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Research Update:

Greek Ice Cold Merchandiser Frigoglass Upgraded To 'B-' On Completed Restructuring; Outlook Negative

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Research Update:

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Overview

- On Oct. 23, 2017, Frigoglass SAIC announced the completion of the group's capital restructuring process. This followed the company's distressed exchange offer on its €250 million senior secured notes due 2018.
- Frigoglass' debt capital structure now comprises first-lien secured debt of about €106 million (consisting of first-lien bank facilities and notes), €42.2 million second-lien secured facilities, and €98.5 million second-lien secured notes. Moreover, the group has about €33 million outstanding in short-term bank debts.
- We are upgrading Frigoglass to 'B-' from 'SD' (selective default).
- At the same time, we are assigning our 'B-' issue rating to the €79.4 million first-lien notes, and 'CCC+' rating to the €98.5 million second-lien notes.
- The negative outlook reflects the higher risk of volatility in credit metrics associated with the implementation of the company's business plan and to currency volatility in emerging markets. In our view, Frigoglass has limited headroom within the rating to withstand deviation from our current base case.

Rating Action

On Feb. 2, 2018, S&P Global Ratings raised to 'B–' from 'SD' (selective default) its long-term corporate credit rating on Greece-based Ice Cold Merchandiser (ICM) and glass packaging manufacturer Frigoglass SAIC. The outlook is negative.

At the same time, we assigned our 'B-' issue rating to the €79.4 million first-lien senior secured notes due 2021, and our 'CCC+' issue rating to €98.5 million second-lien secured notes due 2022, issued by Frigoglass Finance B.V. (the group's financial subsidiary).

Rationale

The upgrade reflects the completion of Frigoglass' capital restructuring process. Following the distressed exchange offer with lenders, the company has significantly reduced its debt amount and associated interest costs, extended the debt maturity profile to 2021-2022, and obtained additional liquidity for €70 million (€30 million via a fresh equity injection from major shareholder, Boval SA, plus €40 million as new debt from core banks and noteholders). The closing of the capital restructuring represents a key milestone for the group. We now focus on the new conventional group's default risk to assess the corporate credit rating.

Frigoglass is one of global leaders in the Ice Cold Merchandisers (ICM) market (about 70% of sales in 2016), and the principal supplier of glass packaging in the West Africa market. The main markets for the group are Russia, Nigeria, and Europe, while Coca-Cola bottlers represent the main clients (about 55% of total group sales). For the full-year 2017, we expect the company to reach €400 million-€410 million in sales, and about €50 million in reported EBITDA.

In our view, the group's business risk profile is constrained by its high concentration on a few clients, such as Coca-Cola bottlers (mainly Coca-Cola HBC and Coca-Cola European Partners). The industry in which the company operates is also fairly competitive on prices, and over the short-to-medium term we do not expect the margins to increase significantly. Over the past three-to-four years the company has posted lower-than-expected operating results because of high volatility related to its large exposures to emerging markets that have suffered economic recession (such as Nigeria and Russia).

We also take into account the effort the group needs to put in to regain the trust of some of its clients and suppliers in the wake of its previously stressed financial situation.

Positively, we note that Frigoglass has long-term relationships with some global beverage brands in soft drinks, breweries, and others (such as Coca-Cola, Heineken, and SAB Millers). Furthermore, the group has a leading market position in its niche segment of beverage coolers, and its established manufacturing footprint in West Africa gives Frigoglass some potential for future long-term growth.

Within the ICM division, the company continues to invest in technology to provide best-in-class energy consumption and innovative smart coolers (such as ICOOL and its Hybrid coolers product range). The group has also completed the rationalization of its production footprint through the discontinuation of manufacturing in U.S. and more recently in China. These actions will bring some efficiencies and cost savings over the next few years.

Frigoglass' new business strategy aims to better penetrate the standard-to-low ICM market segment to achieve greater diversity in its customer base. Additionally, Frigoglass is expanding the "integrated services" business--focusing on Europe and then gradually rolling out to other markets--to support revenue growth in the ICM division. At the same time, the company is simplifying its production base via a reduction in stock keeping units (SKUs), and the outsourcing of specific manufacturing activities. In the glass division, the company needs to finalize the turnaround of its Middle East division, and to significantly invest in new equipment and repairs.

We expect Frigoglass to report an EBITDA margin of 11%-12% over the next 18-24 months. However, profit volatility could be hampered by raw material price trends and currency volatility. Nonetheless, we expect Frigoglass will start to post a more stable trend in margins.

Our assessment of the group's financial risk profile reflects our estimate of its S&P Global Ratings-adjusted debt to EBITDA staying at around 5.5x over the next 12-18 months. Under our base case, we forecast a very gradual deleveraging trend, mainly owing to moderate strengthening in absolute EBITDA value.

At the same time, we expect the company to continue to post negative free operating cash flow (FOCF; after working capital requirements and capital investments) over the next 12-18 months, mainly affected by annual capital expenditure (capex). Frigoglass plans to invest significant capex to support the expected volume growth (including for new product developments, equipment in Russia and Romania, expansion in service segment) and to recover the cut in capex in 2016-2017 that related to the group's stressed financial situation.

In our base case, we assume:

- About mid-single-digit revenue growth for fiscal year 2018 and 2019 mainly supported by a relatively low comparison base, recovery in volume (both for coolers and glass products), and some regain in market share with other non-Coca-Cola customers (such as breweries).
- Relatively stable EBITDA margin of 11%-12%, assuming positive effects from manufacturing rationalization and other operating cost saving initiatives. This will be offset by price reductions for selected customers and a less favorable product mix (with a higher contribution from the standard-to-low segment in the ICM division).
- Total annual capex of about €30 million in 2018 and €25 million in 2019.
- No dividend payment and acquisitions.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted debt to EBITDA of around 5.5x over the next two years.
- Negative annual FOCF generation of €10 million-€5 million over the next 18-24 months.

Liquidity

We assess Frigoglass' liquidity as less than adequate. We project that the company's sources of cash are sufficient to cover its uses by more than 1.2x over the next 12 months thanks to the absence of near-term maturity after restructuring. However, in our liquidity assessment, we take into account the group's limited ability to absorb a low-probability, high-impact negative event. The liquidity assessment also reflects our expectation of negative discretionary cash flow generation over the next 12 months, affected by expected material capital investments. We estimate that the company should have sufficient headroom under its leverage financial covenant to be tested semi-annually.

We expect that Frigoglass' principal liquidity sources during the next 12 months will comprise:

- Expected cash of about €50 million-€55 million at year-end 2017;
- Annual cash FFO in the range of €20 million-€25 million; and
- Undrawn amount of about €14 million under the first-lien revolving credit facility maturing in 2022.

We expect that Frigoglass' principal liquidity uses during the same period will comprise:

- Short-term debt repayment for about €33 million (other bank debts at operating level);
- Annual change in working capital of about €10 million;
- Limited seasonal intra-year working capital requirement; and
- Annual maintenance capex of about €22 million in 2018.

Outlook

The negative outlook reflects the higher risk of volatility in Frigoglass' credit metrics associated with implementation risk around its business plan and currency volatility risk in emerging markets. In our view, Frigoglass has limited headroom within the current rating to withstand a deviation from our current base case. Under our base-case scenario, for the full-year 2018 we anticipate the company will generate reported EBITDA of around €50 million, while posting negative FOCF due to higher capex to finance future growth in emerging markets.

Downside scenario

We could lower the rating if Frigoglass does not deliver on its business plan, resulting, for example, in FOCF in 2018 being more negative than we currently assume, or if the company increases its leverage ratio due to a significant debt-funded acquisition. Furthermore, we could consider lowering the rating if the company's liquidity comes under pressure, which could result from high capital investments that are not reflected as growth in the group's top line.

Upside Scenario

We will likely revise the outlook to stable if the company delivers on its business plan of improving operating performance in revenues and EBITDA, and posting a negative FOCF of about €10 million or better in 2018, while confirming our current expectation of improving cash flow generation for 2019.

Ratings Score Snapshot

Corporate Credit Rating: B-/Negative/--

Business Risk: Weak

- Country Risk: Moderately High
- Industry Risk: Intermediate

- Competitive position: Weak

Financial Risk: Highly Leveraged
- Cash flow/Leverage: Highly Leveraged

Anchor: b-

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no further impact)
- Liquidity: Less than Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Issue Ratings -- Subordination Risk

Capital Structure

Frigoglass's capital structure consist of about €27 million first-lien senior secured facilities and €79.4 million first-lien senior secured notes due 2021, €42.2 million second-lien secured facilities, and €98.5 million second-lien secured notes due 2022. The issuer is Frigoglass Finance B.V. (the group's financial subsidiary).

The group also has about €33 million in other outstanding short-term bank debts issued at operating subsidiaries (in Russia, India, and Nigeria).

Analytical conclusions

The issue rating on the senior secured first-lien notes due December 2021 is 'B-', in line with the corporate credit rating on Frigoglass. The notes rank pari passu with the first-lien facilities (consisting of a revolving credit facility (RCF) and term loan facilities).

The issue rating on the senior secured second-lien notes due March 2022 is 'CCC+', one notch below the rating on Frigoglass. The second-lien notes rank junior to the first-lien debt, and pari passu with the second-lien facilities (comprising RCF and term loan facilities).

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Consumer Durables Industry, Dec. 12, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And

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Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Frigoglass SAIC		
Corporate Credit Rating	B-/Negative/--	SD/--/--

New Rating

Frigoglass Finance B.V.	
Senior Secured (First-lien)	B-
Senior Secured (Second-lien)	CCC+

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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