SCOPE | Ratings

Tranzit-Food Kft.

Hungary, Consumer Products

Rating composition

Business risk profile		
Industry risk profile	A	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**	**2024P**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	Net interest income	Net interest income	Net interest income	Net interest income
Scope-adjusted debt/EBITDA	0.2x	2.3x	0.6x	0.0x
Scope-adjusted funds from operations/debt	430%	57%	161%	6,681%
Scope-adjusted free operating cash flow/debt	463%	-119%	32%	3,347%
Liquidity	>200%	166%	>200%	>200%

Rating sensitivities

The upside scenario for the rating and Outlook:

- EBITDA margin sustained at around 10%

The downside scenarios for the rating and Outlook:

- EBITDA margin not sustained at around 10%
- Further downside is possible if debt/EBITDA rises above 4.0x on a sustained basis

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

Issuer
BB-

Outlook
Negative

Senior unsecured guaranteed bond
BB

Lead Analyst

Istvan Braun
+49 30 27891-378
i.braun@scoperatings.com

Related methodologies

General Corporate Rating Methodology, Feb 2025
Consumer Products Rating Methodology, October 2024

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Moderate financial risk profile with resilient credit metrics and adequate liquidity, mitigating risks related to margin volatility • European leader in goose production with 18% market share • Product diversification with three types of poultry meat, with the more stable, although lower, margins of the chicken segment reducing overall margin volatility	• Volatile operating profitability, limiting visibility of future cash generation • Limited absolute size in terms of revenue hindering ability to withstand adverse market conditions • Weak geographical diversification outside of Europe, although likely to improve, and weak customer diversification in chicken segment • Poor visibility on medium-term free operating cash flow due to working capital swings

2. Rating Outlook

The Negative Outlook reflects the risk that the EBITDA margin will not return to historical averages (around 10%) on a sustainable basis following margin deterioration since FY 2023. The Outlook also reflects our view that the more favourable market conditions in Europe in general and specifically related to supply constraints caused by the bird flu outbreak in Poland are temporary. The financial risk profile is expected to remain moderate, with debt/EBITDA at well below 4.0x and net interest income, while operating free cash flow remains exposed to working capital fluctuations.

3. Corporate profile

Hungarian food producer specializing in poultry products (duck, goose, chicken)

Tranzit-Food Kft. is a Hungarian poultry company founded in 1990 by the Szabo family. It is headquartered in Debrecen and employs around 1,600 people. The company breeds, slaughters, processes and sells ducks, geese and chickens, in addition to producing crop and feed. In 2024, Tranzit had annual sales of HUF 58.8bn. The Tranzit group is divided into two subsidiaries: Tranzit-Ker, which oversees agricultural activities, and the rated entity Tranzit-Food Kft., which operates under the Goldenfood brand. Tranzit owns two slaughterhouses, one dedicated to chickens and the other to geese and ducks, as well as a secondary processing plant. In 2018, the shareholding structure changed, with the French group LDC acquiring a 70% stake in Tranzit and the Szabo family retaining the remaining 30%.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
01 April 2025	Outlook change	BB-/Negative
04 June 2024	Outlook change	BB-/Stable
08 June 2023	Outlook change	BB-/Positive

5. Financial overview (financial data in HUF m)

				Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024P**	**2025E**	**2026E**
EBITDA interest cover	>20x	Net interest income	Net interest income	Net interest income	Net interest income
Debt/EBITDA	0.4x	0.2x	2.3x	0.6x	0.0x
Funds from operations/debt	242%	430%	57%	161%	6,681%
Free operating cash flow/debt	301%	463%	-119%	32%	3,347%
Liquidity	>200%	>200%	166%	>200%	>200%
EBITDA					
Reported EBITDA	9,938	7,081	2,708	6,389	7,569
Other items (incl. one-offs)	-	-	(28)	-	-
EBITDA	**9,938**	**7,081**	**2,680**	**6,389**	**7,569**
Funds from operations (FFO)					
EBITDA	9,938	7,081	2,680	6,389	7,569
less: interest	(239)	685	277	183	176
less: cash tax paid	(421)	(360)	(203)	(452)	(535)
Other non-operating charges before FFO	132	(109)	752	-	-
Funds from operations	**9,410**	**7,297**	**3,506**	**6,120**	**7,210**
Free operating cash flow (FOCF)					
Funds from operations	9,410	7,297	3,506	6,120	7,210
Change in working capital	3,648	8,018	(7,981)	(678)	(1,808)
Non-operating cash flow	-	-	-	-	-
less: capital expenditures (net)	(1,318)	(7,452)	(2,886)	(4,209)	(1,789)
Free operating cash flow	**11,740**	**7,863**	**(7,362)**	**1,233**	**3,612**
Interest					
Net cash interest per cash flow statement	239	(685)	(277)	(183)	(176)
add: other items	-	-	-	-	-
Interest	**239**	**(685)**	**(277)**	**(183)**	**(176)**
Debt					
Reported financial (senior) debt	13,355	15,394	12,003	9,609	7,115
less: cash and cash equivalents	(13,515)	(19,565)	(8,346)	(8,291)	(10,010)
add: non-accessible cash[1]	4,055	5,870	2,504	2,487	3,003
Debt	**3,895**	**1,699**	**6,161**	**3,806**	**108**

[1] Assumed at 30% of the cash on balance sheet at year-end

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)
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

ESG factors are credit-neutral

Tranzit has no dedicated ESG strategy. However, we note positively that, following LDC's lead, the issuer has started an audit to identify key criteria to measure and improve its overall ESG impact.

We highlight, however, the key person risk associated with CEO Mr Ákos Szabó that could impair operational effectiveness. This is due to the material concentration of decision-making powers with this individual in terms of operational strategy.

[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: BB-

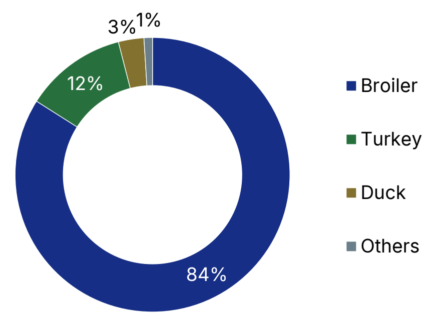
Producer of non-discretionary consumer products

The company slaughters, processes and sells ducks, geese and chickens, a product we classify as part of the non-discretionary consumer goods industry. The segment is characterised by low cyclicality, medium entry barriers and low substitution risk. Although goose and duck, being premium food products, display characteristics of discretionary consumer goods (increased cyclicality and substitution risk compared to chicken), we still classify the industry risk as belonging to food producers and thus as non-discretionary in nature.

Moderate market share with increasing growth prospects

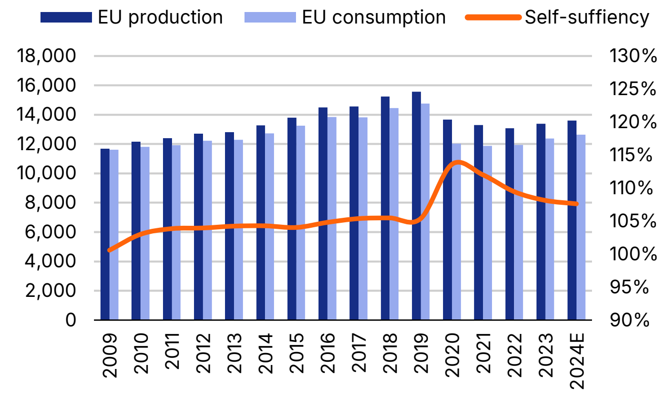
Goose and duck meat production accounts for less than 4% (Figure 1) of the European poultry market, which is dominated by the production of broilers (83%). Tranzit is one of the leading players in Hungary, with close to 30% market share in duck and goose and around 8% in chicken. Tranzit produced around 58 kilotons of poultry meat in 2024, of which 32 kilotons was chicken; this is less than 1% of the 13,490 kilotons produced in Europe in 2023 as estimated by the European Commission.

Figure 1: EU production of poultry meat, 2024



Sources: European Commission (DG ESTAT, DG AGRI), Scope

Figure 2: EU poultry meat production/consumption (in kilotons, LHS) and self-sufficiency (in %, RHS)



Sources: European Commission (DG ESTAT, DG AGRI), Scope

Sales revenues decreased by around 16% to HUF 58.8bn in 2024, which was due to lower selling prices and a more adverse market rather than a loss of market share. We anticipate a gradual recovery in sales turnover in 2025 and 2026, driven by both external and internal factors including: i) the widespread bird flu outbreak in Poland, Europe's largest poultry producer, leading to reduced supply and upward pressure on selling prices; and ii) the completion of Tranzit's current investment programme, which will double chicken slaughterhouse capacities. As a result, we forecast revenues to reach around HUF 80bn by 2026.

Exposure to the chicken segment expected to increase, reducing seasonality

Tranzit started its chicken operations in 2017 using the integrated approach already implemented for its goose and duck production, with Tranzit-Ker supplying most of the poultry slaughtered.

Global chicken consumption and production is expected to grow by 4.2% and 4.6% respectively per year between 2021 and 2030, according to the OECD. Demand is driven by the comparative advantages of poultry over other meats, including affordability, convenience, the absence of religious guidelines and the healthy image. As production of chicken in the EU is self-sufficient (Figure 2), surplus production is mostly exported, including to the Middle East, sub-Saharan Africa and Asia (Vietnam and the Philippines). The strongest increase in production is expected in Hungary, Poland and Romania due to sustained productivity gains and looser environmental regulations for building new farms.

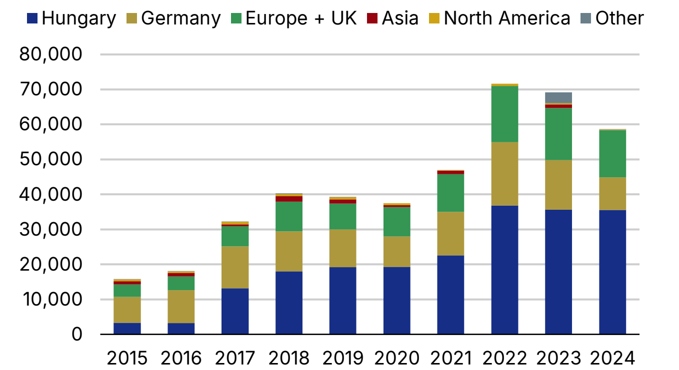
Chicken is sold and produced throughout the year; this is unlike goose and duck, which are seasonal. Goose tends to be eaten on special occasions (such as St. Martin's Day in Hungary and Germany, and Christmas) and its selling contracts run from September to Easter.

Geographical focus remains on Europe

Tranzit's geographical footprint remains focused on Europe. This resulting concentration risk is partially mitigated by the company's strategy to increase exports outside the region, helped by its plans to expand chicken operations.

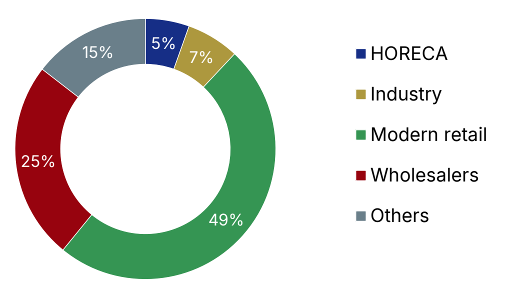
In 2024, Hungary accounted for around 60% of Tranzit's sales and Europe for 98% of its exports. The proportion of domestic sales is due to the one-off underperformance of German sales. Other than Germany, major European export countries include Slovakia, Romania, Austria, the Czech Republic, Croatia and France. Tranzit's most prominent Asian market is Japan, and in North America, Tranzit is present in Canada. Tranzit's main customers are wholesalers and retailers (83% of FY 2024 sales). At the same time, its selling contracts are concentrated, with the top 10 customers accounting for 72% of sales in FY 2023. This concentration risk is mitigated by the customers' strong credit quality (including major retailers such as Lidl, Spar and Tesco), reducing the risk of non-payment.

Figure 3: Revenue breakdown by region, 2015 to 2024 (in HUF m)



Sources: Tranzit, Scope

Figure 4: Revenue breakdown by sales channel, 2024 (%)



Sources: Tranzit, Scope

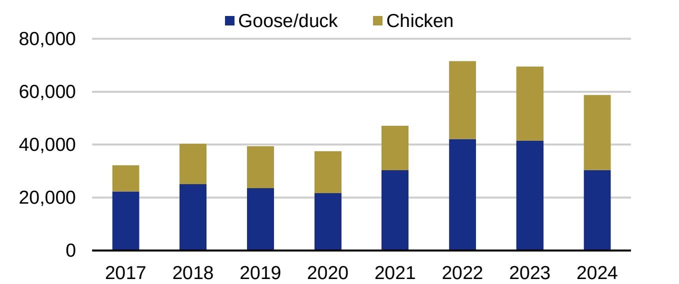
Concentrated product portfolio

Tranzit's markets of duck, goose and chicken belong to the same product category but are not consumed the same. Chicken is eaten all year, while duck and goose are consumed on special occasions, which makes their market more effected by seasonality.

In 2024, chicken represented around 50% of sales and 60% of EBITDA, while in previous years, duck and goose segment were dominant. While the weak performance of duck and goose was a one-off, caused by the more adverse market environment, we expect the contribution from chicken to increase in the medium term as a result of the capacity-expanding investment. The chicken EBITDA margin of 4%-7% is stable but consistently lower than the more volatile but higher EBITDA margin range (2%-21%) for duck and goose.

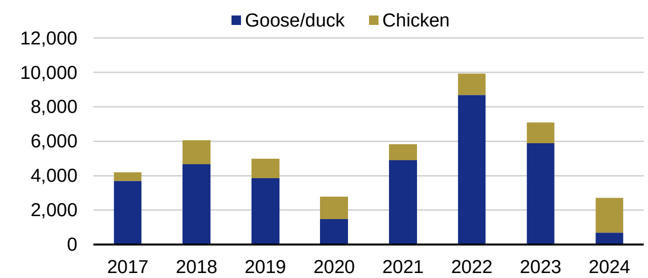
All three poultry types are sensitive to avian flu outbreaks, which could substantially hamper Tranzit's production in terms of its supply chain. However, this risk is dampened by the strict quality controls imposed by retail customers. Tranzit-Ker is the sister company responsible for the agribusiness activities such as the hatching, breeding and fattening of the birds. Tranzit-Ker's strategy is to have breeding farms in various regions, currently spanning four counties. This distance makes hygienic actions more efficient and makes the birds less vulnerable to infectious disease.

Figure 5: Revenue breakdown by type of meat, 2017 to 2024 (HUF m)



Sources: Tranzit, Scope

Figure 6: EBITDA contribution by type of meat, 2017 to 2024 (HUF m)



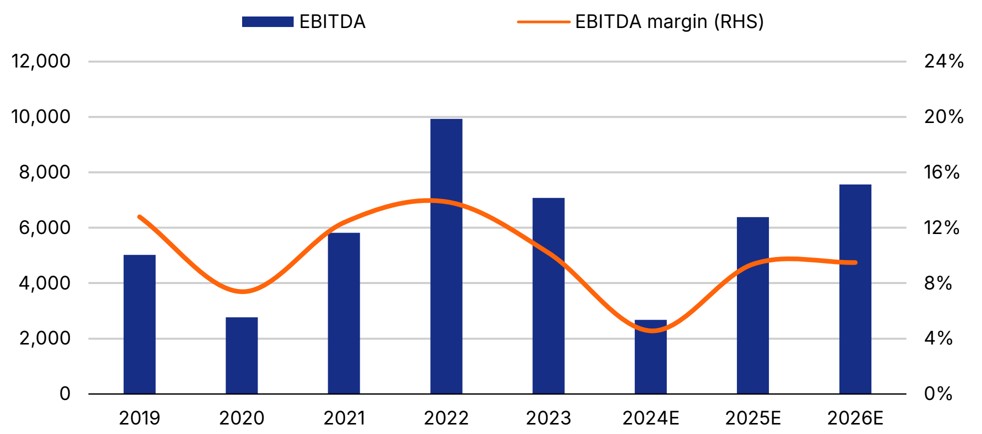
Sources: Tranzit, Scope

Volatile operating profitability

The EBITDA margin has become more volatile, dropping below 5% in 2024 from 10.2% in 2023, mainly as a result of the underperformance of duck and goose. Prices in this segment dropped, primarily due to weak demand from the issuer's primary EU markets, leading to EBITDA margin falling during 2023 to 2.3% from 14%. However, the product segment is highly cyclical: export prices increased in 2022 until Q2 2023 and reached unsustainable levels in Q3 2023 before dropping in 2024 due to shrinking demand. The unfavourable market in 2024 can also be attributed to lower disposable incomes combined with the partly discretionary nature of duck and goose meat, which is regarded a luxury food in many regions, easily substituted by cheaper options such as chicken or pork. The cyclical nature of the EBITDA margin is evident in the past five years (see Figure 7). However, the higher volatility, 2%-20% with more extreme highs and lows, is restricting visibility on medium-term profitability.

While we expect the EBITDA margin to improve until 2026, our EBITDA margin forecast is more conservative given the rapid changes in the market and the limited visibility on future selling prices.

Figure 7: Development of EBITDA (HUF m, LHS) and EBITDA margin (%, RHS)



Sources: Tranzit, Scope estimates

8. Financial risk profile: BB+

Credit metrics remaining resilient despite weaker EBITDA generation

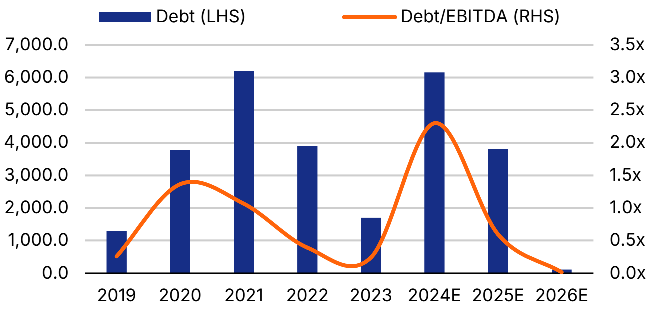
The financial risk profile remains supported by the good leverage and debt protection but constrained by the volatile cash flow cover.

Leverage, as measured by debt/EBITDA, increased to 2.3x in 2024, although this is temporary given the weaker operating profitability. Beyond 2024, we expect leverage to return below 1.0x, in line with debt amortisation and the projected gradual recovery in operating profitability. The debt calculation includes a partial netting of cash, applying a 30% haircut to account for seasonal swings in working capital.

Net interest income was again realised during 2024, reaching HUF 277m, due to the high level of cash and favourable deposit rates. Interest expense was HUF 323m (average interest rate of 2.4%, similar to the 2023 level), benefiting from the low coupon of the HUF 9.2bn bond issued under the MNB bond funding for growth programme (2%) and the moderate debt level. For the medium term, we forecast interest expense to decrease gradually in line with the amortisation of financial debt. Interest income is also expected to decrease due to a lower cash level from 2025, yet we still expect net interest income until 2026.

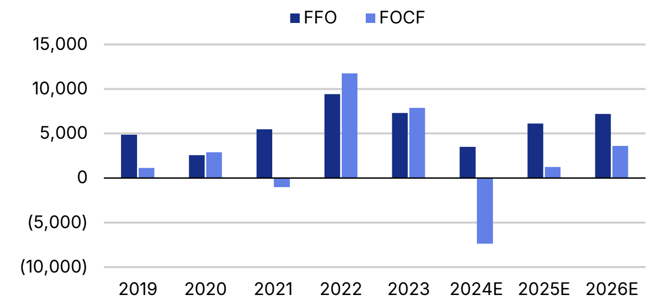
Cash flow cover is expected to remain volatile, swinging between highly positive and deeply negative values. In 2024, the high inventory at year-end resulted in increased cash absorption from working capital and thus resulted in negative free operating cash flow of HUF 7.4bn despite capex (HUF 2.9bn) being lower than in previous years.

Figure 8: Development of debt (HUF m) and debt/EBITDA (x)



Sources: Tranzit, Scope

Figure 9: Development of FFO and FOCF (HUF m)



Sources: Tranzit, Scope

Adequate liquidity

Liquidity is assessed as adequate, as sources (HUF 5.8bn of available unrestricted cash as at YE 2024 and free operating cash flow of HUF 1.2bn forecasted for 2025) fully cover uses (scheduled debt amortisation of HUF 2.4bn) in 2025.

We highlight that Tranzit's senior unsecured guaranteed 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 9. bn 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 company's liquidity profile. The rating headroom to entering the grace period is 2 notches. We therefore see no significant risk of the rating-related covenant being triggered.

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

	2024P	2025 E	2026 E
Unrestricted cash (t-1)	13,695	5,842	5,803
Open committed credit lines (t-1)	5,000	5,000	5,000
FOCF (t)	(7,362)	1,233	3,612
Short-term debt (t-1)	3,869	2,394	2,494
Liquidity	**166%**	**>200%**	**>200%**

Source: Tranzit, Scope

9. Supplementary rating drivers: + 0 notches

Supplementary rating drivers deemed credit-neutral

Structural weaknesses in the rated entity's governance and structure do not lead to a negative rating-adjustment for supplementary rating drivers as these are already reflected in the weighting between the business and financial risk profiles.

10. Debt rating

Senior unsecured guaranteed bond rating: BB

The rating on senior unsecured debt is BB, one notch above the issuer rating based on the 'superior' recovery of the debt category.

In 2021, Tranzit issued a HUF 9.2bn senior unsecured guaranteed bond (ISIN: HU0000360599) through Hungary's bond scheme. The bond's tenor is seven years, with a fixed coupon of 2.0% and repayment in four tranches: 10% in 2025, 20% in 2026 and 2027 and a 50% tranche at maturity in 2028. The bond has been issued with a guarantee from the related company Tranzit Ker Zrt.

Our analysis indicates a 'superior' recovery for the senior unsecured guaranteed bond and for all other senior unsecured debt positions at the level of Tranzit, even after a recovery of all senior secured debt. The recovery assessment benefits from the high level of fixed assets, mainly property, plant and equipment, translating into the debt rating being one notch above the issuer rating (BB). This recovery rate normally allows for more than one notch of uplift but was limited due to the potential volatility in the capital structure on the path to default combined with the issuer's ability to raise additional debt ranking above the senior unsecured guaranteed bond.

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

Bloomberg: RESP SCOP
Scope contacts
scoperatings.com

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