

# Éltex Kft.

## Hungary, Business Services



### Key metrics

Scope credit ratios	2021	2022	Scope estimates	
			2023 E	2024 E
Scope-adjusted EBITDA/interest cover	21.1x	109.9x	22.6x	24.5x
Scope-adjusted debt/EBITDA	1.5x	0.9x	1.4x	1.2x
Scope-adjusted funds from operations/debt	74%	109%	74%	87%
Scope-adjusted free operating cash flow (FOCF)/debt	44%	44%	-8%	43%

### Rating rationale

The affirmation is driven by better-than-expected operating results in 2022, a revenue increase and profitability significantly exceeding our financial forecast. The business risk profile (assessed at B+) is supported by strong operating profitability, which is expected to stay in the range of 10%-11% until 2025, benefitting from the intensive capex programme focusing on technological development. The business risk profile remains constrained by the company's limited size in a global and European context, and limited diversification in terms of activity and geographies. Éltex has also committed not to use landfill (credit-positive ESG factor) but remains exposed to a minor extent the risk of hazardous waste treatment as subcontracted activity (credit-negative ESG factor).

The financial risk profile (upgraded to BBB) is supported by strong credit metrics. Leverage, measured by Scope-adjusted debt/EBITDA, has been between 1x and 2.5x historically, showing a continuous improvement towards 1.0x and reaching 0.8x in 2022. Debt protection, measured by the EBITDA interest cover, benefits from the favourable interest rate of the existing debt, with a yearly interest expense of around HUF 170m in the upcoming years. The financial risk profile is constrained the cash flow cover, which is expected to be volatile, subject to fluctuation and influenced by capex. Liquidity is adequate, as sources (HUF 1.5bn as of end-2022) fully cover uses (short-term debt of HUF 674m and FOCF of -534m). Scope expects liquidity to stay significantly above 100%, benefitting from strong cash generation and positive FOCF.

### Outlook and rating-change drivers

The Stable Outlook incorporates our expectations that i) key credit metrics will develop in line with our financial forecast over the next three years, translating into a Scope-adjusted EBITDA margin of between 10% and 11% and Scope-adjusted debt/EBITDA at 1.0x-2.0x with debt protection remaining above 7x; and ii) Éltex will remain top three in waste management in Hungary.

A positive rating action would be possible if the issuer improved its business risk profile. This could occur if Éltex improved its markets share, increased its absolute size and achieved greater diversification in terms of both activities and geographies. The rating could come under pressure if leverage were sustained at around 3x, e.g. as a result of higher capital expenditure, material debt-financed M&A activities and/or lower-than-expected operating results.

### Ratings & Outlook

Issuer BB-/Stable  
Senior unsecured debt BB-

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### Related Methodology

General Corporate Rating  
Methodology; October 2023

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## Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
08 November 2022	Upgrade	BB-/Stable
10 November 2021	Outlook change	B+/Stable

## Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"> <li>Robust financial risk profile defined by low leverage and strong EBITDA interest cover</li> <li>One of the leaders in waste management in Hungary</li> <li>Strong client base with medium-to-long-term contracts and high likelihood of contract renewals</li> <li>No use of landfill (credit-positive ESG factor)</li> </ul>	<ul style="list-style-type: none"> <li>Limited diversification in terms of activity and geographical scope</li> <li>Small absolute size in a European and global context</li> <li>Large exposure to industrial waste collection/recycling, which provides market potential but tends to be more volatile than municipal waste collection</li> <li>Exposed to a minor extent to environmental risk regarding hazardous waste management as subcontracted activity (credit-negative ESG factor)</li> </ul>
Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>Improved business risk profile via significant growth of the market share and diversification</li> </ul>	<ul style="list-style-type: none"> <li>Scope-adjusted debt/EBITDA consistently close to 3.0x</li> </ul>

## Corporate profile

Founded in 1989 and headquartered in Hungary, Éltex Kft plays a prominent role in waste management. The company opened its first foreign plant in 1996.

Éltex specialises in state-of-the-art, efficient and complex waste-handling, hazardous and non-hazardous waste recycling, the transport and disposal of confidential documents, plastic manufacturing and electronic waste recycling, environmental protection consultation, and the import, export and transit of hazardous and non-hazardous waste.

The company handles all recyclable materials on site. If the volume of waste is very high, it builds an on-site waste handling area to house equipment and serve as storage.

The company is owned by Zoltan Vass (15% direct ownership), Péter Vermes (15% indirect ownership via PU&I 2019 Vagyonkezelő Kft, a wealth management company solely owned by Mr Vermes), Figura Ferenc (14% indirect ownership via Global Refuse Holding Zrt.) and Equilor PE fund (56% indirect ownership via Global Refuse Holding Zrt.).

## Financial overview

				Scope estimates		
Scope credit ratios	2020	2021	2022	2023 E	2024 E	2025 E
Scope-adjusted EBITDA/interest cover	21x	21x	109.9x	22.6x	24.5x	26.7x
Scope-adjusted debt/EBITDA	4.2x	1.4x	0.9x	1.4x	1.2x	1.0x
Scope-adjusted funds from operations/debt	29%	74%	109%	74%	87%	103%
Scope-adjusted free operating cash flow/debt	-4%	44%	44%	-8%	43%	53%
<b>Scope-adjusted EBITDA in HUF m</b>						
EBITDA	872	2,360	3,796	3,798	4,094	4,365
Operating lease payments in respective year	54	96	147	115	115	85
Disposal gains (losses) on fixed assets	5	25	0	0	0	0
<b>Scope-adjusted EBITDA</b>	<b>931</b>	<b>2,480</b>	<b>3,943</b>	<b>3,913</b>	<b>4,208</b>	<b>4,450</b>
<b>Funds from operations (HUF m)</b>						
EBITDA	872	2,360	3,796	3,798	4,094	4,365
less: (net) cash interest paid	-37	-108	-18	-155	-159	-159
less: cash tax paid per cash flow statement	-20	-37	-219	159	162	171
add: depreciation component of operating leases	47	86	130	97	102	77
Change in provisions	265	379	261	181	151	104
<b>Funds from operations</b>	<b>1,128</b>	<b>2,680</b>	<b>3,985</b>	<b>4,080</b>	<b>4,349</b>	<b>4,558</b>
<b>Free operating cash flow (HUF m)</b>						
Funds from operations	1,128	2,680	3,985	4,080	4,349	4,558
Change in working capital	-977	278	-711	-1,018	-204	-226
Non-operating cash flow	0	0	1,040	0	0	0
less: capital expenditure (net)	-324	-1,407	-2,686	-3,500	-2,000	-2,000
Add: disposal gains (losses) on fixed assets	5	25	0	0	0	0
<b>Free operating cash flow</b>	<b>-168</b>	<b>1,577</b>	<b>1,628</b>	<b>-438</b>	<b>2,145</b>	<b>2,332</b>
<b>Net cash interest paid (HUF m)</b>						
Net cash interest per cash flow statement	37	108	18	155	159	159
add: interest component, operating leases	6	10	18	18	13	8
<b>Net cash interest paid</b>	<b>44</b>	<b>118</b>	<b>36</b>	<b>173</b>	<b>172</b>	<b>167</b>
<b>Scope-adjusted debt (HUF m)</b>						
Reported gross financial debt	3,789	3,279	3,196	5,196	4,794	4,304
less: subordinated (hybrid) debt	0	0	0	0	0	0
less: cash and cash equivalents	0	0	0	0	0	0
add: non-accessible cash	0	0	0	0	0	0
add: operating lease obligations	142	260	440	315	216	112
Add: asset retirement obligations	9	62	33	-	-	-
<b>Scope-adjusted debt</b>	<b>3,939</b>	<b>3,601</b>	<b>3,669</b>	<b>5,510</b>	<b>5,009</b>	<b>4,415</b>

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## Environmental, social and governance (ESG) profile<sup>1</sup>

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk) 
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate) 
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables) 	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity) 
Physical risks (e.g. business/asset vulnerability, diversification) 	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests) 

### Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

## ESG Strategy

Éltex's work in waste management has direct ESG impacts. The company directs its waste to the circular economy and create resource efficiencies through the addition of value-adding treatment processes. It acquires waste from the cleanest sources, which are production lines. Handling all recyclable materials on site is beneficial both environmentally and economically. Éltex also has a zero-landfill policy (credit-positive ESG factor).

Éltex is still exposed to a minor extent to hazardous waste recycling as a subcontractor of MOHU MOL, thus subject to environmental risk (credit-negative ESG factor).

<sup>1</sup> These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

**Industry risk profile: BBB****Strong market position in Hungary, still limited absolute size****Business risk profile: B+**

The company is active in the environmental services sector, which we classify as belonging to the business services industry. This industry is characterised by medium cyclicalness, substitution risk and entry barriers. Éltex's core business is industrial waste management, including the transportation, handling, sorting and packaging of waste.

Most markets for environmental services are very competitive due to increasing technological challenges as regulation changes as well as through the presence of experienced competitors. The competitive landscape is very competitive, including many highly specialised companies.

The provision of services like rubbish collection is capital intensive, with high initial investments required (e.g. a fleet of lorries, facilities). This raises barriers to entry for new competitors. Municipalities and other clients cannot easily switch providers. Both of these characteristics benefit Éltex.

Since July 2023, all waste management activities of packaging waste and municipal waste is handled by a subsidiary of Hungarian Oil and Gas Company MOL, MOHU MOL. This activity is carried out by MOHU MOL with the involvement of subcontractors. Éltex, as its key subcontractor, was able to secure a much more favourable contract for the management of this type of waste compared to the previous period. Therefore, over July-September 2023, 16,000 tonnes of waste was handled by Éltex as the MOHU MOL subcontractor.

In Hungary, industrial waste management services are provided by private sector companies such as Éltex. In 2022, the company treated 10.5% of the total industrial waste in Hungary (up from 8.5% in 2021) and expects to grow this share to 12.5% (in terms of volume) thanks to diversification by end-2024.

According to Éltex, its main competitors in Hungary are Alcufer Kft. (which focuses on metal waste), MEH Zrt. (which mainly collects metal waste and paper waste), FCC magyarorszag Kft. (a multinational foreign company whose main business is landfill), and Saubermacher Mo. Kft. (an Austrian company whose main business is landfill). In terms of revenue, Éltex has ranked among the top three waste management companies in Hungary for the last four years at least. Éltex considers itself a regional medium-size company and is the market leader in terms of volume of treated waste. While Éltex's revenue has been increasing rapidly in recent years, it remains fairly small compared to the world leader, Veolia.

The market share of the company benefits from the strong customer base of well-known groups such as P&G, Bosch and Samsung. Éltex maintains medium- and long-term partnerships with them (of between five and 15 years) and has medium-term contracts with them (between two and five years). Regarding the smaller clients, the average contract length is 3.5 years while the total length of business partnership is 7.5 years on average. Due to its medium- and long-term partnerships, we can expect the contracts to be easily renewed, which supports the company's market position.

The company holds all the necessary permits to operate. There are three types of permits: i) national; ii) site-specific; and iii) specific permits for activities regulated by EU and Hungarian laws.

Permits are also required for the trading, treatment, transport, manufacturing, recycling and recovery of both non-hazardous and hazardous waste, as well as for the operation of waste treatment plants in each location. Each plant owned or rented by Éltex has a site permit, a waste-handling permit and a recycling permit. Éltex's health and safety executive team ensures permits are regularly renewed. Éltex was the second company in

**Limited diversification in terms of services and geographies**

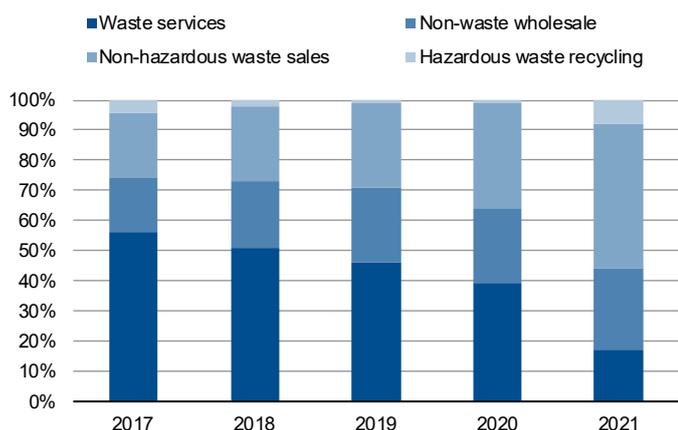
Europe to obtain R2 certification, which is the highest industry-wide standard for recycling electrical equipment in a sustainable manner.

Éltex's revenue and EBITDA is not diversified in terms of sources. Indeed, all of its revenue comes from recycling and secondary raw material (including in non-waste wholesale). Nevertheless, it is worth noting the good diversification of the services it provides.

Diversification is also limited in terms of geographies, as more than 70% of net revenue and EBITDA was recorded in Hungary in 2022, in a very similar proportion to 2021. The remaining is recorded within Europe. This makes Éltex's business model more vulnerable to negative macroeconomic shocks, such as a currency devaluation, or an increase in domestic interest rates.

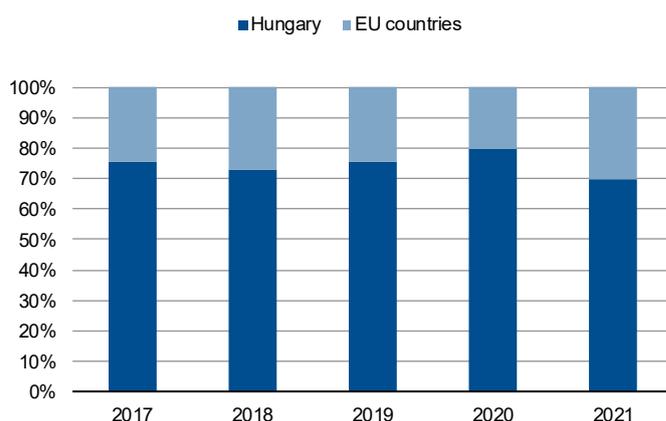
Éltex's top five clients account for 60% of net revenue in 2022. This concentration risk is mitigated by its strong customer base, consisting mostly of well-known multinationals. Its top five suppliers account for one-fifth of net revenue. It is mainly made up of Hungarian firms, even if some are subsidiaries of worldwide groups.

**Figure 1: Revenue breakdown per segment (%)**



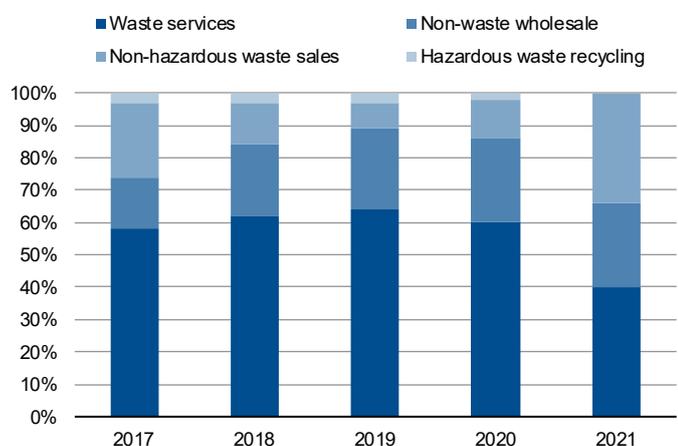
Sources: Éltex, Scope (estimates)

**Figure 2: Revenue breakdown per geographies (%)**



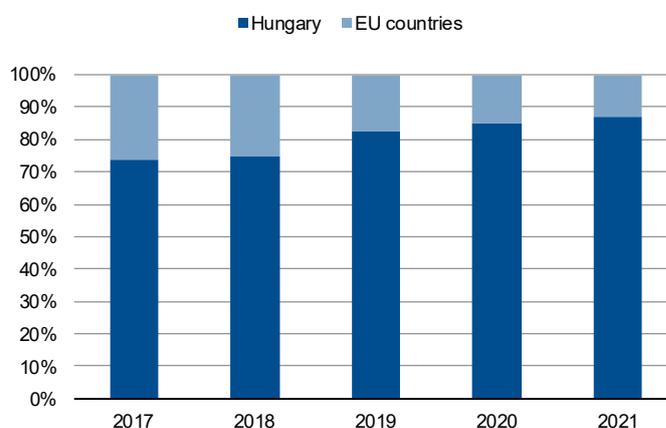
Sources: Éltex, Scope (estimates)

**Figure 3: EBITDA breakdown per segment (%)**



Sources: Éltex, Scope (estimates)

**Figure 4: EBITDA breakdown per geographies (%)**

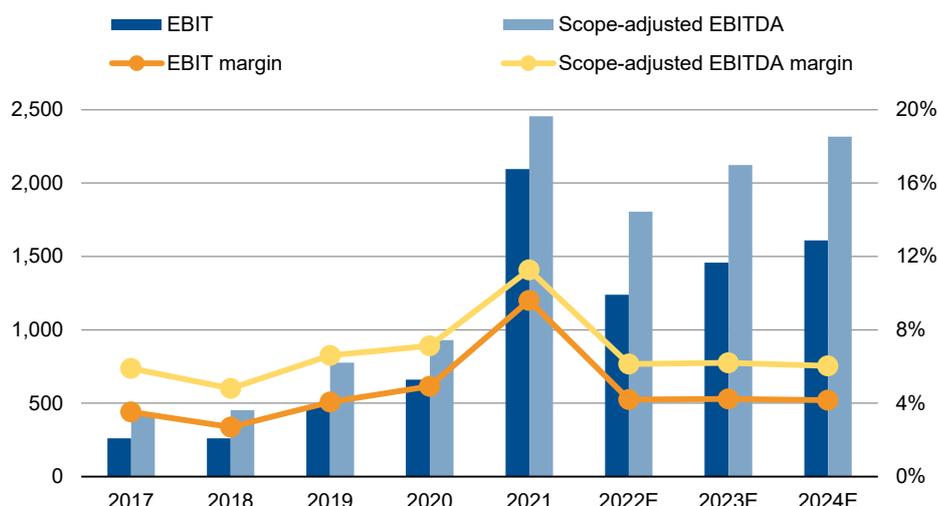


Sources: Éltex, Scope (estimates)

Operating profitability  
benefitting from the continuous  
investments

Éltex's Scope-adjusted EBITDA margin has significantly increased in recent years, to above 10% in 2022 from the historical range of 6%-8%. This EBITDA margin benefits from significant investments in machinery and equipment, resulting in a higher proportion of the more value-added, high-margin waste management services compared to the traditional activities of transporting and sorting industrial waste. We expect the EBITDA margin to stay close to averages of the past two to three years, between 10% and 11%, despite challenging market conditions. We expect the investments of previous years combined with the stable and long-term customer base to result in resilient margins.

**Figure 5: EBIT and adjusted EBITDA in HUF m and their respective margins**



Source: Éltex, Scope estimates

Low leverage with moderate  
debt

### Financial risk profile: BBB

The financial risk profile (upgraded to BBB) is supported by strong credit metrics. Leverage, measured by Scope-adjusted debt/EBITDA, has been between 1x and 2.5x historically, showing a continuous improvement towards 1.0x and reaching 0.8x in 2022. We expect a slight deterioration of Scope-adjusted debt/EBITDA due to increasing debt (new HUF 2bn investment loan contracted in 2023), pushing Scope-adjusted debt/EBITDA to around 1.4x in 2023. In the medium term, considering Éltex's moderate debt and robust EBITDA, we expect Scope-adjusted debt/EBITDA to stay below 1.5x.

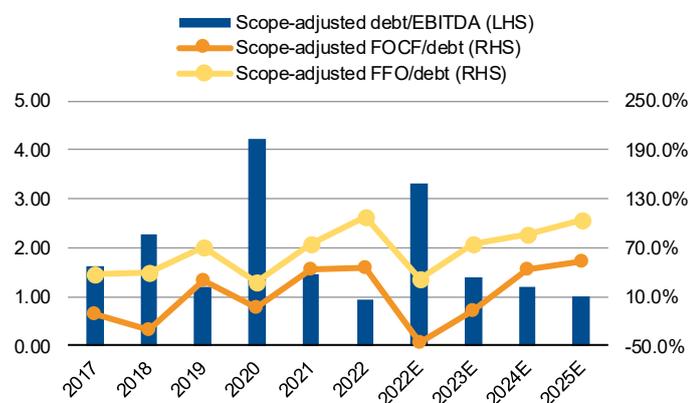
Debt protection benefitting from  
favorable interest rates

Debt protection, measured by the EBITDA interest cover, benefits from the favourable interest rate of the existing debt (a Central Bank of Hungary bond with a coupon of 3.5% and the new, EUR denominated investment credit with an interest rate of 3%), with a yearly interest expense of around HUF 170m in the upcoming years.

Volatile cash flow cover

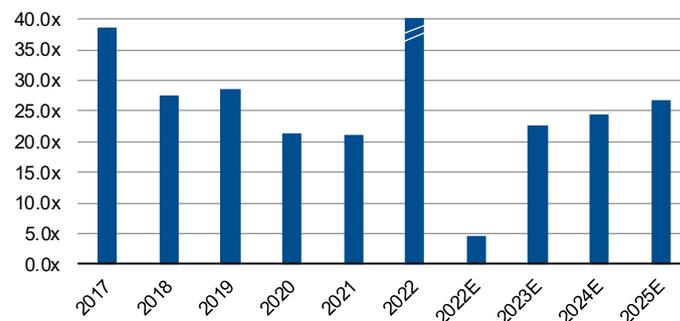
FOCF has been and is forecasted to remain volatile, fluctuating between positive and negative values. The variation is mainly influenced by capex. For 2023, HUF 3.5bn of capex is forecasted by Scope (6M 2023: HUF 3.2bn). Beyond 2023, a yearly capex of HUF 2bn is forecasted, close to historical averages, and above management's forecast of HUF 1bn, including only maintenance capex. Due to the volatility of FOCF, we apply a more conservative approach in the cash flow cover sub score.

**Figure 6: Scope-adjusted leverage and cash flow cover**



FFO: funds from operations  
Sources: Éltex, Scope (estimates)

**Figure 7: EBITDA interest coverage**



Sources: Éltex, Scope (estimates)

### Adequate liquidity

Liquidity is adequate, as sources (HUF 1.5bn as of end-2022) fully cover uses (short-term debt of HUF 674m and FOCF of -534m). We expect liquidity to stay significantly above 100%, benefitting from strong cash generation and positive FOCF. Bond amortisation should start in 2024, with a tranche of HUF 490m payable yearly.

We note that Éltex's senior unsecured bond issued under the Hungarian Central Bank's bond scheme has an accelerated repayment clause. The clause requires Éltex to repay the nominal amount (HUF 2.45bn) within 30 days after the bond rating falls below B-, which could have default implications.

Balance in HUF m	2022	2023 E	2024 E
Unrestricted cash (t-1)	2,921	1,494	3,422
Open committed credit lines (t-1)	130	130	130
Free operating cash flow	1,628	-438	2,145
Short-term debt (t-1)	1,237	674	1,164
<b>Coverage</b>	<b>378%</b>	<b>227%</b>	<b>490%</b>

### Long-term debt rating

#### Senior unsecured debt rating: BB-

Scope expects an 'above-average' recovery for senior unsecured debt, such as the HUF 2.45bn bond issued under the Hungarian National Bank's programme. Despite the above-average recovery, Scope refrains from granting an uplift as the assessment is very sensitive to applied advance rates, especially the one related to tangible assets. Additionally, the issuers ability to raise additional external debt, ranking above the senior unsecured debt, might affect the recovery rate significantly. Thus, this recovery expectation translates into a BB- rating for the senior unsecured debt category, in line with the issuer rating. Scope's recovery expectations are based on an anticipated liquidation value in a hypothetical default scenario at the end of 2025. Short-term and long-term debt (excluding the bond issue) raised from financial institutions, undrawn committed medium- and long-term facilities as well as payables rank higher than senior unsecured debt in terms of repayment.

Scope notes that Éltex's senior unsecured bond issued under the Hungarian Central Bank's bond scheme has an accelerated repayment clause. The clause requires Éltex to repay the nominal amount (HUF 2.45bn) within 30 days after the bond rating falls below B-, which could have default implications. Taking into consideration the BB- rating of the bond rating, Scope considers this scenario currently remote.



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