Research Update:

Axactor ASA Rating Lowered To 'B-' On Weaker Projected Collection Performance; Outlook Negative

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Overview

- We expect the collection environment to remain challenging during the fourth quarter (Q4) of 2024, and the outlook for the global distressed debt purchasing industry in 2025 is anticipated to be less favorable than it has been over the past decade.
- Since the beginning of 2024, Norwegian-based distressed debt purchaser Axactor ASA has not met expectations for collection performance since cash collected has remained below the company's active forecasts. The collection performance rate for Q3 in the last two years has been 90%, which has ultimately led to negative revaluations and the sale of part of its loan portfolio. Consequently, we revised downward our EBITDA projections.
- We therefore lowered the issuer credit rating on Axactor and the senior unsecured issue ratings to 'B-' from 'B'.
- The negative outlook reflects the potential for a lower rating if headwinds in collections persist, leading to decreased revenues, further negative revaluations within its estimated remaining collection (ERC) curves, and ultimately raising concerns about Axactor's need to refinance debt due in 2026.

Rating Action Rationale

We downgraded Axactor after we revised downward our revenue and EBITDA projections, leading to somewhat higher leverage than anticipated. Axactor's collection performance was weaker than expected over the last three quarters, ultimately reaching a low point of approximately 90% in Q3 2024, which is the lowest since Q4 2021 when it was 91%, and significantly lower than the same period last year, which was 99%. The collection decrease has also placed constant pressure on the company's covenants this year as EBITDA levels dropped. This occurs in a particularly difficult environment for the cash collection industry, where households and small- to medium-size companies continue to suffer the consequences of a long period of high interest rates and inflation. Furthermore, considering the persistent headwinds within the sector, Axactor decided to recognize significant negative portfolio revaluations during the last quarter of the year to offset the decreased collections and adjust its ERC curve. Although these revaluations do not have a negative cash effect, they do affect Axactor's profitability metrics and overall performance. As a result, we revised downward our adjusted EBITDA projections for Axactor, leading to higher-than-expected projected leverage.

While some of the factors affecting Axactor's collection are industry- and macro-related, we consider the impact on the company to be greater compared to other rated peers within the distressed debt purchasers (DDP) industry that sustained collection levels above 100% and stable EBITDA margins. Additionally, if we compare Axactor's covenant situation and refinancing risk with other DDPs, such as B2 Impact or Arrow Global, it compares less favorably.

Axactor's recent portfolio sale will relieve some pressure on its covenants but will further hamper its future revenues. The company recently announced that it entered into an accretive portfolio sale for €83 million, representing approximately 6% of its total nonperforming loan (NPL) portfolio. Although the sale was made at 102% of the book value, it still falls short of the estimated recovery value assigned by the company at the time of purchase. In this sense, Axactor's future revenues will be negatively affected by the sale, leading us to revise our cash EBITDA expectations downward. However, with the proceeds from the sale, the company will be able to reduce its debt stack and relieve some pressure from its covenants.

Despite the negative impact on Axactor's collection, adjusted EBITDA margins have remained relatively stable. Axactor's EBITDA margins have been somewhat resilient despite the decrease in collections, supported by various proactive operating expense management initiatives, including a new IT infrastructure provider and the renegotiation or cancellation of less profitable contracts within the servicing segments. In this sense, we expect cash-adjusted EBITDA levels to stay at about 60% and debt-to-cash adjusted EBITDA to hover close to 5.2x-5.5x for the following 12 months.

We expect liquidity to remain sound for the next 12 months, but refinancing pressures loom. Axactor has kept a stable cash position despite challenges on the macroeconomic and industry fronts. Its adequate management of operating expenses has been crucial in offsetting lower collection volumes and higher interest burdens. However, the company needs to increase its liquidity to continue investing in accretive portfolios, keep covenants in check, and ensure a profitable business. We do not foresee immediate liquidity problems--there are no major maturities due in 2024-2025--but significant debt pressures are starting to appear. In June 2026, the company's revolving credit facility (RCF) matures, followed by a bullet maturity of approximately €280 million in September of the same year. We expect Axactor to proactively manage the refinancing of the RCF and the 2026 notes at least 12 months before they mature, and we will monitor whether its majority shareholder provides any support. We would consider taking another negative rating action if we saw a material increase in refinancing risk.

Outlook

The negative outlook reflects that Axactor's credit profile may continue to deteriorate as refinancing risk increases.

Downside scenario

We could lower the ratings if headwinds in collections persist, leading to decreased revenues and further negative revaluations within its ERC curves. This would also translate into an increase in leverage since adjusted cash EBITDA would decrease, causing adjusted debt to cash EBITDA levels to exceed 6x, ultimately increasing the refinancing risk the company faces for its 2026 maturities.

Upside scenario

We could revise the outlook to stable if we see sufficient evidence of improved collections and if the company stabilizes its revenue sources at a sustainable level slightly above its maintenance capital expenditure levels. Any positive rating action would also depend on Axactor's refinancing risk and its ability to roll over upcoming debt maturities in 2026.

Company Description

Axactor is a Norway-based debt purchaser and servicer founded in 2015. Its core business involves purchasing 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, with investment company Geveran Trading Co Ltd., indirectly owned by Mr. John Fredriksen, owning just under 50% of the share capital.

Our Base-Case Scenario

Assumptions

- Negative revenue growth at 7%-8% for full-year 2024, and a stable to light growth of about 1.5% in 2025.
- Consistently high interest expenses for 2024--closer to €80 million--but on a decreasing trend compared to last year.
- Improving costs due to enhancements in the servicing business and lower IT expenses, partially offset by lower revenues.
- NPL investments above the replacement rate but still relatively modest at about €120 million during 2024.
- A dividend payout ratio of 20%.

Liquidity

We expect liquidity sources to remain above 1.2x their uses for the next 12 months. While we do not foresee immediate liquidity problems--there are no major maturities due in 2024-2025--significant debt pressures are starting to appear. We expect Axactor's liquidity profile to continue based on its collection performance.

Principal liquidity sources:

- A cash and cash equivalents balance of €24.8 million;
- An NPL sale totaling €83 million

- Undrawn capacity of €48.2 million under its RCF; and
- Cash funds from operations of €142 million.

Principal liquidity uses:

- Maintenance portfolio purchases of about €100 million-€150 million to replenish Axactor's asset base (base case: €120 million);
- Debt reduction of €83 million after the NPL portfolio sale;
- No debt maturities until 2026; and
- Dividends of about 20%-50% of net profits, in line with guidance

Covenants

Constantly high interest rates and lower collections have pressured Axactor's covenants, which 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 have been under constant pressure due to the challenging industry environment and high interest rates. We consider the company may benefit from decreasing interest rates. The latest portfolio sale will relieve some pressure for the following quarters but if collections do not pick up, they could linger.

When we monitor these covenants, we consider the company's reported metrics. As of third-quarter 2024, the covenants limits and breaching thresholds without considering the latest portfolio sale were:

- Leverage ratio: Net interest-bearing debt to pro forma adjusted cash EBITDA: 3.8x (covenant limit is 4.0x);
- Coverage ratio: Pro forma adjusted cash EBITDA to net interest expense: 3.0x (covenant limit is 3.0x);
- Loan to value: Net-interest-bearing debt to total portfolio book value: 75% (covenant limit is 80%); and
- 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. We consider the company has well-placed policies to mitigate potential risks that may arise in an industry that is under constant scrutiny regarding business ethics, data privacy, and security. However, we consider these policies are broadly in line with other DDPs and are not a sufficiently differentiating factor to underscore against other rated peers.

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 revolving facilities at default.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	**B-/Negative/--**	**B/Stable/--**
Business risk:	Fair	Fair
Country risk	Low	Low
Industry risk	Moderately high	Moderately high
Competitive position	Fair	Fair
Financial risk:	Highly leveraged	Highly leveraged
Cash flow/leverage	Highly leveraged	Highly leveraged
Anchor	b	b
Modifiers:		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Neutral (no impact)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Adequate (no impact)	Adequate (no impact)
Management and governance	Fair (no impact)	Fair (no impact)
Comparable rating analysis	Negative (-1)	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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Distressed Debt Purchasers Get Ready For A Bumpy Recovery, Nov. 5, 2024
- Axactor ASA, Sept. 26, 2024
- Various Rating Actions Taken On Distressed Debt Purchasers On New Criteria And Sector Review; Ratings Removed From UCO, April 26, 2024

Ratings List

Downgraded; Outlook Action

	To	From
Axactor ASA		
Issuer Credit Rating	B-/Negative/--	B/Stable/--
Senior Unsecured	B-	B
Recovery Rating	3(60%)	3(60%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.