MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Frigoglass' ratings to Caa1, outlook stable

26 Jul 2021

Frankfurt am Main, July 26, 2021 -- Moody's Investors Service ("Moody's") has today downgraded Frigoglass SAIC's (Frigoglass) corporate family rating (CFR) to Caa1 from B3 and its probability of default rating (PDR) to Caa1-PD from B3-PD. Concurrently, the rating agency has downgraded to Caa1 from B3 the rating on the €260 million guaranteed senior secured notes due 2025 issued by Frigoglass Finance B.V. The outlook has been changed to stable from ratings under review.

This rating action concludes the review for downgrade, which Moody's initiated on 9 June 2021.

RATINGS RATIONALE

Today's rating action reflects Moody's expectation that Frigoglass' credit metrics will not recover to levels commensurate with a B3 rating level over the next 12-18 months. The expectation is prompted by the impact on the company's operating and financial performance of the recent fire incident at the commercial coolers production facility in Romania. The rating agency positively notes the mitigation steps currently undertaken by the company, which will allow it to compensate for the majority of the lost production volumes. At the same time, the agency notes high capital spending required to restore production in Romania that will drive Frigoglass' Moody's-adjusted free cash flow (FCF) deeply negative although these outflows will be mitigated by receipts under the insurance claims in 2021 and 2022. This, together with some moderate decline in profitability due to additional overheads and higher logistical costs and potentially higher than expected raw materials costs (such as steel), will delay the company's deleveraging towards previously expected 4.5x-5.5x Moody's-adjusted debt/EBITDA beyond 2022. Moody's currently expects Frigoglass' leverage to peak at over 7.0x in 2021 compared with 6.3x as of end-2020, and decline to around 6.0x-6.5x in 2022. In the agency's view, the expected negative FCF will also result in weakened liquidity, which in the absence of any committed additional financing makes the company highly reliant on the timely receipts under the insurance claims and may impact the speed at which it can rebuild its Romanian plant.

Frigoglass' Caa1 CFR continues to be supported by: (1) its position as a leading manufacturer of commercial refrigerators in Europe and major glass bottle producer in West Africa, where the company accounts for a market share of around 65%; (2) strong relationship that Frigoglass has with key customers in the Ice Cold Merchandise (ICM) business; (3) high barriers to entry in the Nigerian glass business, which supports the division's EBITDA margin of more than 25%; (4) favourable demographic trends that drive demand for glass bottled drinks in Nigeria.

At the same time, the company's CFR is constrained by: (1) its weakened liquidity; (2) elevated leverage; (3) high customer concentration with around 55% of the total company's revenue derived from Coca Cola bottlers and the discretionary nature of coolers that expose the company to risks of high earnings volatility; (4) the glass business exposure to Nigeria's (Government of Nigeria, B2 negative) country risk, which could ultimately result in foreign-exchange volatility and increasing measures of capital control.

LIQUIDITY

In the agency's view, liquidity of Frigoglass has weakened. As of 31 March 2021, the company had €62 million of cash on balance, which together with the funds from operations of less than €20 million (net of interest payments) that Moody's expects the company to generate over the next 12 months, will not be sufficient to cover the expected liquidity needs, including working cash, working capital needs (particularly seasonally high working capital consumption in Q1 2022), short-term debt maturities of €54 million and capital expenditure. In the absence of any committed long-term revolving facility or bridge facility, in the agency's view, the company is highly reliant on timely collection of insurance claims to meet its liquidity needs.

The agency notes that Frigoglass' short-term debt maturities comprise a number of facilities from local banks, which the company was successful to roll over in the past. Moody's expects this practice to continue, however, it is not a part of the assumption in our conservative liquidity assessment. Shall the company be successful in rolling over its short-term debt maturities, it will significantly reduce pressure on its liquidity.

STRUCTURAL CONSIDERATIONS

The instrument rating on the group's €260 million guaranteed senior secured bonds is Caa1. This rating is in line with the CFR because the capital structure mainly consists of one class of debt.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that the fire incident in Romania will have only moderate negative impact on Frigoglass' revenue and profitability in 2021-22 and the company will be able to manage its weakened liquidity by collecting insurance claims in a timely manner and in the amount sufficient to cover the capital spending and additional operating expenses that Frigoglass will incur as a result of the fire incident.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ratings could be downgraded if liquidity weakens including due to an inability to collect insurance payments by the time and in the amount as currently planned. Sustained negative FCF generation and revenue or EBITDA declines could also lead to a ratings downgrade.

Ratings could be upgraded should the company's operating performance, particularly in the ICM business, return to growth, leading to an improvement in its liquidity position and FCF generation (excluding the impact of additional capital spending in Romania), a decrease in leverage to below 5.5x Moody's-adjusted debt/EBITDA on a sustainable basis, while operating profitability, as measured by Moody's-adjusted EBITA margin, is maintained at least 7%. An upgrade would also require a successful completion of the Romanian production facility reconstruction on time and without significant cost overruns compared with the current plan.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Manufacturing Methodology published in March 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1206079 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Frigoglass SAIC, headquartered in Kifissia, Greece, is a leading manufacturer of commercial refrigeration in Europe and a major glass producer in West Africa. The company was founded in 1996 as a spinoff of Coca-Cola HBC AG (Coca-Cola HBC Finance B.V., also known as Coca-Cola Hellenic) and is listed on the Athens Stock Exchange. Frigoglass operates two core businesses: Ice Cold Merchandise (ICM), which produces commercial coolers for soft drinks (73% of revenue and 42% of EBITDA as of the 12 months that ended March 2021), and Glass, which manufactures glass bottles, plastic crates and metal crowns in Nigeria (27% of revenue and 58% of EBITDA in the 12 months that ended March 2021). Frigoglass reported revenue of €293 million and EBITDA of around €36 million in the 12 months that ended March 2021.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Elvira Nurgalieva
Analyst
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Anke Rindermann
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454