

Scope places Baromfi-Coop Kft's issuer rating of BB-/Stable under review for a possible downgrade

The rating action reflects Baromfi-Coop's changed investment strategy, resulting in uncertainty with regard to the company's 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 placed Baromfi-Coop Kft.'s issuer rating of BB-/Stable and senior unsecured debt rating of BB- under review for a possible downgrade.

Rating rationale

On 11 September 2021, the Bárány family (the owner of Baromfi-Coop and its fully consolidated subsidiary Sága Foods) announced a large-scale HUF 20bn investment plan to increase the production capacity of Sága Foods and its strategic partners, Steam Cook and Várda Meat (which make processed poultry products)¹. The additional investment comes alongside the existing large-scale investment programme announced in June 2021, which was financed with a HUF 23bn senior unsecured green bond issuance.

Management has confirmed that the new investment financing is under structuring and will potentially consist of: i) a relatively high expected (not contracted) subsidy; and ii) company cash flow, resulting in potentially higher leverage than planned. The company will try to avoid raising additional senior secured bank debt, however Scope considers further financing may be needed for the investment and its increased working capital need.

The new plant is expected to start producing cash flow at the end of 2023. Therefore, Scope expects Baromfi-Coop's Scope-adjusted debt/EBITDA to increase to above 4x on a sustained basis, at least until 2024. This compares unfavourably with Scope's previous rating case, which foresaw leverage not exceeding 4x.

Furthermore, the timing of the owner's plan to contribute in kind two companies (Steam Cook Kft. and Várda Meat Kft) became unsecure, which may cause lower EBITDA than projected. Scope notes that its rating case included the contribution in kind of the two companies, which mainly operate in the area of frozen convenience food.

Outlook and rating-change drivers

The issuer credit rating is under review for a possible downgrade. Scope will closely follow developments related to the investment strategy and capital structure of the company and aims to resolve the review as soon as possible, within three months at the latest.

Scope expects to obtain greater transparency via the provision, by management, of information on operations, the new capital structure and new investment plans (an updated business plan).

A downgrade of up to, but not limited to, one notch could result if the information is not provided which Scope needs to gain visibility on the company's operations (current and future), cash flow generation and capital structure.

Long-term and short-term debt ratings

The senior unsecured debt rating was based on the BB- issuer rating and an 'average' recovery expectation for this debt category. Driven by the rating action on the issuer rating, Scope has also placed the BB- rating for senior unsecured debt under review for a possible downgrade.

Rating driver references

	Short description of the source	Direct hyperlink to the source
1	11 September 2021 press announcement by Mr. László Bárány	https://www.sarvarradio.hu/20-milliardos-uj-uzemet-epit-sarvaron-a-saga/

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