

## Scope affirms B+/Stable issuer rating of Vajda-Papír

The rating affirmation reflects a still comparatively strong business risk profile and improving credit metrics following a deterioration driven by unfavourable market developments in cellulose and energy prices.

The latest information on the rating, including rating reports and related methodologies, is available on this [LINK](#).

### Rating action

Scope Ratings GmbH (Scope) has today affirmed the B+/Stable issuer rating of Vajda-Papír Kft. and its consolidated subsidiaries. Simultaneously, the B+ rating on senior unsecured debt has also been affirmed.

### Rating rationale

The rating action reflects Vajda-Papír's comparatively strong business risk profile, which has remained unchanged in the past year, and has benefitted from increased demand for the group's products during the pandemic. The group has successfully obtained funding for its Phase II investment plan amounting to HUF 16bn, in line with Scope's previous base case projections from January 2021. The only adjustment is that the group accepted the additional 10% oversubscription, resulting in a face value of HUF 9.9bn. The Phase II investment is on schedule, there are no cost or time overruns as of the publishing of the document. The plant is expected to be finished by Q1 2022 and the manufacturing and sales of base paper are expected to commence by the end of H1 2022.

Compared to Scope's previous base case projection, unfavourable market developments have weakened Vajda-Papír's credit metrics. This has also resulted in a breach of the negative rating trigger, which Scope forecasts will be temporary: the funds from operations/Scope-adjusted debt (SaD) credit metric in 2021E is forecasted to decrease slightly to below 10%. Scope had forecasted that credit metrics would deteriorate following a successful issuance of the second NKP bond, but credit metrics declined further due to significantly lower profitability than forecasted. This implies a reduction in Scope-adjusted EBITDA of around 25% compared to previous projections. The weaker performance is primarily due to skyrocketing cellulose and gas prices.

The group was in a similar situation in 2018 when the inflated price of cellulose (which accounts for the majority of material costs) created significant liquidity problems and negative profitability. This time round, however, Vajda-Papír has managed the unfavourable situation better than three years ago via a larger share of non-fixed price customer contracts, a notable safety inventory of raw materials and finished products for several months and the option to utilise trade credit. Finally, the new base paper manufacturing plant (Phase II) is expected to eliminate Vajda-Papír's exposure to base paper price volatility and increase its profitability margin in the medium to long term. Despite the temporary weakening of credit metrics, Scope forecasts that Vajda-Papír will achieve similar levels to its previous projections in one year's time.

Scope views some of Vajda-Papír's credit metrics for 2021 significantly weaker than what its financial risk profile assessment calls for. However, due to the agency's forward-looking approach, this temporary weakening of selected credit metrics does not alter the overall financial risk profile assessment. Scope expects leverage to decline below 10x

this year, before improving to levels of around 6x in 2022. Scope also expects negative free operating cash flow for 2021 and 2022 as a result of the ongoing Phase II investment plans. Vajda-Papír has no additional debt beyond the two NKP bonds, which will not start amortising until 2024. Therefore, Scope assesses the group's liquidity position as adequate.

Vajda-Papír's second bond is a green bond. The group was one of the first to issue a green bond within the NKP bond framework. The green bond's framework sets a list of objectives, primarily related to resource management, which the group must comply with by 2030 (positive ESG factor).

One or more key drivers of the credit rating action are considered an ESG factor.

### Outlook and rating-change drivers

The Stable Outlook reflects Vajda-Papír's comparatively strong and unchanged business risk profile and incorporates Scope's view that the impact of the unfavourable market conditions on credit metrics are only temporary and that they will return to the levels the agency previously projected with a one-year lag. Moreover, Scope expects FOCF to be positive in 2023 and that liquidity remain adequate in the medium term.

A negative rating action is possible if the weakened leverage metric of funds from operations/SaD remain below 10% on a sustained basis, either as a result of the unfavourable market conditions or delays related to Vajda-Papír's investment plans.

A positive rating action is currently remote, but could be warranted if SaD/Scope-adjusted EBITDA falls to below 4x on a sustained basis.

### Long-term and short-term debt ratings

Scope has affirmed the B+ senior unsecured debt rating of Vajda-Papír in line with its issuer rating. Recovery expectations are based on the expected liquidation value in a hypothetical default scenario in 2023, after the Phase II investment plan has been completed. Although the recovery rate is 'above average', no notching has been applied due to the group's weak financial risk profile.

### Stress testing

- No stress testing was performed.

### Cash flow analysis

- Scope Ratings performed its standard cash flow forecasting for the company.

### Methodology

The methodologies used for this Credit Rating and Outlook, Corporate Rating Methodology, 06 Jul 2021 and Rating Methodology: Consumer Products, 30 Sep 2021, are available on <https://www.scooperatings.com/#!/methodology/list>.

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://www.scooperatings.com/#!/governance-and-policies/regulatory-ESMA>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://www.scooperatings.com/#!/methodology/list>.

The Outlook indicates the most likely direction of the Credit Rating if the Credit Rating were to change within the next 12 to 18 months.

### Solicitation, key sources and quality of information

The Rated Entity participated in the Credit Rating process.

|                                                            |     |
|------------------------------------------------------------|-----|
| With the Rated Entity or Related Third Party participation | YES |
| With access to internal documents                          | YES |
| With access to management                                  | YES |

The following substantially material sources of information were used to prepare the Credit Rating: public domain, the Rated Entity, and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Rating originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Rating and Outlook and the principal grounds on which the Credit Rating and Outlook are based. Following that review, the Credit Rating was amended

before being issued.

### **Regulatory disclosures**

This Credit Rating and Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Rating and Outlook are UK-endorsed

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The Credit Rating/Outlook was first released by Scope Ratings on 28 October 2019. The Credit Rating/Outlook was last updated on 1 February 2021.

### **Potential conflicts**

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