Axactor SE's Proposed Senior Unsecured Bond Rated 'B'

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Overview

- Axactor SE plans to issue a €300 million senior unsecured bond, which structurally ranks below its revolving credit facility (RCF).
- We assigned our 'B' issue-level and '3' recovery ratings to Axactor's proposed bond.
- The '3' recovery rating indicates our expectation for meaningful recovery (50%-70%; rounded estimate: 60%) in the event of default.

FRANKFURT (S&P Global Ratings) Aug. 25, 2021--S&P Global Ratings today assigned its 'B' issue rating to the €300 million senior unsecured bond due in 2026 that Norway-based Axactor SE (B/Stable/--) plans to issue. The rating is subject to our review of the notes' final documentation.

The company plans to use the proceeds from the proposed bond to repay the amounts outstanding on its existing bond held by Axactor's largest shareholder Geveran Trading Co Ltd (€140 million) and different loan facilities at Axactor's Italian facility (about €40 million as of second-quarter 2021). Any remaining amount is set aside for general corporate purposes, and we expect these funds to be invested in debt portfolios or to reduce the outstanding volume on RCF.

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 sizeable multicurrency senior secured RCF (€545 million), which is structurally superior to Axactor's senior unsecured bonds.
- We do not add Axactor's existing €140 million bond and its Italian loan facilities to debt claims, because we believe those will be repaid by end-2021.
- In our simulated default scenario, we envisage a default in 2024, 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 25% to the book value of the debt portfolios. We apply the same haircut on Axactor's remaining real estate-owned portfolio because we expect Axactor will reinvest proceeds from the disposal of real estate assets into debt portfolios.
- In addition, we assume earnings from its third-party servicing business will decline 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: 2024
- 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 don't anticipate it will be used as a funding vehicle within the regular course of business.

Key analytical factors

- Gross enterprise value at default: €867 million
- Net enterprise after 5% administrative costs: €824 million
- Prior ranking claims: €488 million under the RCF
- Collateral value available to unsecured debt: €336 million
- Senior unsecured debt claims: circa €530 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.

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 | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Norway-Based Debt Purchaser Axactor Assigned 'B' Rating; Outlook Stable, Aug. 17, 2021
- Europe's Distressed Debt Purchasers Look To Steady The Ship In 2021, Feb. 12, 2021