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Testo del comunicato

Vedi allegato.

COMUNICATO STAMPA

PRO-GEST: STANDARD & POOR'S ABBASSA IL RATING A BB- DA BB

Istrana (TV), Italia, 16 settembre 2019

Pro-Gest comunica che l'agenzia di rating Standard & Poor's ha rilasciato un aggiornamento del profilo di credito di Pro-Gest comunicando il downgrade a BB- da BB del *long-term corporate credit rating*.

Standard & Poor's ha inoltre comunicato il downgrade a BB- da BB del rating delle obbligazioni emesse nell'ambito del prestito obbligazionario *€250 million 3.25% senior unsecured*.

Il comunicato integrale di Standard & Poor's è allegato.

Contatti

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PRESS RELEASE

PRO-GEST: STANDARD & POOR'S LOWERS RATINGS TO BB- FROM BB

Istrana (TV), Italy, September 16, 2019

Pro-Gest announces that the rating agency Standard & Poor's has released its rating review of the credit profile of Pro-Gest lowering the long-term corporate credit rating to BB- from BB.

Standard & Poor's has further lowered the rating to BB- from BB for the €250 million senior unsecured fixed-rate notes due 2024.

Here attached Standard & Poor's press release.

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Research Update:

Italy-Based Pro-Gest SpA Downgraded To 'BB-' From 'BB' On Weak Operating Performance; Placed On Watch Negative

September 16, 2019

Rating Action Overview

- Italian packaging group Pro-Gest SpA underperformed our expectations in the first half of 2019. Among others, the company generated substantially negative free operating cash flow. This also resulted in higher-than-expected leverage and weaker-than-forecast liquidity.
- We are lowering our long-term issuer credit rating on Pro-Gest SpA to 'BB-' from 'BB'. We are also lowering our issue-level rating on its fixed-rate senior unsecured notes to 'BB-' from 'BB'. At the same time, we are placing the ratings on CreditWatch with negative implications.
- The CreditWatch placement reflects a one in two likelihood that we will further lower the issuer credit rating by one or more notches. We expect to update the CreditWatch status in the coming weeks, as we receive further clarifications from the company.

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Rating Action Rationale

The downgrade follows the release of the company's half-year 2019 results, which showed large unexpected working capital outflows and weaker-than-expected EBITDA generation.

When we upgraded Pro-Gest in November 2018, we expected the group to generate revenues for 2019 in excess of €550 million, S&P Global Ratings' adjusted EBITDA of at least €125 million, and positive free operating cash flow of €34 million. Our adjusted debt to EBITDA expectation for December 2019 was 2.2x, with FFO to debt of 30%-35%.

The unexpected underperformance in the first six months of 2019, combined with the announcement of a material fine that might be payable in the next 12 months, as well as the build-up of inventories, led to a material worsening of our financial risk assessment. Leverage is now likely to exceed 5x, and liquidity is weaker than expected. We also note that all available credit lines are uncommitted. In addition to this, the company seems likely to breach a leverage covenant under bilateral debt agreements and mini-bonds.

The CreditWatch placement allows us time to better understand the company's plans to address the potential covenant breach and debt repayments due in December 2019, as well as its inventory management and liquidity strategy.

We also lowered the issue-level rating on the company's €250 million 3.25% senior unsecured notes due 2024 to 'BB-' from 'BB'. The recovery rating remains '4'. The recovery rating indicates our expectation of average (30%-50%; rounded estimate 40%) recovery of principal in the event of payment default.

CreditWatch

Our CreditWatch negative placement reflects a one-in-two likelihood that we will further lower the issuer credit rating by one or more notches. We expect to update the CreditWatch status in the coming weeks, as we receive further clarifications from the company.

Issue Ratings - Recovery Analysis

Key analytical factors

- The '4' recovery rating on the €250 million 3.25% fixed-rate unsecured notes due 2024 is unchanged. We lowered the issue-level rating on these notes to 'BB-' from 'BB' and placed it on CreditWatch with negative implications. This mirrors the lowering and CreditWatch negative placement of our issuer credit rating.
- Due to restrictions under Cartiere Villa Lagarina (CVL) bilateral facility agreements, the unsecured notes are not guaranteed by that entity, which accounts for 34% of the company's EBITDA. In addition to this, dividend payments by CVL are prohibited before September 2019 and very restricted thereafter. The company's bilateral debt agreements include a maintenance covenant set at 4.25x for December 2019. We expect this covenant to be breached by year-end 2019.
- Our hypothetical default scenario assumes that the company continues to erode cash due to further working capital outflows (due to inventory build-ups and the unwinding of payables), the payment of the €47.5 million fine, weak market conditions, and the ongoing stoppage of production at Mantova. As a result of this, we assume that the company would not be able to meet its scheduled debt repayments.
- We value the company on a going-concern basis, given its leading niche positions, patented products, and strong and long-standing customer relations.

Simulated default assumptions

- Year of default: 2023
- Emergence EBITDA after recovery adjustments: €247 million
- Implied enterprise value multiple: 5.5x
- Jurisdiction: Italy

Simplified waterfall

- Emergence EBITDA: €50 million (maintenance capital expenditures assumed at 4% of revenues, standard cyclical adjustment of 10% for the sector, and operational adjustment of 10% due to low leverage versus peers)
- Distressed EBITDA multiple: 5.5x
- Gross recovery value: €247 million
- Net recovery value after administrative expenses (5%): €234 million
- Estimated priority claims (mainly bilateral facilities and mini-bonds): €130 million*
- Remaining recovery value: €104 million
- Senior unsecured debt claims: €258 million*
- Recovery range: 30%-50% (rounded estimate 40%)
- Recovery rating: 4

*All debt amounts include six months of prepetition interest

Ratings Score Snapshot

Issuer Credit Rating: BB-/Watch Neg

Business risk: Fair

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

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)

Related Criteria

- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Forest And Paper Products Industry, Feb. 12, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded; CreditWatch Action

	To	From
Pro.Gest SpA		
Issuer Credit Rating	BB-/Watch Neg/--	BB/Stable/--
Senior Unsecured	BB-/Watch Neg	BB
Recovery Rating	4(40%)	4(40%)

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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