bond prospectus) as credit neutral.

Credit-neutral

10. Debt rating

Senior unsecured debt rating: BB

We have affirmed the senior unsecured debt rating at BB, which also pertains to the HUF 4.4bn bond (ISIN: HU0000359765). The rating is based on a hypothetical liquidation scenario as of end-2028, in which we computed an 'excellent' recovery for holders of senior unsecured debt based on its assumptions of attainable liquidation values. Although the recovery analysis indicates a relatively high recovery rate for senior unsecured debt, we have limited the rating uplift for the debt category to one notch due to i) the unsecured nature of the debt, ii) Zalaco's small scale and the uncertainties around the setup of the company at the time of a default, and iii) the risk that the company could raise higher-ranking debt, which would dilute the recovery for senior unsecured debt holders.

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