Qivalio reaffirms its SR3 short-term rating for the NEU CP instrument of Verallia with a Stable outlook

Lyon, October 21, 2020 – Credit rating agency Qivalio reaffirms its SR3 short-term rating for Verallia's NEU CP program (for up to €400m) with a Stable outlook.

Rating rationale

Qivalio has analysed the credit profile of Verallia in order to review its short-term rating. The outcome is a reiteration of an SR3 short-term rating, the fourth-highest grade in Qivalio's rating scale.

Credit profile

Verallia has a special focus on wine and spirits (around 60% of sales), being the No. 1 glass packager in Europe. This premium positioning entails higher margins than competitors while reducing substitution risks from other containers like metal and plastic. Over the long term, we expect Verallia to continue benefitting from its positioning, with increasing exports from European wine and spirits producers, as well as from its presence in Latin America, including Brazil, Argentina and Chile. The group's sales by volume have been resilient over recent years. We would argue that Verallia's market shares are quite well protected by high barriers for new entrants, as well as by a highly diversified portfolio of clients with strong and longstanding relationships.

Covid-19 has had some moderate impacts so far on the company's performance with consolidated reported revenues and EBITDA for 1H20 decreasing by 4.1% and 4.5% respectively compared with 1H19. The negative impacts were mostly the result of the lower volume sold, especially in France within the premium products (with higher margins) which suffered from the mandatory closing of bars, hostels and restaurants. In addition, Verallia had to incur additional extraordinary costs of about c.€14m (i.e <1% of 1H20 revenues) mostly linked to under-activity. These negative impacts were partially offset by the solid performance in non-alcoholic beverages, with higher volume sold in Latam and significant efficiency gains (about €19m). The EBITDA margin was rather resilient and reached 23.4% in 1H20 vs 23.8% for FY19. We do, however, expect some slight deterioration in EBITDA margin in 2H20 which will be entailed by the higher required maintenance on furnace.

The rating of Verallia is constrained by its limited geographical diversification with France, Italy, Germany and Spain contributing c. 80% of consolidated revenues in FY19 and Latam slightly over 10%. Furthermore, the rating is constrained by rather high leverage, with Qivalio's net adjusted debt-to-EBITDA ratio of 3.3x (vs 2.5x as reported by the company) at the end of June 2020. This high leverage is coupled with a capital-intensive industry. However, Verallia has a satisfactory track record as highlighted by its gradual improvement in EBITDA margin, which increased from 19.7% in FY16 to 23.8% in FY19. The improvement in profitability goes along with a significant CapEx and a decrease in indebtedness; the Qivalio's net adjusted leverage of Verallia has decreased from 5.0x in FY16. We expect Verallia to continue to generate positive free cash-flow after dividends over 2020-2022 and to maintain a Qivalio's net adjusted leverage ratio below 3.0x after 2020, as well as to comply with its mid-term guidance of a reported net leverage between 2.0x and 3.0x.

Liquidity profile

Liquidity is strong. This assessment is driven by the large undrawn revolving credit facilities, the long-term debt maturity profile, high cash on balance sheet, and our expectation that Verallia will generate strong free cashflow.

Credit outlook

Our Stable outlook reflects our expectation that credit metrics will be maintained at a broadly similar level over the next twelve months.

Our methodology for short-term ratings is available at:

https://www.spreadratings.com/wp-content/uploads/2019/12/SrShortTermCorporateRatingMethodology.pdf

Our methodology for long-term ratings is available at:

https://www.spreadratings.com/wp-content/uploads/2019/12/SrLongTermCorporateRatingMethodology.pdf

Verallia

Verallia, the third-largest global producer of glass packaging for food and beverages, offers innovative, customized and environmentally friendly solutions to more than 10,000 customers around the world. In 2019, Verallia achieved sales of €2.6 billion and produced approximately 16 billion bottles and jars intended mainly for still and sparkling wines, spirits, food products, beers and non-alcoholic beverages.

Verallia's operational model is based on the combination of the strength of its international network (industrial presence in 11 countries, 5 technical and 13 product development centers) and the proximity maintained in its relations with customers through approximately 10,000 employees.

Spread Ratings

Spread Ratings is the trademark under which Qivalio operates as a Credit Rating Agency, registered and regulated by the European Securities and Markets Authority (ESMA). Qivalio itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Qivalio capitalizes on over fourteen years of experience in assessing corporate debt financial instruments.

Our analysts are sector specialists and the team produces credit opinions for investors as well as private and public credit ratings. Our ratings are recognized by the EU banking (EBA) and insurance (EIOPA) regulators. Qivalio is one of the few rating agencies approved by the Bank of France to provide financial ratings for NEU CP (short-term) and NEU MTN (medium-term) programs.

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Verallia - Reaffirming our SR3 for the NEU CP instrument

Company: Verallia
Sector: Packaging

SR Rating	Outlook
SR3	Stable

Published on **21 October 2020**

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Rating rationale

We reaffirm our SR3 short-term rating for Verallia's NEU CP instrument of up to €400m. Based in Paris, France, Verallia is the world's No. 3 manufacturer of glass packaging. The group produces a wide range of glass bottles, containers and jars for around 10,000 customers, ranging from local wine producers to global food and beverage brands. Verallia has been listed on Euronext Paris since October 2019, although the company is still owned c. 46.89% by its former private equity owner Apollo Global Management (since the spin-off from Saint-Gobain in 2015), along with BWSA (12.23%), BPI France (7.46%), employees (c. 3.31%) and a free-float of c. 30.11%.

Verallia has a special focus on wine and spirits (around 60% of sales), being the No. 1 glass packager in Europe. This premium positioning entails higher margins than competitors while reducing substitution risks from other containers like metal and plastic. Over the long term, we expect Verallia to continue benefitting from its positioning, with increasing exports from European wine and spirits producers, as well as from its presence in Latin America, including Brazil, Argentina and Chile. The group's sales by volume have been resilient over recent years. We would argue that Verallia's market shares are quite well protected by high barriers for new entrants, as well as by a highly diversified portfolio of clients with strong and longstanding relationships. However, adverse currency fluctuations in Russia and Latin America may negatively affect results.

The glass packaging industry is highly capital-intensive. The company's activities necessitate high recurring CapEx (8% of sales or around €200m per year) to maintain the quality of its assets. Furthermore, it needs a significant amount of raw materials, including recycled glass and silica sand, as well as energy, the prices for which tend to be volatile. However, we would estimate that the group is satisfactorily hedged against energy price fluctuations. Verallia has a good ability to pass on cost inflation to clients with the use of pass-through mechanisms included in some contracts. Verallia is also subject to operational risks, with any defect in the utilization and the maintenance of its furnaces capable of affecting its profitability. That said, Verallia has a satisfactory track record with only one contraction in margin, that occurred in 2014 following production issues.

Covid-19 has had some moderate impacts so far on the company's performance with consolidated reported revenues and EBITDA for 1H20 decreasing by 4.1% and 4.5% respectively compared with 1H19. The negative impacts were mostly the result of the lower volume sold, especially in France within the premium products (with higher margins) which suffered from the mandatory closing of bars, hostels and restaurants. In addition, Verallia had to incur additional costs of about c. €14m (i.e <1% of 1H20 revenues) mostly linked to under-activity. These negative impacts were partially offset by the solid performance in non-alcoholic beverages, with higher volume sold in Latam and significant efficiency gains (about €19m). The EBITDA margin was rather resilient and reached 23.4% in 1H20 vs 23.8% for FY19. We do, however, expect some slight deterioration in EBITDA margin in 2H20 which will be entailed by the higher required maintenance on furnace.

Our SR3 rating is constrained by Verallia's limited geographical diversification with France, Italy, Germany and Spain contributing c. 80% of consolidated revenues in FY19 and Latam slightly over 10%. Furthermore, the rating is constrained by rather high leverage, with Qivalio's net adjusted debt-to-EBITDA ratio of 3.3x (vs 2.5x as reported by the company) at the end of June 2020. This high leverage is coupled with a capital-intensive industry. However, Verallia has a satisfactory track record as highlighted by its gradual improvement in EBITDA margin, which increased from 19.7% in FY16 to 23.8% in FY19. The improvement in profitability goes along with a significant CapEx and a decrease in indebtedness; the Qivalio's net adjusted leverage of Verallia has decreased from 5.0x in FY16. We expect Verallia to continue to generate positive free cash-flow after dividends over 2020-2022 and to maintain a Qivalio's net adjusted leverage ratio below 3.0x after 2020, as well as to comply with its mid-term guidance of a reported net leverage between 2.0x and 3.0x.

Debt structure

The capital structure of Verallia is rather straightforward as it is mostly composed of a €1.5bn term-loan and a €500m RCF (of which €200m drawn as of end-June 2020) both maturing in October 2024.

In 1H20, Verallia implemented a new 1Y+6 months €250m RCF (fully undrawn at end-June 2020) with the aim of strengthening its liquidity for the coming months and to respond to any lower demand under its €400m NEU CP program (€39m drawn at end-June 2020 vs €188m at end-December 2019). The company has not taken any state-guaranteed loan.

The gross debt amounts to roughly €1.9bn and the net reported debt to €1.5bn. Our net adjusted debt amounts c. €2.0bn, with adjustments mostly related to the off-balance sheet factoring program and pension deficits.

Excellent liquidity profile

The liquidity profile is excellent. This is driven by large undrawn revolving credit facilities, the long-term debt maturity profile, high cash on balance sheet, and our expectation that Verallia will continue to generate strong free cash-flow.

Credit outlook: Stable

Our Stable outlook reflects our expectation that credit metrics will be maintained at a broadly similar level over the next twelve months.

Rating sensitivity

Verallia is well positioned in the SR3 category. An upgrade to SR2 could be considered if several key rating factors improved markedly on a sustainable basis, i.e. greater scale and business diversification, improved financial policy, and/or lower leverage.

A downgrade to SR4 could be triggered by a significant deterioration of the financial risk profile, such as sustained decline in operating margins following production issues and/or inability to pass on raw materials price rises to clients, as well as any sustained increase in leverage.

REGULATORY DISCLOSURES

SPRR/2020/000522/RAT/21/10/2020

Report review on NEU CP instrument rating

Rating initiation: SR3 on 17 July 2018.

Last rating action: SR3 on 23 October 2019.

Rating nature: Solicited short-term public rating (the rating report was published after having been reviewed by the issuer).

Name of the rating committee chair: Marc Pierron, Senior Credit Analyst.

Material sources used to support the rating decision:

- Annual and quarterly reports
- IPO registration document
- Discussions with Verallia management

Limitation of the Rating action:

Qivalio believes the quality and quantity of information available on the rated entity is sufficient to provide a rating.

Qivalio has no obligation to audit or verify the accuracy of data provided.

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