

[back](#)

13 Dec 2021 - Scope Ratings GmbH

## Scope confirms Baromfi-Coop Kft's issuer rating of BB-/Stable

**The rating action reflects the changed investment strategy, higher-than-expected state subsidies, better-than-planned Q3 results and greater transparency and therefore visibility on the future business plan and capital structure.**

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 confirmed Baromfi-Coop Kft.'s issuer rating of BB-/Stable and senior unsecured debt rating of BB-, thereby resolving the status of under review for possible downgrade pending since September 2021.

### Rating rationale

The affirmation and resolution of the under-review status results from Scope's expectation that the company's capital structure will not deteriorate beyond the original triggers for a negative rating action. This view is largely based on the updated investment and financing plan, higher-than-expected state subsidies, better transparency and visibility on the future business plan, no increase in secured long-term debt, and the well above-plan Q3 results.

In September 2021, the owner of Baromfi-Coop and its fully consolidated subsidiary Sága Foods (the Bárány family) announced a large investment plan (up to HUF 20bn) to increase the production capacity of Sága Foods and its strategic partners, Steam Cook and Várda Meat (processed poultry producer). The additional investment comes alongside the existing large investment programme announced in June 2021, which was financed with a HUF 23bn senior unsecured green bond issuance.

The updated management plan received at the end of November 2021 entails a delay of a significant

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amount of capex, a higher state subsidy expectation (by HUF 6bn) and the cancellation of plans to raise secured debt ranking ahead of the existing three bonds for further investments. Additional short and medium-term financing may be needed for increased working capital due to increasing input prices and the general shortage of animal feed. Furthermore, the owners have delayed the plan to contribute in kind Steam Cook, to 2024 at the earliest, resulting in a lower EBITDA forecast from 2022 of around HUF 1.5bn yearly. Scope notes that its previous rating case included the contribution in kind of both Várda Meat and Steam Cook, which mainly operate in frozen convenience food.

The overall business risk profile assessment is not influenced significantly by the new business plan as Baromfi-Coop continues to have a similar or slightly higher market share and diversification than in previous periods. In Q3 2021, the top line grew by one-third YoY and the EBITDA by one-fourth, well above Scope's expectations. Operating profitability in Q3 2021 was similar to last year's with an EBITDA margin of 12%-13%.

The overall financial risk profile assessment remains unchanged as the issuer continues to have good debt coverage and cash generation along with an EBITDA/interest cover of above 10x and funds from operations/Scope-adjusted debt (FFO/SaD) of above 20%. Due to the intensive investments, FFO/SaD will remain negative, though the effect will ease in 2022 with the delay of certain investments to 2023-24. The high growth of business during 2021, new expected subsidies and the amended investment period help to stabilise leverage at a SaD/EBITDA of 4x or slightly below.

#### **Outlook and rating-change drivers**

The Outlook is Stable, reflecting Scope's expectation of a SaD/EBITDA at slightly below 4.0x in the medium term, as well as continued positive performance thanks to a resilient business model with limited vulnerability to the Covid-19 pandemic.

A positive rating action could be warranted by a SaD/EBITDA sustained at less than 3.5x. This could occur if Baromfi-Coop's capital allocation policy shifted from recurring capex programmes to debt reduction.

A negative rating action could be required if SaD/EBITDA were to rise above 4.0x on a sustained basis. This could occur if the company orchestrated large M&A or EBITDA fell short of Scope's projections. Lastly, a rating downgrade could result from continued weak liquidity coverage beyond 2022.

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

The senior unsecured debt rating was based on the BB- issuer rating and the 'average' recovery expectation for this debt category, which remains unchanged. Scope has also confirmed the BB- rating on senior unsecured debt.

#### **Stress testing & cash flow analysis**

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

### **Methodology**

The methodologies used for these Credit Ratings and/or Outlook, (Corporate Rating Methodology, 6 July 2021; Rating Methodology: Consumer Products, 30 September 2020), 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 Ratings if the Credit Ratings were to change within the next 12 to 18 months.

### **Solicitation, key sources and quality of information**

The Credit Ratings were not requested by the Rated Entity or its Related Third Parties. The Credit Rating process was conducted:

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 Ratings: 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 Ratings 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 Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings were not amended before being issued.

### **Regulatory disclosures**

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

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The Credit Ratings/Outlook were first released by Scope Ratings on 19 September 2019. The Credit Ratings/Outlook were last updated on 16

September 2021.

**Potential conflicts**

See [www.scooperatings.com](http://www.scooperatings.com) under Governance & Policies/EU Regulation/Disclosures for a list of potential conflicts of interest related to the issuance of Credit Ratings.

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