MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Frigoglass' ratings to Caa2, changes outlook to negative from stable

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Frankfurt am Main, March 18, 2022 -- Moody's Investors Service ("Moody's") downgraded Frigoglass SAIC's (Frigoglass) corporate family rating (CFR) to Caa2 from Caa1 and its probability of default rating (PDR) to Caa2-PD from Caa1-PD. Concurrently, the rating agency downgraded to Caa2 from Caa1 the rating on the €260 million guaranteed senior secured notes due 2025 issued by Frigoglass Finance B.V. The outlook on both entities was changed to negative from stable.

RATINGS RATIONALE

The downgrade of the CFR to Caa2 reflects the expected deterioration in liquidity and financial performance resulting from the Russia-Ukraine conflict. Significant weakening in liquidity and operational challenges increase the risk of Frigoglass' default on its obligations, including the coupon payment on its €260 million guaranteed senior secured notes.

Following the fire incident in Romania in June 2021, Frigoglass now relies heavily on its Russian operations to fulfil customer orders in its commercial coolers (ICM) business that accounts for more than half of the group's earnings. Frigoglass therefore faces supply chain disruptions, mostly around its outbound logistics to transport finished goods out of Russia to customers in other European markets. The visibility into near term resolution of these logistical difficulties is currently low. Additionally, Frigoglass faces challenges with sourcing of some materials to the Russian plant, though the plant is currently operational. Continued logistical difficulties could result in a significant increase in delivery lead times and, thus, order cancellations during the seasonal sales peak in H1 2022 cannot be ruled out. Moody's expects a meaningful decline in the company's revenue in 2022. Sales levels may remain depressed in 2023 until Frigoglass' Romanian plant is reconstructed and fully operational.

The already high inflationary pressure, particularly from key input costs, such as steel and energy, which could increase further as an indirect effect of the Russia-Ukraine conflict, coupled with increased transportation costs and lower business activity are likely to have a material impact on the company's profitability. High customer concentration, with Coca-Cola bottlers, which accounted for 56% of the ICM segment's sales in the first nine months of 2021, also leaves Frigoglass vulnerable to material swings in customers' investment decisions.

According to the company, Russia and Ukraine accounted for 14.5% and 2.4%, respectively, of the group's total sales in 2021 (based on unaudited results). With many foreign companies exiting Russia or suspending their operations and sharp devaluation of the Russian ruble, it is likely that the sales volumes are lost and, in Moody's view, relocating these sales volumes to other markets given growing inflationary pressure and supply chain constraints will pose challenge.

As a result, Moody's expects the company's free cash flow (FCF) (excluding capital spending related to the plant in Romania) to be negative (the magnitude will depend on the working capital consumption related to the supply chain bottlenecks) at least through the end of 2022, when the company plans to launch its reconstructed plant in Romania. The related capital spending is largely covered by the €42 million settlement of the insurance claim for the property damage caused by the fire incident. Out of the total €42 million, Frigoglass received €15 million as a prepayment in September 2021 and another €10 million in early February 2022. The collection of the remaining €17 million is subject to the proof of actual expenditure incurred. However, the ongoing global supply chain disruptions are likely to result in slower production ramp up, as delivery of critical equipment could be delayed.

This puts significant pressure on the company's liquidity as it is due to repay around €60 million of short-term debt in 2022, including around €30 million owed by the Russian subsidiary. Given limited prospects of cash generation in Russia, the company's ability to meet these obligations is dependent on its ability to continue financing its Russian subsidiary through intercompany transfers. Non-payment of obligations of €15 million in aggregate will result in a cross-default on the €260 million guaranteed senior secured notes due 2025.

LIQUIDITY

In the agency's view, liquidity of Frigoglass is weak. As of 31 December 2021, Moody's estimates that the company had around €70-€75 million of cash on balance, which together with the funds from operations of around €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, short-term debt maturities of around €60 million and capital expenditure that is not related to the Romanian plant reconstruction.

The receipt of further settlement with the insurer under the business interruption claim can be used for general corporate purposes and to an extent support the company's liquidity. However, the size and the timing of the settlement remain uncertain and may be insufficient to accommodate lower sales in the ICM segment and the potential working capital build up because of the supply chain shock.

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 (subject to market conditions), however, it is not a part of the assumption in our conservative liquidity assessment. Shall the company be successful in rolling over at least half of its short-term debt maturities that are not due to the Russian banks, it will significantly reduce pressure on its liquidity. Additionally, Moody's liquidity assessment does not incorporate any shareholder support, which could also boost liquidity.

STRUCTURAL CONSIDERATIONS

Frigoglass Finance B.V. is a wholly owned subsidiary of Frigoglass and is the issuer of the €260 million guaranteed senior secured notes due 2025. The notes represent the bulk of the debt capital structure and are therefore rated in line with the CFR.

The notes are guaranteed by certain operating subsidiaries and benefit from a customary security package, including pledge over shares in certain subsidiaries, certain bank accounts and intercompany receivables.

RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook reflects the uncertainties related to the company's ability to tackle its operational difficulties related to the Russia-Ukraine conflict and the limited ability to operate its Romanian plant, which could result in further deterioration of the liquidity profile. Global economic uncertainty also limits visibility, and Frigoglass lacks any significant buffers to manage through this environment.

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

Frigoglass' ratings could be further lowered if the company fails to improve its liquidity, increasing the probability of default on its debt obligations, including in the form of a missed interest payment or debt restructuring which Moody's could view as a distressed exchange, a form of default. An increased likelihood of a default or reduced recovery expectations for lenders could also lead to a downgrade.

Positive rating pressure could develop if Frigoglass' liquidity position improves, for example as a result of access to new external financing or new equity injection from its major shareholder, which is currently not factored in. An upgrade of Frigoglass' ratings would require a material improvement in its liquidity position and demonstration of a sustainable recovery in sales that translate in FCF generation nearing breakeven.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Manufacturing published in September 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1287885 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Frigoglass SAIC (Frigoglass), headquartered in Kifissia, Greece, is a leading commercial refrigerator manufacturer 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). Frigoglass operates two core businesses: Ice Cold Merchandise (ICM), which produces commercial coolers for soft drinks (73% of revenue and 41% of EBITDA as of the 12 months that ended September 2021), and Glass, which manufactures glass bottles, plastic crates and metal crowns in Nigeria (27% of revenue and 59% of EBITDA in the 12 months that ended September 2021). Frigoglass reported revenue of around €357 million and EBITDA of around €48 million in the 12 months that ended September 2021. Around 49% of the company's shares are owned by Truad Verwaltungs A.G. and the remaining shares are in free float. The company's shares are listed on the Athens Stock Exchange.

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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