Bulletin:

Frigoglass' Liquidity And Contingency Plans Should Mitigate The Disruption From A Fire At Its Romanian Cooler Plant

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DUBLIN (S&P Global Ratings) June 10, 2021--S&P Global Ratings said today that the liquidity and contingency plans of Greek fridge and bottle manufacturer Frigoglass SAIC (B-/Stable/--) should mitigate the business disruption from a fire at the company's commercial refrigeration plant in Romania.

The incident took place on June 5, 2021, resulting in severe damage to the plant's manufacturing area. Frigoglass is liaising with the local authorities to establish the cause of the fire, and is making insurance claims for the damage and related business interruption. The disruption is significant because the Romanian plant is Frigoglass' largest ice cooler manufacturing (ICM) facility in terms of production capacity, and is only one of two such plants in Europe. In 2020, the ICM division accounted for about 75% of Frigoglass' revenues (€333 million) and 52% of its EBITDA (€41 million, after restructuring costs). In the past, the company served customers in Western Europe, Nigeria, and certain countries in the Middle East and North Africa from this plant. However, up until recently in 2021, Frigoglass has mostly been serving customers in Western Europe.

Reportedly, there have been no customer order cancellations due to the fire. Frigoglass is transferring raw materials from the Romanian plant's warehouse, which the fire did not affect, to its other European plant in Russia. Finished goods at the Romanian plant's warehouse will remain there to continue to satisfy existing customer orders. The Russian plant previously had excess production capacity, having operated at around 65% capacity annually. The Russian plant has similar capabilities to the Romanian plant and will enable the company to satisfy demand for the remainder of 2021. Despite the significance of the fire and our expectation that overall customer demand will recover slowly due to the pandemic, we think that Frigoglass has enough liquidity to meet its operational and financing needs for the next 12 months. The company had available cash balances of €62.2 million and a further €13.0 million in undrawn credit lines as of March 31, 2021. To support its operations, Frigoglass is also able to roll over short-term debt--€53.9 million as of March 31, 2021--at its operating subsidiaries, mostly in Russia and Nigeria.

We have revised down our forecast for Frigoglass' overall revenue growth in 2021 to 5%-6% from our previous forecast of 14%-15%, mainly reflecting a negative foreign-exchange rate between weaker emerging market currencies and the U.S. dollar and euro. We anticipate that revenues at the ICM division will grow by 3%-4% in 2021, with low disruption from the fire and good visibility for the remaining of the year. Revenues from the glass division should grow by about 13%-14%, driven by higher volumes and price increases in Nigeria.

We now anticipate that Frigoglass' S&P Global Ratings-adjusted EBITDA will be about €45 million-€46 million in 2021, down from our previous base-case expectation of €50 million. The relocation of production will likely result in higher logistics, personnel, and export duty costs. Free operating cash flow will likely be negative for that reason, but we assume that it will be relatively contained at €5 million-€7 million--versus a €0.2 million inflow in 2020--supported by stable capital expenditure of about €15 million. The busy season in terms of cooler demand is now over, and therefore the company does not need to invest significantly in working capital to meet demand. As a result, we now assume lower adjusted debt to EBITDA of 6.8x-7.0x in 2021, versus 7.7x in 2020, which supports the current rating.

In our view, considerable uncertainty remains beyond the next 12 months. Frigoglass will likely weigh up its long-term production options in Europe, and will use the Russian plant to meet demand. We will monitor the situation very closely in the coming quarters, paying particular attention to the company's plans in dealing with the disruption permanently. We will also closely monitor Frigoglass' liquidity position, which is the key pillar of the rating. Frigoglass faces a slow recovery in both coolers and glass packaging, as its key customers--soft drinks manufacturers and breweries--are affected by the ongoing social-distancing measures that have reduced demand for beverages in away-from-home settings such as bars, restaurants, and hotels, since the outbreak of COVID-19. We deem it unlikely that the company will restore its credit metrics to 2019 levels until at least 2023.

For the full company rating rationale, see "Frigoglass SAIC," published on Dec. 18, 2020, on RatingsDirect.

This report does not constitute a rating action.