MOODY'S
RATINGS

Rating Action: Moody's Ratings downgrades Axactor ASA's Corporate Family Rating to B3 and senior unsecured debt ratings to Caa2; outlook negative

14 Nov 2024

London, November 14, 2024 -- Moody's Ratings (Moody's) today downgraded Axactor ASA's (Axactor) Corporate Family Rating (CFR) to B3 from B2 and its senior unsecured ratings to Caa2 from Caa1. The issuer outlook is negative. Previously, Axactor's ratings were on review for downgrade.

The rating action concludes the review initiated on 17 May 2024.

RATINGS RATIONALE

The downgrade reflects Axactor's weakened financial performance in the currently challenging macroeconomic environment, characterized by reduced collections and high competition for non-performing loans (NPLs), and further exacerbated by the company's increased cost of funding.

Axactor's collections dropped to 90% of the previously forecasted levels in 3Q 2024 from 98% a year ago, triggering a write-down of the value of its investments. The company expects a challenging collection environment to persist into 2025. The drop of collections to 90% in 3Q 2024 puts the company at the risk of a covenant breach under the revolving credit facility agreement (collections covenant set at the level of not lower than 90% for the last six months).

While Axactor's cost-cutting measures have partly mitigated the negative impact of the operating environment on its EBITDA, the company's leverage remained elevated, while its interest coverage deteriorated and was at the covenant level of 3x as of the end of 3Q 2024. Axactor's cushion against the leverage covenant of 4.0x improved but remained limited, with its net Debt/EBITDA leverage ratio of 3.8x at the end of 3Q 2024. The violation of either covenant would result in the event of default under its bond loan agreements and could trigger a cross-default with its revolving credit facility, unless the company obtains an amendment of its financial covenant thresholds from the bondholders in advance of a potential breach or requests a waiver following the breach.

While Axactor does not have any upcoming debt maturities, it has a substantial debt maturity concentration in 2026, with its EUR 545 million revolving credit facility due in June 2026 and its EUR 300 million bond maturing in September 2026. As of 30 September 2024, Axactor's EUR 545 million revolving credit facility was approximately 90% drawn, leaving only EUR 48 million available. Axactor's cash balance amounted to approximately EUR 25 million at 30 September 2024; however, we believe that not all of it will be available for investments, as the company needs to keep certain amount of cash for operating needs. Axactor's liquidity is supplemented by its EUR 19 million holding of the 2026 bond, which it can sell in the event of need.

The senior unsecured debt rating of Caa2 of Axactor's bonds reflects their priorities of claims and asset coverage in the company's capital structure. The size of the company's senior secured revolving credit facility relative to the amount of senior unsecured bonds indicates higher loss given default for senior unsecured creditors, leading to a two-notch differential with the CFR.

OUTLOOK

The negative outlook reflects the risk of further deterioration in the company's fundamentals in the challenging economic environment, the continued risk of a covenant breach, and refinancing risk related to the company's 2026 debt maturities.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A rating upgrade is unlikely given the negative outlook. The outlook could return to stable if we conclude that the risk of default stemming from a potential covenant breach in the coming quarter and beyond will be successfully addressed by the company, and if we come to believe that there will be no further deterioration in the company's financial performance, including cash collections, leverage, interest coverage and liquidity. For the outlook to return to stable, the company would also have to renew its revolving credit facility and refinance its 2026 bond, at least one year prior to their maturities.

Axactor's ratings will be downgraded if we conclude that there is a high risk of default associated with a potential covenant breach. Axactor's ratings could also be downgraded if we conclude that there is a risk of further deterioration in the company's leverage, interest coverage and liquidity, and if we come to believe that its refinancing risk has meaningfully increased.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425167 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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