

Rating Action: Moody's assigns B3 CFR to Frigoglass; B3 to senior secured notes, outlook stable

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Frankfurt am Main, January 24, 2020 -- Moody's Investors Service, ("Moody's") has today assigned a first-time long-term B3 corporate family rating (CFR) and a B3-PD probability of default rating (PDR) to Frigoglass SAIC ("Frigoglass"). Concurrently, the rating agency assigned a B3 rating to the proposed €260 million senior secured notes due 2025 (LGD4) issued by Frigoglass Finance B.V. The outlook on all ratings is stable.

"The assigned B3 CFR with a stable outlook balances the company's moderate initial leverage for the rating category with relatively small scale operations, customer concentration, and country risk from sizeable glass operations in Nigeria. In addition, the company materially improved its operating profitability to approximately 9% in the 12 months ended in September 2019 from around 5% EBITA margin in 2013 although investments resulted in continued negative free cash flow over the period", says Dirk Steinicke, Moody's lead analyst for Frigoglass.

RATINGS RATIONALE

The B3 CFR is constrained by: (1) the company's relatively small scale with roughly €475 million revenue in 2019, (2) its customer concentration with around 54% of total revenue derived from Coca Cola bottlers, (3) the country risk that Frigoglass faces in its Nigerian (Government of Nigeria, B2 negative) glass business, (4) discretionary nature of coolers results in high earnings' volatility that added to the factors leading a default in 2017 and (5) track record of negative free cash flow (FCF), in part due to significant investments, albeit expected to turn more meaningfully positive from 2021.

On the other hand, the rating is supported by (1) the moderate leverage of 4.5x-5.0x for the next 12-18 months following the proposed refinancing, (2) improved operating profitability with around 9% Moody's-adjusted EBITA margin as of LTM September 2019 following the restructuring efforts over the last couple of years, (3) leading position in West African glass market where the company can benefit from significant barriers to entry and positive demographic fundamentals, (4) long standing relationship with key customers and (5) a strategic major shareholder that already supported the company during the recapitalization and also holds c. 23% shares in Frigoglass' key customer, Coca-Cola HBC Finance B.V. (Baa1 stable).

LIQUIDITY PROFILE

Moody's considers Frigoglass' liquidity to be adequate mainly driven by additional €14 million cash following the issuance of the €260 million senior secured notes, which combined with around €58 million of cash on balance sheet as of September 2019 give the company enough cash to cover its basic cash needs for the next 12-18 months.

However, liquidity is limited by the absence of additional revolving credit facilities that could provide the company with some headroom in case of needs of additional investments or unexpected working capital swings. The absence of revolving credit facilities is particularly relevant in the context of Frigoglass' negative Moody's FCF generation in the last years.

STRUCTURAL CONSIDERATIONS

The instrument rating on the group's proposed new €260 million senior unsecured bonds is B3. This rating is in line with the corporate family rating because the capital structure mainly consists of one class of debt apart from a small secured credit line of €3 million (as of January 2020) which enjoys priority ranking.

OUTLOOK RATIONALE

The stable outlook reflects Moody's view that Frigoglass will be able to maintain leverage between 4.5x-5.0x following the refinancing and EBITA margin of around 9% over the next 12-18 months. The stable outlook also reflects Moody's expectation that Moody's FCF will be breakeven or slightly positive in the next 12-18 months.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's could consider to upgrade Frigoglass if (1) operating performance is materially improved indicated by growing EBITA margins to above 10% sustainably; (2) material positive free cash flow generation in the high single digit range in percentage terms of gross debt leading to an overall group's liquidity profile; (3) leverage were to reduce towards 4.0x debt/EBITDA sustainably; and (4) improved business profile evidenced by less customer concentration and more resilience against economic cyclicality.

Conversely, downward rating pressure could arise if (1) operating profitability were to deteriorate resulting in EBITA margins trending towards 5%; (2) continued negative free cash flow generation beyond 2020; (3) a weakening of liquidity; (4) leverage would exceed 5.5x debt/EBITDA.

ESG CONSIDERATIONS

Coolers are one of the biggest source of pollution in the beverage industry. Frigoglass has put an increasing effort in the past 2-3 years to develop more efficient coolers and managed to produce a cooler which consumes 35% less energy than previous models. In addition, Frigoglass' customers are putting increasing focus on the sustainability of their supply chain. In this context, the rating agency positively notice that Frigoglass was placed among the top 1% of the best rated companies in the world by ecovadis (independent CSR platform for suppliers).

Furthermore, in the beverage industry is increasingly making use of glass bottles rather than plastic bottles to promote recyclability. Therefore, Moody's believes that Frigoglass as a glass producer is well positioned to take advantage of this trend. In addition, according to the management recycling is becoming also now more important in Nigeria.

The more balanced financial policy following the recapitalization process in 2016 and 2017 is a positive factor for the current rating. This has resulted in reduction in leverage to 4.6x as of LTM September 2019 and although management does not have specific target leverage the rating agency expects it will remain focused on deleveraging going forward.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Manufacturing Companies published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Frigoglass, headquarter in Kifissia, Greece, is a leading manufacturer of commercial refrigeration in Europe and West Africa's major glass producer. The company was founded in 1996 as a spin-off of Coca-Cola HBC AG (Coca-Cola HBC Finance B.V., Baa1 Stable, also known as Coca-Cola Hellenic) and it is listed on the Athens Stock Exchange. Frigoglass operates two core businesses: Ice Cold Merchandise (ICM) that produces commercial coolers for soft drinks (76% of revenue and 54% of EBITDA as of LTM September 2019) and Glass that manufactures glass bottles glass, plastic crates and metal crowns in Nigeria (24% of revenue and 46% of EBITDA as of LTM September 2019). Frigoglass reported €474 million revenue and around €73 million EBITDA as of LTM September 2019.

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