BB+

ISSUER RATING

Long-term Rating

BBB-

ISSUE RATING

Guaranteed Senior Secured Notes

Issue: €50MM

Coupon: 4.5% Class A Notes; 3.5% Class B Notes

Amortization: Bullet

First rating date: 23/10/2019
Review date: 22/10/2020

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Executive Summary

Detailed below is an Executive Summary of the rating awarded by Axesor Rating to the corporate debt issued by **Vista Alegre Atlantis, S.A. (VAA).** Currently, their business generation is divided in five product categories: Porcelain & Other products, Stoneware/Oven-to-Tableware, Stoneware/Tableware, Crystal & Glass and Earthenware. The company generated revenues of €120.1MM in 2019 with an EBITDA margin that stood at 21.3%. At year-end 2019, their NFD/EBITDA ratio stood at 3.6x (considering IFRS-16 effect).

Rating rationale

Issue Profile

- **Characteristics.** Total amount of €50MM divided into €45MM Class A Notes (Coupon: 4.5%) and €5MM Class B Notes (Coupon: 3.5%). As a security guarantee, the bond's issuance includes a first ranking pledge granted by the Issuer over the shares of Ria Stone (including the corresponding Share Related Rights) with a total nominal value of €4,550,000. Taking into account the EBITDA of Ria Stone in 2019 (€8.1MM, approximately) and the multiple associated to M&A transactions within the sector (7x, approximately), the enterprise value of Ria Stone would stand at €56.7MM, as of December 2019. Additionally, it includes a first ranking pledge granted by Ria Stone over the Operating Account of Ria Stone where all the revenues stemming from the IKEA contract will be credited. We view the structure as favourable, to the extent that apart from VAA's corporate guarantee it also incorporates as guarantors the main group subsidiaries including Ria Stone which is the source of the most stable and recurring business of the group (long term contract with IKEA) and whose plant produces Stoneware/Tableware, which is the product category that generates the highest margins of VAA (EBITDA margin 2019: 31%).

- **Covenants.** Covenant package, highlighting a declining NFD / EBITDA ratio: ≤ 3.75x in 2019; 3.25x in 2020; 3.00x in 2021; 2.75x in 2022 and 2.50x in 2023. Furthermore, the issuer shall ensure that its Equity / (Equity + Consolidated Total Debt) ratio is equal or higher than 23% (39.5% as of June 2020) in each financial year during the bond's tenor. As of June 2020, the company's NFD/EBITDA ratio stood at 5.68x which is well above the established covenant (3.00x), primarily as a result of the current market scenario derived from the effects of COVID-19. In this respect, VAA achieved an agreement in June 2020 with the Class A Notes' holders, broadening the limit of this covenant to 6.0x for 2020, remaining with no changes for the rest of the years. The group expects a recovery in NFD/EBITDA ratio for 2021, standing within the limits stablished for this period.

- **Recovery.** VAA's financial model has been stress-tested, simulating a default scenario under which the company would be unable to meet its payment commitments and would therefore be forced to initiate a restructuring process. Under this stress scenario, default would occur in financial year 2024, where the associated waterfall model of the debt structure would allow for a recovery of over 70% of the senior debt, including the secured bond.

Business Profile

- **Solid competitive positioning in the industry, worldwide**

Leadership position in the national market and ranked in sixth position worldwide in sales (third in terms of EBITDA), and as the first in terms of EBITDA margin among its peers, with strong brand recognition within the sector. Their broad product offering together with an adequate diversification regarding distribution channels (Retail, Horeca and Private Label) represent an important competitive advantage and allow them to cover a wide range of clients and sectors. Additionally, we highlight its export-oriented nature, with international sales representing 73% of total turnover in 2019.

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Diversified activity, although maintaining Porcelain as the core business

The group develops its activity through a diversified business mix, albeit with a historic focus on the Porcelain segment, which represented 41% of total turnover in the last year. Their strong positioning provides high visibility to the group's revenues as a result of pluriannual contracts with key clients (IKEA, Hennessy, Rémy Martin, etc.). In this regard, the company expects revenues under such contracts to amount to over €51MM in 2020.

Procyclical sector, penalized by the current scenario

Business model with significant association degree to the economic cycle. The positive evolution, in general terms, of the economies in which VAA is present has contributed positively to the recent trajectory of the company. However, the current economic and market situation derived from the impact of COVID-19 pandemic has implied a worsening of the group's business generation during the second quarter of 2020. On the other hand, a recovery in terms of sales is observed from the month of June. Additionally, their sales under contract (some of them take-or-pay) partially shields them from the economic downturn.

Financial Profile

High operating margins and maintenance of a growth trend in turnover

Positive evolution in revenues in the recent years, favoured by the incorporation of Cerutil and Bordallo Pinheiro in 2018 and highlighting their positive performance in Tableware segment during 2019. Likewise, the company maintains attractive operating margins as a result of the strategic measures implemented, representing a competitive advantage versus its peers. At year-end 2019, EBITDA margin stood at 21.3% (including IFRS-16 effect). Based on 3Q figures, we expect for 2020 a correction in its operating margins although remaining at adequate levels.

Improvement in equity structure and balanced debt profile

Financial autonomy favored by the strengthen of their equity structure as a result of the capital increase carried out in the last year as well as the absence of dividend payments. Additionally, we highlight the improvement in the company's debt profile in the last year, providing stability to the its debt maturity schedule in the short to medium-term. On the other hand, although their NFD/EBITDA stood at manageable levels in as of December 2019 (3.6x including IFRS-16 impact), a significant deterioration in this indicator is expected for the short-term. However, the company expects a recovery of this indicator in 2021, standing around 3x.

Adequate liquidity supported by a business model that favours operating cash flow generation and its capacity to access to sources of liquidity

We consider that the company has a favorable liquidity situation due to the actions taken in 2019 (debt reorganization, etc.) as well as the measures adopted to mitigate the COVID-19 impact. We take a positive view of their ability to generate recurring operating cash flows, maintaining a positive trend during the recent years. However, their expected operating cash flow generation in the short-term is negatively impacted by the current scenario, penalizing the expected free cash flow despite the normalization in terms of investment after the completion of the group's capex program.

Main financial figures

Main financial figures. Thousands of €	2017	2018	2019	19vs18
Turnover	84,981	99,022	120,097	21.3%
EBITDA	13,586	17,833	25,578	43.4%
EBITDA margin	16.0%	18.0%	21.3%	3.3pp
Adjusted EBITDA (1)	13,586	20,510	25,578	24.7%
Adjusted EBITDA margin	16.0%	19.4%	21.3%	1.9pp
EBT	4,645	8,794	8,769	-0.3%
Total assets	177,816	212,857	243,981	14.6%
Equity	82,598	50,290	72,792	44.7%
Total Financial Debt	46,377	94,715	105,873	11.8%
Net Financial Debt	41,577	83,570	91,411	9.4%
NFD/EBITDA	3.1x	4.7x	3.6x	-1.1x
NFD/Adjusted EBITDA	3.1x	4.1x	3.6x	-0.5x
EBITDA/Interests (1)	4.4x	10.4x	4.6x	-5.7x
CFO/NFD	26.5%	23.2%	23.2%	0.0pp

(1) Taking into account the contribution of Cerutil and Bordallo Pinheiro on a 12-month basis in 2018 (acquired in August 2018).

Outlook

In our opinion, the outlook of this rating is **stable**. After the positive performance of VAA in recent years both in terms of competitive positioning as well as in its financials, the current economic and market scenario, which is marked by the COVID-19 pandemic effects, represents a delay in the advance of the group in the its strategic objectives, implying a deterioration of its main financial indicators in the short-term. However, the high recurrent nature of an important part of their revenues, together with the fact that the majority of contracted revenues are generated by the most profitable segment are considered as important mitigant factors within the current scenario. In addition, the positive evolution in their business generation during the third quarter of 2020 is considered positive in this respect with a relatively modest drop in sales of 10%.

Sensitivity analysis

Detailed below are the factors which would impact in Visabeira's rating individually or in aggregate:

- **Positive factors**: maintenance or improvement of their financial indicators in the short-term, taking into account the current situation.
- **Negative factors**: worsening in their main financial indicators (EBITDA margin and NFD/EBITDA, among others), motivated primarily by a prolonged impact derived from the COVID-19 effects.

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Regulatory information

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Bond Rating Methodology that can be consulted on www.axesor-rating.com/en/about-axesor/methodology and according to the Long-term Corporate Rating scale available at www.axesor-rating.com/en/about-axesor/rating-scale.
- Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has provided ancillary services to related third parties of the rated entity, but not to the rated entity. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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