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Ratings

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Research Update:

Frigoglass SAIC Downgraded To 'CCC' Because Of Operational Problems And Weak Liquidity Profile; Outlook Negative

March 11, 2022

Rating Action Overview

- Russia's military intervention into Ukraine prompted a series of stringent economic and financial sanctions from the U.S., EU, and U.K. governments, among others.
- Not only has Frigoglass, an ice cooler and glass bottles manufacturer, experienced supply chain disruptions affecting both its raw materials and finished goods because of these sanctions, it will also suffer future sales disruptions. One of its key customers, Coca-Cola, has suspended its business in Russia.
- The company seems to have sufficient liquidity to pay the interest due on Aug. 1 on its outstanding senior secured notes, but we consider it to be highly dependent on external factors to meet its financial commitments within the next 12 months.
- We lowered to 'CCC' from 'B-' our issuer and issue-level credit ratings on Frigoglass and its €260 million senior secured notes due February 2025.
- The negative outlook indicates that the disruption to Frigoglass' business has increased its risk of default in the next 12 months. It could default on the interest payments linked to its senior secured notes, or could propose a refinancing or restructuring transaction that we consider distressed because its debtholders receive less than par.

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Rating Action Rationale

S&P Global Ratings considers that Frigoglass faces multiple operational challenges. It is currently chiefly serving its European ice cooler customers from Russia as it seeks to rebuild its Romanian production facility following a fire in June 2021. In addition, it is unclear how long local sales will remain disrupted. For example, one of its key customers, Coca-Cola, has suspended its Russian operations. Frigoglass is also experiencing supply chain disruptions, both in moving raw materials into the country, and in moving finished goods out. Most of its customers are soft drinks and beer producers.

Supply chain issues have affected the transportation of raw materials and finished goods to and from Russia, creating a significant delay. The company expects to finish reconstructing its Romanian production plant by the fourth quarter of 2022. Although the company rented an area adjacent to the production facility in Romania, it is unable to sustainably meet demand from European customers over 2022 from this facility alone, and so needs the output of its Russian facilities.

As a result, we anticipate severe disruption to revenue and cash flow, which will hamper the group's liquidity. In addition, on March 8, the Coca-Cola Company announced that because of the recent events in Ukraine it is suspending its business in Russia. According to Frigoglass' unaudited 2021 figures, about 14.5% of its total sales came from Russia and 2.4% from Ukraine; the bulk of this revenue accrued from business with Coca-Cola HBC AG. We have revised the company's liquidity profile to weak from adequate.

Russia's military intervention into Ukraine has prompted strong international sanctions, which affect large parts of Russia's banking system. In our view, the sanctions announced to date could significantly hamper the Russian banking sector's ability to act as a financial intermediary for international trade. This could, in turn, create funding challenges for local and international companies that have substantial operations in the country, such as Frigoglass. On Aug. 1, 2022, it is due to pay about €8.94 million, which is the first tranche of its €260 million 6.875% fixed-rate senior secured notes and represents annual and semiannual coupon. Although at present the company seems to have enough cash to pay this, we see it as highly dependent on more favorable external conditions to be able to pay the second tranche, which is due in February 2023.

The company was set to generate negative free cash flow in 2022 as it reconstructs its coolers manufacturing facility in Romania. On the positive side, it has so far collected about €40 million of insurance proceeds for property damage to use for the reconstruction. The company anticipates receiving a further €17 million; this amount depends on providing proof of the actual expenditures related to the reconstruction phase of the building and the purchases of equipment.

Coca-Cola HBC AG is one of the anchor bottlers of the Coca-Cola Company and it alone represents 30%-40% of Frigoglass' total revenue. Combined with the latest events and the severe disruption to its operations, its customer concentration renders the company highly vulnerable to external conditions for its ability to operate and self-fund its operational needs. Given this key customer concentration, we now see the company's stand-alone business risk profile as vulnerable.

Outlook

The negative outlook reflects an increased risk of default in the next 12 months, given the significant disruption to Frigoglass' business. This could include an interest payment default linked to its senior secured notes, or a refinancing or restructuring transaction that we consider distressed because its debtholders receive less than par. At present, we see bigger risks to the company's ability to repay the second tranche of interest payment, due in February 2023, linked to its senior secured notes outstanding.

Downside scenario

We may lower the ratings on Frigoglass if its liquidity position weakened further, such that it will not be able to fulfil its operational and financing needs within the next 12 months. We would also lower our rating if it enters into a transaction that we view as distressed or a bankruptcy or default appear inevitable.

Upside scenario

An upgrade would hinge on a substantial improvement in the external operating environment, so that pressure on the supply chain eased and the seamless execution of the rebuilding of the Romanian plant. It would depend on the impact of the Coca-Cola Company's suspension of its Russian business proving to be manageable. We would raise the rating if these factors resulted in sustained solid positive free operating cash flow and rising cash balances, reducing the risk of an interest payment default in the coming 12 months.

Company Description

Frigoglass engages in the manufacture, distribution, and sale of commercial refrigeration units (coolers), and glass packaging materials for the beverage industry. The company operates through two divisions:

- The ICM division (about 75% of total sales and 50% of reported EBITDA in 2020), which manufactures beverage coolers and provides related services (through Frigoserve); and
- The glass division (about 25% of total sales and 50% of reported EBITDA in 2020), which manufactures glass bottles, containers, and other associated products.

The glass division is a more capital-intensive business and is primarily focused on West African markets, with Nigeria being the main market. Both divisions have a similar client base and are heavily exposed to the Coca-Cola bottlers (50% of total 2020 sales), followed by breweries (25%) and other beverage players (25%).

In 2020, Frigoglass generated total sales of about €333 million (€482 million in 2019) and S&P Global Ratings-adjusted EBITDA of about €41.2 million (€71.8 million in 2019). Emerging markets contribute the most to revenue--Eastern Europe accounted for about 39% of total sales in 2020, followed by Africa and the Middle East (36%). Western Europe accounted for further 19%, and Asia for 8%.

The company has five production plants for ICM, one in each of the following countries--Russia, Romania, India, Indonesia, and South Africa. The Romanian plant is being reconstructed following a fire in June 2021. Frigoglass also has five production plants for the glass division, all in Nigeria.

The company is based in Athens, Greece, and 51.45% of its share capital is freely floating on the Athens Stock Exchange. The rest is owned by private Switzerland-based holding company Truad Verwaltungs AG. Frigoglass was spun-off from one of the main Coca-Cola bottlers, Coca Cola HBC AG, in 1996.

ESG credit indicators: E-2, S-2, G-3

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded

	To	From
Frigoglass Finance B.V.		
Senior Secured	CCC	B-

Downgraded; CreditWatch/Outlook Action

	To	From
Frigoglass SAIC		
Issuer Credit Rating	CCC/Negative/--	B-/Stable/--

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