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Axactor ASA

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Axactor ASA

Credit Highlights

Issuer Credit Rating
B/Stable/--

Overview

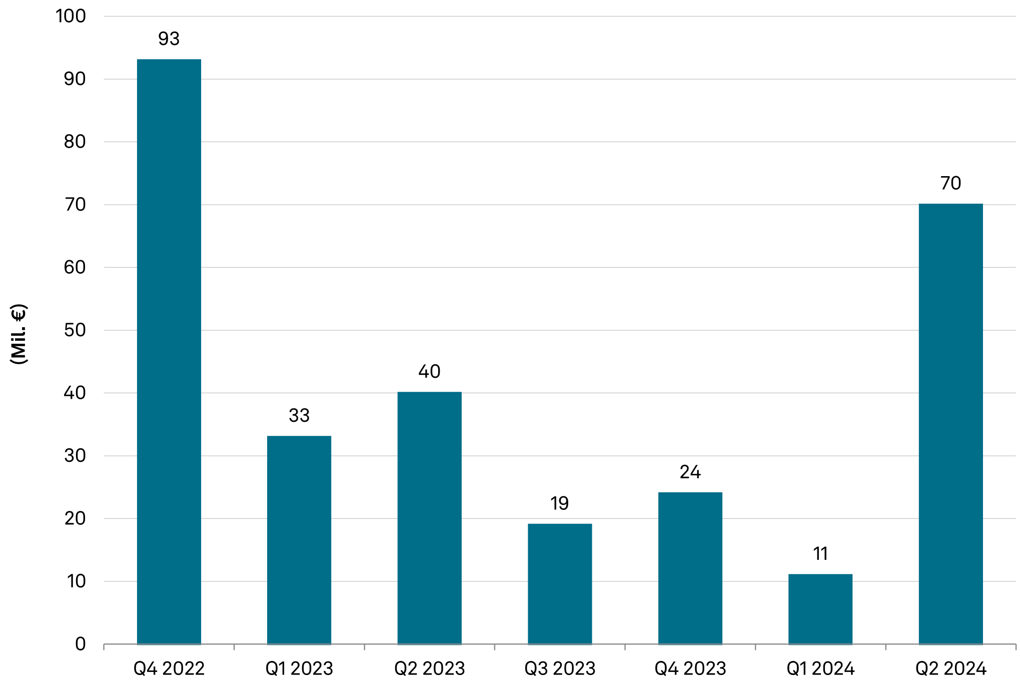
Key strengths	Key risks
Revenue diversification, including third-party servicing, provides some revenue resilience during industry downturns.	95% of its interest-bearing debt is currently unhedged, which brings significant volatility to interest expenses.
Robust adjusted EBITDA margins--close to 60%--with solid operating expense controls.	Significant pressure on debt covenants stemming from depressed collection levels coupled with higher interest expenses.
	Historically negative revaluations on receivables portfolios, indicating that pricing capacity needs improvement.

We expect collections to remain depressed throughout 2024 but to pick up pace in 2025 as Axactor increases its investments amid a challenging environment for the distressed debt industry. Collections have so far remained subdued this year because of lower investments in 2023 and first-quarter 2024. This has seen Axator's revenues decline, albeit somewhat counterbalanced by its proactive operating-expenses management and higher portfolio amortizations during the quarter. As a result, company-adjusted cash to EBITDA remained relatively stable despite the drop in revenues.

During the second quarter, Axactor increased its investments in new nonperforming loans (NPL) portfolios, buying €70 million (around 5.5% of its total NPL portfolio exposure). This will bolster its upcoming collections and help relieve some pressure on its debt covenants. We are not expecting this increased pace to continue during the next couple of quarters, but we forecast investments to remain higher than the first quarter and 2023. This will result in aggregated investments of around €150 million during 2024.

Chart 1

Quarterly NPL investments

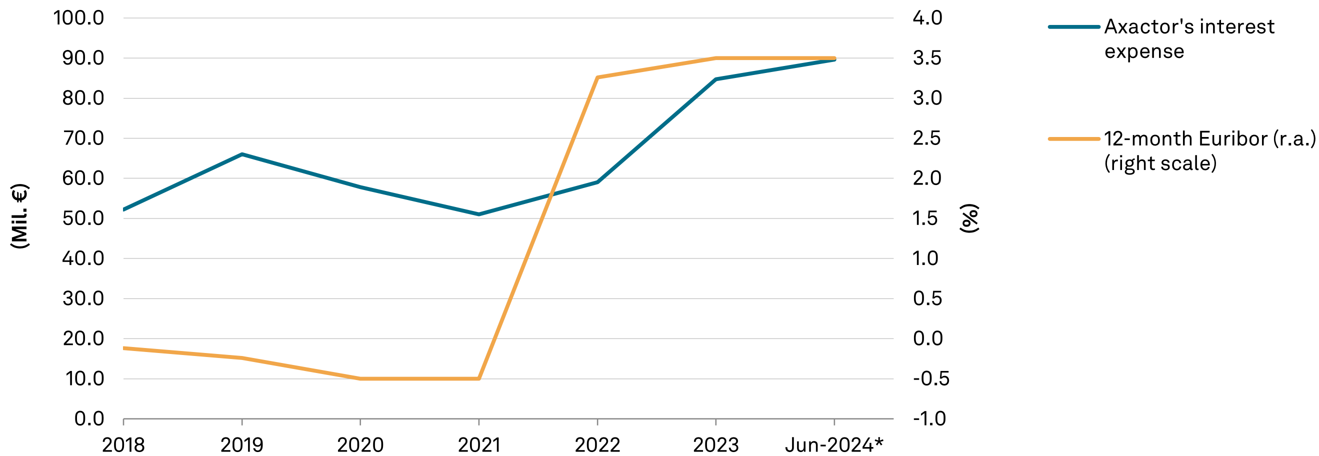


NPL--Nonperforming loan. Q--Quarter. Source: S&P Global Ratings.

Interest expense remains high but should improve as interest rates decline. Axactor's profitability is currently being dented by higher interest expenses and lower collection volumes. As of second-quarter 2024, 95% of its interest-bearing liabilities were unhedged against interest rate risk. As rates have increased during the past couple of years, pressure has built for Axactor. However, we are not expecting any further hikes and, as rates begin to recede, Axactor's cash flows should increase accordingly.

Chart 2

Interest expense increased following Euribor rates



*June numbers annualized. Source: S&P Global Ratings.

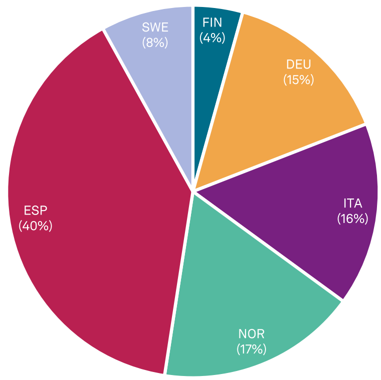
We view the company's handling of interest rate risk as a weakness, and we expect Axactor will gradually increase its share of hedging as it makes new investments to avoid further revenue volatility.

Axactor's debt covenants will remain under pressure from its high interest expenses, but our base case is that it will stay compliant. Since year-end 2022, we have seen pressure build on Axactor's debt covenants particularly given the lower profitability caused by high interest expenses. However, we think the company will benefit from expected easing monetary policies in future quarters. This, along with higher collection and investments in accretive portfolios, should mean it stays compliant with covenants albeit still under heavy pressure.

Axactor maintains reasonable geographic and revenue diversification despite being a niche player. Its business is concentrated in the unsecured NPL industry, unlike larger players that have wider portfolio diversity. This narrow focus means Axactor is inherently dependent on market pricings and dynamics. That said, it has sound diversification in terms of geographic footprint in its investment portfolio, covering six European countries. It also has an additional business line that manages third-party collections, but its impact on gross revenue remains limited, at just under 15%, and 23% of total income as of second-quarter 2024. While we consider third-party collection revenues more stable, it is a fairly concentrated business segment in which Spain accounts for nearly 56% of its income. We expect this business line will continue developing and expanding its footprint, particularly in Southern Europe.

Chart 3

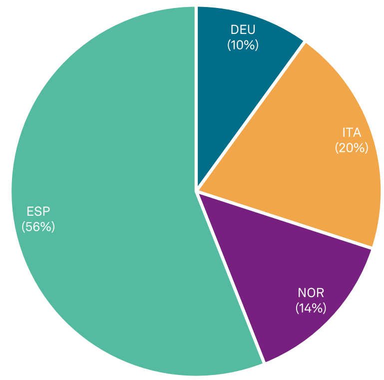
NPL net portfolio revenues by geography
As of Q2 2024



NPL--Nonperforming loan. Q--Quarter. Source: S&P Global Ratings.

Chart 4

Servicing total revenues by geography
As of Q2 2024



Q--Quarter. Source: S&P Global Ratings.

Outlook

The stable outlook reflects our expectations, for the next 12 months, that Axactor's gross collections will continue to recover as they reap the benefits of recent increased accretive investments. This will enable the company to sustain relatively stable S&P Global Ratings-adjusted debt to EBITDA around 5.0x while staying compliant with its bond covenants. We also expect it will maintain an adequate liquidity profile, with low refinancing risk in the short term but pressure increasing over the medium term.

Downside scenario

We could lower the ratings if Axactor's collection performance weakens and it is not able to counterbalance the consistently high interest expense burden or if it pursues a more aggressive financial policy and higher leverage. Rating pressure would build if adjusted debt to EBITDA rose above 6x, or interest coverage fell sustainably below 2x. Finally, we could also take a negative rating action if we see any breaches of debt covenants.

Upside scenario

We see limited upside for our ratings in the near term. However, we could raise the rating if Axactor sustainably improves its leverage beyond our current expectations, such that it maintains adjusted debt to EBITDA below 4.5x without jeopardizing future earnings potential. This implies portfolio acquisitions at least in line with its replacement rate. An upgrade would also depend on sufficient headroom under its covenants, no indications of asset quality problems, and a clear refinancing plan for its 2026 upcoming maturities.

Our Base Case Scenario

Assumptions

- Slow revenue growth in 2024 of around 4% but picking up in 2025 with growth doubling to around 8%.
- Consistently high interest expenses for 2024--closer to €80 million--but on a decreasing trend compared to last year.
- Improving costs on an improvement in the servicing business and lower IT expenses.
- NPL investments above the replacement rate but still relatively modest at around €150 million during 2024.
- Dividend payout ratio of 20%.

Key metrics

Axactor ASA--Key metrics			
	--Fiscal year ended Dec. 31--		
	2023a	**2024f**	**2025f**
Debt-to-cash adjusted EBITDA (x)	5.4	5.0-5.5	5.0-5.5
Cash-adjusted EBITDA cash interest coverage (x)	2.2	2.0-2.2	2.0-2.2
Debt-to-tangible equity (x)	2.7	2.5-2.7	2.4-2.6

All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Company Descriptions

Axactor is a Norway-based debt purchaser and servicer founded in 2015. Its core business is the purchasing of nonperforming debt in the Nordics, Spain, Germany, and Italy. It specializes in unsecured consumer debt from banks and other consumer lenders. Approximately 23% of the group's total income comes from consumer debt collections on behalf of third parties and ancillary services. The group is publicly traded on the Oslo Stock Exchange, but investment company Geveran Trading Co Ltd., which is indirectly owned by Mr. John Fredriksen, owns just under 50% of share capital.

Peer Comparison

Other distressed debt purchasers (DDP) we rate include PRA Group (BB/Stable/--), Kruk (BB-/Stable/--), B2 Impact (BB-/Stable/--), Garfunkelux Holdco 2 S.A. (the holding company of Lowell group; CCC+/Negative/C), Intrum AB (CC/Negative/C), and Sherwood Parentco Ltd (B/Stable/--, the holding company of Arrow Global). We also compare Axactor with smaller entities in the peer group, namely AnaCap Financial Europe S.A. (CCC+/Stable/--); and iQera (CCC-/Negative/--).

Table 1

Axactor ASA--Peer comparison

Industry sector: Finance company

Entity	Rating	Outlook	--Debt / S&P-adjusted EBITDA (x)--			--S&P-adjusted EBITDA interest coverage (x)--			--FFO/Debt (%)--		
			FY 2023a	FY 2024f	FY 2025f	FY 2023a	FY 2024f	FY 2025f	FY 2023a	FY 2024f	FY 2025f
AFE S.A.	CCC+	Stable	8.2	5.5-6.0	5.5-6.0	1.3	2.0-2.2	2.2-2.6	3.0	9.0-10.0	10.0-11.0
Axactor ASA	B	Stable	5.4	5.0-5.5	5.0-5.5	2.2	2.0-2.2	2.0-2.2	8.6	9.5-10.5	9.5-10.5
B2 Impact ASA	BB-	Stable	3.5	4.0-4.5	4.0-4.5	2.8	3.2-3.4	3.1-3.3	18.2	15.0-16.0	15.0-16.0
Garfunkelux Holdco 2 S.A. (Lowell)	CCC+	Negative	8.9	8.5-9.0	8.5-9.0	1.1	1.0-1.5	1.0-1.5	2.8	3.0-5.0	3.0-5.0
Intrum AB	CC	Negative	6.7	7.0-7.5	6.0-6.5	2.2	1.9-2.1	2.0-2.2	8.0	6.5-7.5	8.0-9.0
iQera Group SAS	CCC-	Negative	9.2	>10.0	>10.0	1.4	<1.5	<1.5	(2.8)	3.0-4.0	-0.5-0.5
KRUK SA	BB-	Stable	3.6	4.0-4.5	4.0-4.5	5.2	3.4-3.8	3.6-4.0	21.6	16.0-17.0	17.5-18.5
PRA Group Inc.	BB	Stable	5.4	4.2-4.7	4.0-4.5	3.1	3.3-3.7	3.5-3.9	13.1	15.0-16.0	17.0-18.0
Sherwood Parentco Ltd. (Arrow Global)	B	Stable	11.4	6.5-7.0	6.0-6.5	1.2	2.1-2.3	2.3-2.5	2.3	9.0-10.0	10.0-11.0

a--Actual. f--Forecast.

Liquidity

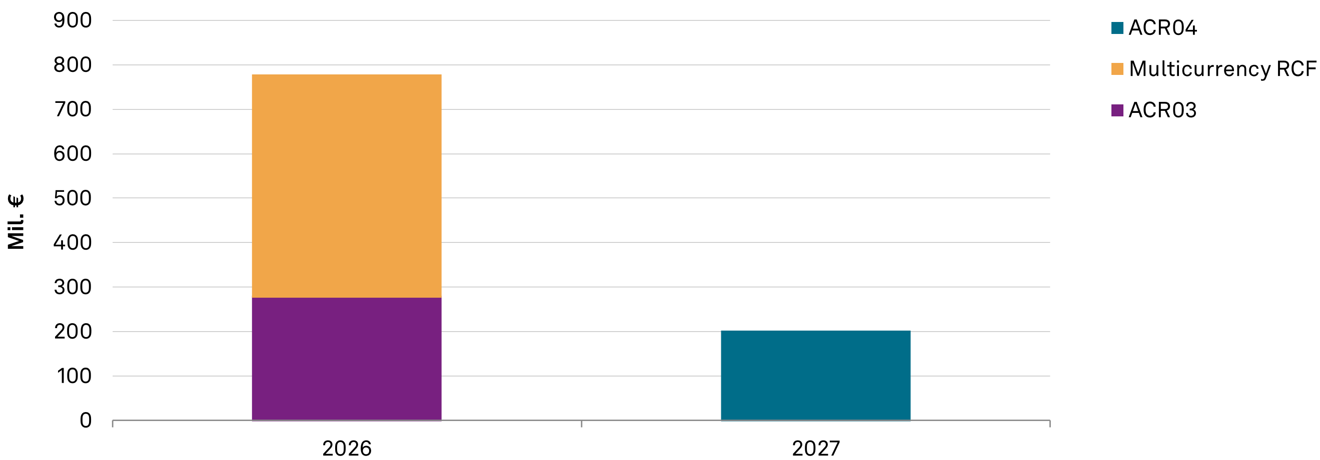
Liquidity sources remain above 1.2x uses for the next 12 months, but refinancing pressures loom. Axactor has been able to keep a stable cash position despite current challenges both on the macroeconomic and industry fronts. Its adequate management of operating expenses has been paramount to compensating for lower collection volumes and higher interest burdens. However, the company faces the need for increased liquidity to continue investing in accretive portfolios to keep covenants in check and ensure a profitable business. We do not foresee immediate liquidity problems--there are no major maturities coming due in 2024-2025--but significant debt pressures are starting to appear. In June 2026, the company's revolving credit facility (RCF) matures and in September of the same year it has a bullet maturity of €278 million. These liabilities represent almost 80% of the company's total debt as of second-quarter 2024. We will monitor these liabilities closely in the upcoming quarters but our base case is that the company will be proactive with its refinancing.

Principal liquidity sources	Principal liquidity uses
• Cash balance around €33 million-€35 million. • Cash funds from operations of close to €170 million. • €36 million undrawn RCF.	• New NPL investments of €150 million. • Cash dividends slightly below €9 million. • No debt maturities over the next 12 months.

Debt maturities

Chart 5

Axactor ASA--Interest-bearing debt maturity profile



RCF--Revolving credit facility. Source: S&P Global Ratings.

Table 2

Axactor ASA -- Financial Summary					
Industry Sector: Finance Company					
	--Fiscal year ended Dec. 31--				
	2023	**2022**	**2021**	**2020**	**2019**
(Mil. €)					
Revenue	295.8	285.7	225.3	225.9	334.7
EBITDA	176.7	168.0	104.1	110.3	134.9
Funds from operations (FFO)	82.0	106.2	35.1	52.2	80.8
Interest expense	81.6	57.9	52.9	63.6	49.2
Cash interest paid	83.1	51.2	65.7	52.6	49.3
Cash flow from operations	204.2	218.6	222.3	205.3	242.1
Capital expenditure	123.9	295.7	120.1	219.1	411.3
Free operating cash flow (FOCF)	80.3	(77.1)	102.2	(13.8)	(169.2)
Discretionary cash flow (DCF)	80.3	(77.1)	102.2	(13.8)	(169.2)
Cash and short-term investments	31.8	29.0	41.6	47.8	71.7
Gross available cash	31.8	29.0	41.6	47.8	71.7
Debt	951.3	957.5	849.3	941.3	936.0
Equity	423.5	410.6	381.3	375.7	377.6
Adjusted ratios					
EBITDA margin (%)	59.8	58.8	46.2	48.8	40.3
Return on capital (%)	12.2	12.2	7.4	7.5	10.4

Table 2

Axactor ASA -- Financial Summary (cont.)

Industry Sector: Finance Company

	--Fiscal year ended Dec. 31--				
	2023	**2022**	**2021**	**2020**	**2019**
EBITDA interest coverage (x)	2.2	2.9	2.0	1.7	2.7
FFO cash interest coverage (x)	2.0	3.1	1.5	2.0	2.6
Debt/EBITDA (x)	5.4	5.7	8.2	8.5	6.9
FFO/debt (%)	8.6	11.1	4.1	5.5	8.6
Cash flow from operations/debt (%)	21.5	22.8	26.2	21.8	25.9
FOCF/debt (%)	8.4	(8.0)	12.0	(1.5)	(18.1)
DCF/debt (%)	8.4	(8.0)	12.0	(1.5)	(18.1)

Table 3

Axactor ASA--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2023--						
Axactor ASA reported amounts (mil. €)							
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
	939.1	433.2	256.6	131.8	122.8	176.7	205.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	(11.6)	--
Cash interest paid	--	--	--	--	--	(83.1)	--
Reported lease liabilities	12.2	--	--	--	--	--	--
Share-based compensation expense	--	--	--	0.5	--	--	--
Nonoperating income (expense)	--	--	--	--	0.4	--	--
Foreign exchange movements (reported below CFO)	--	--	--	--	--	--	(0.8)
Noncontrolling interest/minority interest	--	(9.7)	--	--	--	--	--
Revenue: Other (situational)	--	--	39.1	39.1	39.1	--	--
EBITDA: Other (situational)	--	--	--	5.3	5.3	--	--
Total adjustments	12.2	(9.7)	39.1	44.9	44.8	(94.7)	(0.8)
S&P Global Ratings' adjusted amounts							
	Debt	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Funds from operations**	**Cash flow from operations**
Adjusted	951.3	423.5	295.8	176.7	167.6	82.0	204.2

Covenant Analysis

Constantly high interest rates and lower collections have pressured Axactor's covenants. Since our last review, we have identified this negative trend as its covenants are directly related to its cash EBITDA and the loan to value (LTV) of its portfolios. The covenants that depend on Axactor's cash EBITDA are very close to their thresholds, a product of the challenging industry environment. However, we consider that the company will benefit from decreasing interest rates, which, along with higher collections and investments in accretive portfolios, should keep its covenants compliant albeit under considerable pressure.

When we monitor these covenants we consider the company's reported metrics. As of second-quarter 2024 the covenants limits and breaching thresholds were:

- Leverage ratio: Net interest-bearing debt to pro forma adjusted cash EBITDA: 3.9x (covenant limit is 4.0x)
- Coverage ratio: Pro forma adjusted cash EBITDA to net interest expense: 3.1x (covenant limit is 3.0x)
- Loan to value: Net-interest-bearing debt to total portfolio book value: 74% (covenant limit is 80%)
- Secured LTV: Secured net interest-bearing debt to total portfolio book value: 37% (covenant limit is 60%).

Environmental, Social, And Governance

ESG factors have no material influence on our credit rating analysis of Axactor.

Issue Ratings - Recovery Analysis

Key analytical factors

- The issue rating on Axactor's senior unsecured note is 'B', in line with the issuer credit rating. This is based on a recovery rating of '3', indicating our expectation of meaningful recovery (50%-70%; rounded estimate: 60%) in an event of default. The recovery rating is constrained by Axactor's sizable multicurrency senior secured RCF (€545 million), which is structurally superior to Axactor's senior unsecured bonds.
- In our simulated default scenario, we envisage a default in 2027, reflecting a significant decline in cash flow because of lost clients, difficult collection conditions, or greater competitive pressures, leading to the mispricing of portfolio purchases.
- We calculate a combined enterprise value, taking into consideration the different business segments and assuming Axactor finds a potential acquirer for its portfolio of debt receivables. We apply a haircut of 35% to the book value of the debt portfolios and use financial year 2023 figures.
- In addition, we assume earnings from its third-party servicing business will decline under the stress scenario and apply a valuation using a 4.0x EBITDA multiple. We assess Axactor on a going-concern basis, given its established relationships with customers.

Simulated default assumptions

- Simulated year of default: 2027
- EBITDA multiple: 4.0x
- Jurisdiction: Norway
- RCF is 85% drawn at default. We do not add Axactor's €75 million accordion option to prior-ranking claims because it is not committed, and we do not anticipate it will be used as a funding vehicle within the regular course of business.

Simplified waterfall

- Gross enterprise value at default: €857 million
- Net enterprise after 5% administrative costs: €816 million
- Prior ranking claims: €481 million under the RCF
- Collateral value available to unsecured debt: €335 million
- Senior unsecured debt claims: about €518 million
- --Recovery expectation: 50%-70% (rounded estimate: 60%)

Note: Debt amounts include six months of accrued interest that we assume will be owed at default. Collateral value includes asset pledges from obligors (after priority claims) plus equity pledges in non-obligors. We generally assume usage of 85% for cash flow and 60% for asset-based lending (ABL) revolving facilities at default.

Ratings Score Snapshot

Issuer Credit Rating: B/Stable/--

Business risk: Fair

- Country risk: Low
- Industry risk: Moderately high
- Competitive position: Fair

Financial risk: Highly leveraged

- Cash flow/Leverage: Highly leveraged

Anchor: b

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)

- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of September 26, 2024)*	
Axactor ASA	
Issuer Credit Rating	B/Stable/--
Senior Unsecured	B
Issuer Credit Ratings History	
17-Aug-2021	B/Stable/--
Sovereign Rating	
Norway	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.