Market Comment

- Credit markets strengthened yesterday, with the iTraxx X-Over tightening 11 bps to 370 bps. European bourses mostly rose 0.2-1.1%, except for the FTSE 100 (-0.4%). In the US, the S&P 500 and Nasdaq fell 0.1-0.2%. In Asia this morning, the Nikkei is flat, while the Hang Seng is up 0.2%. US equity futures are mostly higher. WTI is trading at USD 77.8/bbl, and Brent at USD 83.0/bbl.

- According to the latest Fed Beige Book, sales of discretionary items and durable goods (e.g. furniture and appliances) declined on average, as consumers exhibited greater price sensitivity, while travel and tourism activity was generally healthy. Moreover, inflation "largely moderated" across the country. The report also noted varied pricing power, with services providers finding it easier to pass through increases than manufacturers, while most districts expect moderate price increases to continue next year.

- Cleveland Fed President Loretta Mester signalled that she would prefer to maintain rates at the December FOMC meeting, as policy is well placed to determine whether inflation is on track to fall towards 2%. Meanwhile, Atlanta Fed President Raphael Bostic said he expects US economic growth to slow and inflation to continue easing on the back of tight monetary policy. That said, Richmond Fed President Thomas Barkin noted that policymakers should have the option of raising rates if inflation does not show sufficient progress in coming down.

- OPEC+ will hold its ministerial meeting today, which has been delayed from November 26th. The bloc is expected to release its oil policy for 2024.

- In Germany, the November preliminary CPI inflation (EU harmonised) came in at 2.3% y-o-y (2.5% e / 3.0% p). The euro-zone economic confidence rose to 93.8 in the month (93.6 e / 93.5 p), while economic sentiment in Italy fell to 103.4 (103.9 p).

- In China, the official manufacturing PMI unexpectedly declined to 49.4 in November (49.8 e / 49.5 p).

- In the US, the October preliminary wholesale inventories fell 0.2% m-o-m (0.2% e / 0.1% p). Meanwhile, Q3/23 GDP (annualised; second reading) expanded 5.2% q-o-q (5.0% e / 4.9% p).

Adler Pelzer | LARA: High Risk | Credit Bias: Stable | ESG: Adequate

Si Yong Ng

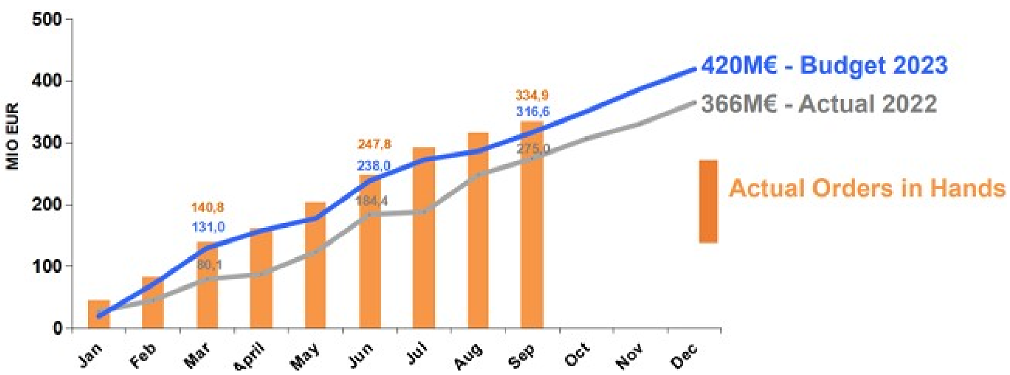
Q3/23 earnings call takeaways: upgrades full-year guidance

"Hold" the PELHOL 9.5% 04/27 bonds trading at a mid-price of 95.9 or Z-spread of 795 bps (YTW: 11.3%)

Adler Pelzer (AP) held a conference call yesterday to discuss the Q3/23 results released last week, with the following highlights:

- Order intake development was strong, with 9M/23 order intake at EUR 335 mn (EUR 18 mn above management's budget) or c. 22% above the prior-year figure.

Order Intake Development



Source: Company

- Management provided an optimistic outlook and increased its FY 2023 guidance. It now expects full-year sales of c. EUR 2.2 bn (previously EUR 2.1 bn) and adjusted EBITDA of c. EUR 195 mn (c. EUR 185 mn). Meanwhile, Q4 capex should normalise from the high levels seen in Q3. The company expects a working capital release in Q4, in line with seasonal trends.

- AP provided a positive initial guidance for FY 2024, projecting a EUR 50-80 mn sales increase from volume growth as the company gains market share. Adjusted EBITDA will likely improve further by EUR 15-20 mn from the FY 2023 levels.

We welcome the improved FY 2023 guidance, which suggests that the Q4 performance will remain robust. Profitability should continue benefiting from cost pass-throughs to customers and moderating raw material prices. Cash-flow generation would benefit from better earnings and the seasonal working capital release seen at year-end. We also note the positive initial guidance for FY 2024, which suggests continued organic growth in the coming financial year. We view the solid order intake development favourably, as it bodes well for sales development in the coming years.

Si Yong Ng

Biofarma | LARA: High Risk | Credit Bias: Stable | ESG: Adequate

Tanvi Arora

9M/23 earnings review: underlying earnings weakness

"Buy" the BIOFSP 05/29 FRNs trading at 100.5 or a discount margin of 500 bps (YTW: 8.8%)

Biofarma has released its 9M/23 results, with a call scheduled for December 11th. Revenues rose 9% y-o-y to EUR 329 mn, supported by business expansion, new client wins and the acquisition of US Pharma Lab (closed in July). The growth stemmed from volume increases and price hikes. All key business segments recorded improvement. Revenues in the Cosmetic segment were 15% higher, while Health Supplements was up 7% and Medical Devices 15%. Revenues increased across most geographies except APAC. NAFTA's growth trajectory turned positive 4.2% in 9M, supported by the US Pharma deal and new innovative projects. APAC sales declined 14% to EUR 18 mn, mainly as a EUR 4 mm customer order was moved from Q3 to Q4.

Adjusted EBITDA grew 4% y-o-y to EUR 64 mn in 9M/23, while the margin slid 100 bps to 19.4%. The decrease was attributed to a change in product mix and increases in logistics and selling costs. Adjusted EBITDA dropped 8% in Q3/23 (vs. double-digit growth in H1).

OCF was positive EUR 12 mn, following EUR 26 mn in cash-outs for interest payments, EUR 10 mn tax payments and a EUR 1 mn working-capital investment. We calculate an FCF deficit of EUR 8 mn, following capex of EUR 20 mn. The company spent EUR 369 mn on the US Pharma acquisition using equity and new debt.

Consequently, reported net debt rose to EUR 536 mn (vs. EUR 340 mn in the OM for the May 2022 bond offering). Net leverage was 5.6x using pro-forma EBITDA of EUR 96 mn (including EUR 11 mn of synergies extracted from recent acquisitions). Including the PIK notes, net debt was EUR 710 mn.

During the conference call, we seek management's comments on market and earnings trends in the underlying business in Q3/23, which appear to have softened.We will comment further after the call.

Tanvi Arora

Burger King France | LARA: High Risk | Credit Bias: Stable | ESG: Adequate

Tanvi Arora

Q3/23 earnings call takeaways: focus remains on network expansion

"Hold" the BGRKNG 11/26 E+475 bps FRNs at 100 at a 445 bps discount margin, and the 11/27 7.75% PIK notes at 96 (YTW: c. 8%)

Burger King France (BKF) held a call yesterday to discuss its Q3/23 results. Management highlighted that growth in the quarter stemmed from successful marketing activities, network expansion and product mix. The company said that it has been gaining market share, and stated that the margin pressure was due to an increase in the number of company restaurants following the acquisition of La Reunion. Management confirmed that the margins of the acquired La Reunion restaurants were similar to those of BKF's restaurants. BKF remains committed to its network expansion strategy, and has opened 44 restaurants in the LTM period. It plans to accelerate the number of openings going forward.

In terms of current trading, the company stated that market dynamics in France are challenging in H2 compared to H1. Management also noted that BKF's Q4/22 performance had been particularly strong.

We expect mild to flat y-o-y growth in Q4/23, led by BKF's expansion as opposed to higher demand. That said, the FY 2023 performance should be stronger y-o-y. We also expect the company to generate positive FCF, which should support mild deleveraging from the current levels.

Tanvi Arora

CeramTec | LARA: High Risk | Credit Bias: Stable | ESG: Adequate

Peter Low

Q3/23 earnings call takeaways: plans to expand Medical Markets production capacities

Move to "Buy" on the CERTEC 5.25% 02/30 subordinated bonds at 85.6 or a Z-spread of 537 bps (YTW: 8.4%), from "Hold"

CeramTec held a call yesterday to discuss its Q3/23 results. Highlights included:

- The Industrial Markets segment experienced softness in the construction, textile and electronics end-markets. The mobility end-market remained stable at a low level. China remained soft.

- In September 2023, the company announced that it would expand its manufacturing facilities by adding another medical technology production hall in Marktredwitz, Upper Franconia, Germany (see here for press release). The expansion will cost c. EUR 75 mn. CeramTec plans to start production in H2/25 or H1/26. The expansion is expected to increase production capacity by 20-30%.

- CeramTec is close to full utilisation for its Medical Markets segment, but has room to improve production capacities at its existing plants.

- The company declined to provide forward guidance. There were no updates regarding its M&A pipeline.

- Management said that the rating agencies' comments on CeramTec's performance have generally been positive, though there are no clear indications of any rating revisions.

The results came in below our expectations, albeit we note that the numbers were solid nevertheless. Sales development was mixed, with good performance in Medical Markets but softening sales for Industrial Markets. The adjusted EBITDA margin also underperformed our expectations. Positively, the company continued to generate FOCF and deleverage.

We foresee that Medical Markets will be the main driver of top-line improvement, while Industrial Markets will likely be in a slump in the coming quarters given the weakness in various end-markets. Q4/23 Medical Markets top-line growth should remain strong, but we forecast slower growth in FY 2024 compared to the low 20% levels achieved in 9M/23. We anticipate that the EBITDA margin will likely strengthen in Q4, on the back of strong growth in Medical Markets. However, the EBITDA margin may soften in FY 2024, given the tougher comparables and softer development in Industrial Markets, offset by growth in the higher-margin Medical Markets. We foresee that capex will increase materially in FY 2024, owing to the investments required for the new plant expansion under the Medical Markets segment. Nevertheless, the company should still generate solid FCF. We anticipate that CeramTec will deleverage modestly in the coming years in the absence of material M&As. We move our trade recommendation to "**Buy**" from "Hold" on the subordinated bonds, as we see the yields as attractive given the company's solid FCF generation and our expectations for modest deleveraging.

Peter Low

EG Group | LARA: High Risk | Credit Bias: Stable | ESG:

Tanvi Arora

Secures bridge loan to address near-term maturities; Fitch affirms B (stable) rating

"Buy" the EUR EGBLFN 11% 11/28 notes at 100% or a Z-spread of 781 bps (YTW 11.0%)

EG Group has secured a USD 200 mn bridge facility, which would be used to address the company's near-term debt maturing in 2025 and 2026. Separately, Fitch has affirmed the company's rating at B (stable) following recent developments, including a bond refinancing transaction, asset disposals and sale-and-leaseback deal. The rating factors in the resolved refinancing risk, with most debt now maturing in 2028. The agency cited EG's solid business profile, but noted that there is execution risk in increasing the share of non-fuel business. Fitch believes that net leverage, though having reduced, will remain high.

We are concerned about EG's high debt, stemming from a shift in the business model towards non-fuel offerings and recent divestments. That said, the credit profile and profitability supported by the company's wide reach, extensive site network, diversified product offerings (of which convenience is a core attribute) and high share of company-operated sites.

Tanvi Arora

EVOCA | LARA: High Risk | Credit Bias: Stable | ESG: Adequate

Felix Fischer

Q3/23 earnings review: top line disappoints

"Hold" the NWGLOV 11/26 float trading at a mid-price of 98.6% or discount margin of 479 bps (yield: 8.8%)

EVOCA has released its Q3/23 results. While profitability continued to improve, top-line growth slowed markedly, resulting in concerns over the outlook. Revenues rose a marginal 0.7% y-o-y to EUR 101 mn. This was due to sound performance in Central & South America (+52.1% or EUR 4.8 mn; strong Semi Auto Coffee performance, plus increased demand from small and medium customers in the Superautomatic business), Other Europe (+15.4% or EUR 1.8 mn; solid performance at Liquid machines, particularly for one customer), Germany (+16.3% or EUR 0.7 mn) and France (+4.0% or EUR 0.5 mn). However, this was offset by poor performance in North America (-24.2% or EUR 3.1 mn; low purchases from a key account), Asia & Pacific (-21.6% or EUR 1.1 mn; weakness in all segments and countries) and East Europe (-10.2% or EUR 1 mn; good results at Impulse more than offset by underperformance in Semi Auto Coffee). In terms of segment, Semi Auto Coffee revenues grew 5.1% to EUR 50 mn. Weak numbers at Office Coffee Service (OCS) and Liquid were more than compensated by good performance in all Ho.Re.Ca segments (+26.6%) and Superautomatic (+34.1%) mainly in Mexico, France and North America, as well as Traditional & Grinders (+4.5%) mainly in America. Auto Coffee revenues were marginally down at EUR 21 mn. Impulse was weak, with revenues slumping 22.5% to EUR 10 mn. Softness in Italy, the UK, Spain and France more than offset growth in Eastern Europe. Accessories & Spares registered 2.8% higher revenues at EUR 21 mn.

	For the three months ended			For the nine months ended			For the twelve months ended
	September 30, 2023	September 30, 2022	Variance %	September 30, 2023	September 30, 2022	Variance %	September 30, 2023
Revenue by geography (€ thousands)	**100,518**	**99,850**	**0.7%**	**329,920**	**295,600**	**11.6%**	**449,889**
Italy	16,404	17,181	(4.5%)	61,124	62,522	(2.2%)	84,176
France	11,735	11,282	4.0%	39,951	37,324	7.0%	52,955
Spain	8,147	8,776	(7.2%)	33,488	32,003	4.6%	45,567
UK	3,954	4,292	(7.9%)	10,788	10,800	(0.1%)	14,287
Germany	4,754	4,089	16.3%	14,379	11,941	20.4%	19,473
Nordics	3,735	4,146	(9.9%)	13,547	11,203	20.9%	19,035
Other Europe	13,483	11,686	15.4%	41,941	31,191	34.5%	57,152
East Europe	8,951	9,971	(10.2%)	30,223	28,619	5.6%	42,466
Africa & Middle East	1,936	1,620	19.5%	7,460	5,838	27.8%	9,076
Asia & Pacific	3,917	4,996	(21.6%)	14,045	11,064	26.9%	20,077
North America	9,624	12,691	(24.2%)	28,780	31,524	(8.7%)	40,239
Central & South America	13,876	9,120	52.1%	34,195	21,569	58.5%	45,385
Revenue by segment (€ thousands)	**100,518**	**99,850**	**0.7%**	**329,920**	**295,600**	**11.6%**	**449,889**
Semi auto coffee [1]	50,489	48,025	5.1%	157,046	125,994	24.6%	215,024
Auto coffee [2]	20,864	21,001	(0.7%)	74,564	78,645	(5.2%)	100,748
Impulse [3]	7,701	9,942	(22.5%)	25,815	27,933	(7.6%)	37,329
Accessories & Spares	21,463	20,882	2.8%	72,496	63,028	15.0%	96,787

1 Semi auto coffee: machines for small/medium-sized locations without cup dispensing technology; includes Ho.Re.Ca, OCS and Liquid

2 Auto coffee: machines for large-sized locations; defined as machines with cup dispensing technology

3 Impulse: machines dispensing snacks & food and cans & bottles

Source: Company

The gross margin improved y-o-y to 38.2% from 35.3%. Adjusted EBITDA rose 5.1% to EUR 22 mn, thanks to price hikes to cover cost inflation and the success of the company's restructuring programme. Adjustments amounted to EUR 4 mn, and included EUR 3 mn of restructuring costs. Cash-flow generation substantially improved. We calculate FOCF post-leases of EUR 9 mn, versus an outflow of EUR 8 mn for Q3/22. The improvement mostly stemmed from a EUR 6 mn working-capital release (vs. EUR 10 mn increase for Q3/22). Capex was EUR 6 mn, up c. EUR 2 mn y-o-y. Cash-outs for restructuring and similar fell to EUR 2 mn from EUR 4 mn, with the Gaggio Montano restructuring largely completed. Net debt dropped sequentially to EUR 513 mn from EUR 523 mn, and declined y-o-y from EUR 538 mn. Credit stats continued to improve, with net leverage at 5.3x, down 0.1x sequentially and 1.3x y-o-y. Liquidity remained sound and included EUR 71 mn of cash, with the RCF not utilised for cash drawings.

(in EUR mn)

YE December	LTM Q3/23A	Q3 2022A	Q3 2023A	Change	9M 2022A	9M 2023A	Change
Revenues	**449.9**	**99.9**	**100.5**	**0.7%**	**295.6**	**329.9**	**11.6%**
Growth	*13.1%*	8.2%	0.7%		14.5%	11.6%	
Cost of sales	(281.0)	(64.6)	(62.1)		(188.3)	(202.1)	
Gross profit	**168.9**	**35.2**	**38.4**		**107.3**	**127.8**	
Margin %	*37.5%*	35.3%	38.2%		36.3%	38.7%	
Sales & marketing costs	(43.4)	(9.6)	(10.3)		(29.9)	(33.1)	
Logistics	(8.9)	(1.8)	(2.0)		(5.6)	(6.2)	
Admin	(17.6)	(4.0)	(4.3)		(12.7)	(13.6)	
Operating exchange difference	(1.3)	1.0	0.1		2.1	(0.6)	
Restructuring expenses	(3.7)	(0.2)	(2.7)		(3.9)	(3.0)	
Other operating costs	(7.5)	(2.4)	(1.7)		(6.1)	(3.7)	
Operating income	**86.6**	**18.3**	**17.5**		**51.1**	**67.6**	
Adjusted EBITDA	**97.3**	**20.9**	**21.9**	**5.1%**	**61.1**	**74.3**	**21.6%**
Margin %	21.6%	20.9%	21.8%		20.7%	22.5%	
Adjusted EBITDA	**97.3**	**20.9**	**21.9**	**5.1%**	**61.1**	**74.3**	**21.6%**
Taxes paid	(6.0)	(1.1)	(3.3)		(2.2)	(4.7)	
Other	(8.8)	(4.2)	(1.0)		(23.0)	(10.0)	
FFO before interest	**82.5**	**15.5**	**17.7**		**35.9**	**59.7**	
Cash interest	(31.1)	(8.1)	(7.6)		(20.2)	(23.7)	
FFO	**51.5**	**7.4**	**10.1**		**15.7**	**35.9**	
Change in trade working capital	7.2	(10.4)	6.4		(30.7)	(12.0)	
Operating cash flow	**58.7**	**(2.9)**	**16.5**		**(15.0)**	**23.9**	
Capex	(19.7)	(4.0)	(6.1)		(12.2)	(14.0)	
Capex % of revenues	*4.4%*	4.0%	6.1%		4.1%	4.2%	
Free operating cash flow pre leases	**38.9**	**(6.9)**	**10.4**		**(27.2)**	**9.9**	
Lease expenses	(6.6)	(1.3)	(1.1)		(3.7)	(3.5)	
Free operating cash flow post leases	**32.4**	**(8.3)**	**9.3**		**(30.9)**	**6.4**	
M&A	(8.1)	–	–		(1.0)	–	
Shareholder remuneration	–	–	–		–	–	
Free cash flow	**24.2**	**(8.3)**	**9.3**		**(31.8)**	**6.4**	
Super senior RCF	–	–	–		–	–	
Other debt	8.8	9.4	8.8		9.4	8.8	
Senior secured notes	550.0	550.0	550.0		550.0	550.0	
Second-lien notes	–	–	–		–	–	
IFRS 16 leases	25.4	26.3	25.4		26.3	25.4	
Total debt	**584.2**	**585.7**	**584.2**		**585.7**	**584.2**	
Cash	71.2	47.5	71.2		47.5	71.2	
Net total debt*	**513.1**	**538.2**	**513.1**		**538.2**	**513.1**	
Unfunded pension obligations	10.0	12.6	10.0		12.6	10.0	
Net adjusted total debt	**523.1**	**550.7**	**523.1**		**550.7**	**523.1**	
Total reported debt to adj. EBITDA	**6.0x**	**7.2x**	**6.0x**		**7.2x**	**6.0x**	
Net debt to adj. EBITDA	**5.3x**	**6.6x**	**5.3x**		**6.6x**	**5.3x**	
EBITDA (Adj. pro-forma - post-IFRS 16) to Cash interest	**3.1x**	**2.6x**	**2.9x**		**3.0x**	**3.1x**	
FFO to Cash Interest	**2.7x**	**1.9x**	**2.3x**		**1.8x**	**2.5x**	
FFO to net debt	**10.0%**	**4.7%**	**10.0%**		**4.7%**	**10.0%**	

After the balance sheet date on October 2nd, EVOCA acquired 100% of shares in Provenero GmbH. Provenero is one of the largest distributors of professional coffee machines in Germany, and the official distributor of Saeco and Gaggia Milano coffee machines. EVOCA believes that the acquisition strengthens its "position in the German market in the highly competitive Office Coffee Service and Ho.Re.Ca. segments. Leveraging on Provenero's expertise and well-established presence in the marketplace, the Group aims at strengthening the relationship with the clients, sharing the most recent market dynamics and making them part of the evolution of the Saeco and Gaggia Milano products and services value proposition."

While profitability developed well, the top line disappointed, with growth slowing substantially versus prior quarters. EVOCA had posted 16.6% growth in Q2/23, with revenues at EUR 118 mn. Revenues remain well below pre-COVID-19 levels. In this context, revenues stood at EUR 107 mn in Q3/18 and EUR 105 mn in Q3/19. Cash-flow generation was a positive surprise. Hence, the company should still be able to generate solid FOCF unless market conditions sharply deteriorate. We calculate that EVOCA generated FOCF post-leases of EUR 32 mn for LTM Q3/23, and anticipate that FOCF generation will remain positive, which should support deleveraging. We will comment further after the company's earnings call, which is scheduled for December 5th.

Felix Fischer

Fedrigoni | LARA: High Risk | Credit Bias: Stable | ESG: Strong

Peter Low

9M/23 earnings review: soft results

"Hold" the FEDRIG structure, e.g. with the 11% 10/27s at 108.3 or a Z-spread of 345 bps (YTW: 7.4%)

Fedrigoni published its 9M/23 results yesterday. The reported financial figures were affected by an ownership change and change in consolidation entity to Fibre Bidco from Fedrigoni, though management provided certain financial figures to aid comparison. 9M sales fell 13.2% y-o-y to EUR 1.41 bn, owing to declines of 18.3% in the Fedrigoni Self-Adhesives (FSA) business and 6.4% in Luxury Packaging & Creative Solutions (LPCS). Adjusted EBITDA slid 11.4% to EUR 206 mn, with the margin rising 30 bps to 14.6%. The EBITDA decrease was due to the sales declines in both segments, albeit partly offset by a rise in other operating revenues and contributions from acquisitions. Pro-forma adjusted EBITDA fell q-o-q to EUR 330 mn from EUR 336 mn. Pro-forma EBITDA adjustments stood at EUR 58 mn, comprising EUR 36 mn of run-rate cost savings as well as EUR 22 mn for the full-year consolidation of acquisitions and related run-rate synergies.

- LPCS' sales fell 6.4% y-o-y to EUR 631 mn, owing to lower volumes and adverse mix, albeit partly offset by higher average selling prices and contributions from acquisitions. Adjusted EBITDA rose 1.6% to EUR 112 mn, thanks to higher other operating revenues and contributions from acquisitions.

- Sales in FSA fell 18.3% y-o-y to EUR 801 mn, with lower volumes from destocking only partly offset by higher selling prices. Adjusted EBITDA slid 23.1% to EUR 95 mn, owing to the top-line decline and adverse mix.

We calculate that Q3/23 sales fell 19.7% y-o-y to EUR 439 mn and adjusted EBITDA declined 17.0% to EUR 56 mn, with the margin rising 40 bps to 12.6%.

9M/23 OCF after cash interest amounted to EUR 36 mn, after deducting EUR 167 mn of cash interest. Capex was EUR 40 mn. Net debt stood at EUR 1.04 bn, down from EUR 1.10 bn as of Q2/23 but above the FYE 2022 figure of EUR 1.03 bn. Pro-forma net leverage (using pro-forma adjusted EBITDA) was 3.1x, falling 0.2x q-o-q but up from 3.0x as of FYE 2022. Cash amounted to EUR 157 mn as of Q3/23.

In our view, the results were soft owing to lower volumes from destocking. However, we note favourably the positive EBITDA margin development in Q3/23. Cash flow benefited from working capital release in Q3. We have revised our FY 2023 forecasts downwards, given the weak 9M development thus far. The EBITDA margin will likely remain resilient, as Fedrigoni continues to pass through cost increases to customers. Moreover, the realisation of cost savings and contributions from acquisitions should provide some EBITDA support. That said, EBITDA adjustments and higher cash interest will likely weigh on cash-flow generation. We expect net leverage to deteriorate in FY 2023, owing to reduced EBITDA. We await more colour on the operational development and outlook, which should be provided when Fedrigoni hosts its earnings call (not scheduled yet).

Peter Low

Grunenthal | LARA: Medium Risk | Credit Bias: Stable | ESG: Adequate

Tanvi Arora

9M/23 earnings call takeaways: maintains FY 2023 guidance

"Buy" the GRUPHA bonds e.g. with the 4.125% 05/28s at 96 or a Z-spread of 215 bps (YTW: c. 5%)

Grunenthal has hosted a conference call to discuss its 9M/23 results and outlook. The company again confirmed its guidance of y-o-y stable EBITDA (excluding a one-time EUR 10 mn voluntary donation to the Thalidomide foundation), aided by payments from Shionogi in Q4. Net leverage should decrease from the current levels by FYE 2023, thanks to earnings improvement. Management projected that pressure on Palexia will persist in Q4 as well as FY 2024. It added that the phasing out of the medicine was slower than expected and that the slowdown had accelerated in Q3/23, further impacted by a narcotics prescription regulation in Germany that came into effect. Looking ahead, Grunenthal's strategy will be on managing Palexia's sales erosion, driving further growth for Qutenza and maximising the value of its established brands.

The Q3/23 performance was softer than we had expected. That said, we are comforted by management's confirmation of its guidance for broadly flat EBITDA y-o-y for FY 2023, aided by improved Q4 performance. While net leverage increased slightly in Q3, it should drop to c. 2x by year-end. Overall, we remain comfortable with company's credit profile and ongoing strategy.

Tanvi Arora

Guala Closures | LARA: Medium Risk | Credit Bias: Stable | ESG: Adequate

Peter Low

9M/23 earnings review: in line with estimates; cautious outlook

"Buy" the GCLIM 06/29 FRNs at 99.8 or a discount margin of 404 bps; "Hold" the 3.25% 06/28 secured notes at 89.3 or Z-spread of 306 bps (YTW: 6.1%)

Guala Closures has reported robust results despite the challenging macroenvironment.

Net revenues for 9M/23 were down c. 1% y-o-y at EUR 645 mn, with positive performance from the luxury closures product line within the Spirits segment (+59%) and growth in the Americas (+9%). In terms of products, luxury closures led growth (+37% organic) but this was somewhat offset by weakness in safety (-7%) and roll-on closures (-9%). In terms of end-markets, spirits' development was flat overall, with c. 15% growth in non-alcoholic beverages offset by weakness in other end-markets such as wine (-13%), olive oil & other condiments (-24%). The Labrenta acquisition supported inorganic top-line growth by adding c. EUR 14 mn. In terms of geographies, the Americas were the best performer with growth driven by luxury closures, but this was offset by weakness in all other regions, with Oceania faring the worst with a 14% decline. Still, management believes that Oceania (with new business development) and Africa (high potential market) remain positive drivers for the medium term.

Adjusted EBITDA rose c. 13% y-o-y to EUR 137 mn, with c. 11% of the growth being organic in nature. Management attributed the development to a better sales mix, improved price-cost ratio and cost efficiency initiatives. The adjusted EBITDA margin was 2 ppts higher at 21%. Guala acknowledged that volumes were affected by destocking effects at certain customers, but added that overall performance was compared to its rivals.

Cash-flow development was decent, with positive FCF of c. EUR 29 mn. This was supported to a degree by a moderate working-capital release, which helped offset the high growth capex so far this year. Net leverage at end-September 2023 was c. 2.6x. After Q3, the group issued a EUR 350 mn bond due 2028, with the proceeds used to pay a EUR 250 mn dividend and the remainder retained on the balance sheet for growth investments. Pro-forma net leverage increased to c. 3.9x, with total liquidity rising to EUR 328 mn (vs. EUR 201 mn at end-September and prior to the issuance), comprising EUR 150 mn RCF (upsized by EUR 50 mn) and cash on hand of EUR 178 mn.

Management provided a cautious outlook , with destocking expected to continue in early 2024. That said, products such as luxury closures are operating under tight supply chains and given the decent demand for these, continue to be favoured product lines. Management indicated that it will focus on the full integration of Fengyi to exploit the high-potential Chinese market, and on sustaining operational efficiencies.

We note the robust results considering the macro backdrop. While the outlook is cautious and net pro-forma leverage has increased following the dividend recapitalisation, Guala has demonstrated solid FCF generation capabilities.

Jayanth Kandalam

Industria Macchine Automatiche | LARA: High Risk | Credit Bias: Positive | ESG: Adequate — Felix Fischer

Q3/23 earnings call takeaways: constructive outlook

"Hold" the IMAIM notes e.g. with the 3.75% 01/28s trading at a mid-price of 92.8% or YTW of 5.8% (Z-spread: 279 bps)

Industria Macchine Automatiche (IMA)held a conference call yesterday to discuss its Q3/23 results. Highlights included:

- Trends remain positive, with no major changes observed.
- The company will increase list prices for its products and after-sales by 5-7% on average in December.
- IMA does not expect any changes to its funding structure as a result of the acquisition of BC Partners' stake in IMA by BDT & MSD Partners. However, it could look at refinancing the subordinated PiK notes (c. EUR 230 mn outstanding) with senior secured funding, if market conditions turn more favourable. That said, nothing concrete is on the agenda.
- The Q4/23 results should be strong (slightly above Q4/22), with continued solid order momentum. Management foresees a solid net debt reduction (supported by seasonal working capital release) and an improvement in credit stats. However, while net debt will likely decrease, full-year working capital should rise mostly due to later payments at certain projects. The FY 2024 outlook is sound.

The Q3/23 results were strong, and we expect the positive trend to continue. This is well-reflected in the current bond prices.

We will comment in more detail in an Earnings Flash later today.

Felix Fischer

International Design Group | LARA: High Risk | Credit Bias: Stable | ESG: Adequate — Felix Fischer

Q3/23 earnings review: weak numbers as expected

"Buy" the INTDGP 10% 11/28s at 101 or a Z-spread of 670 bps (YTW: 9.9%)

International Design Group (IDG) has posted weak Q3/23 results, broadly in line with numbers disclosed in conjunction with the company's recent bond offering. Revenues from contracts with customers (the table below shows total revenues according to the income statement) slumped 20.4% y-o-y to EUR 168 mn. While Core brands dropped 21.5% to EUR 131 mn, Emerging brands were down 16.2% at EUR 36 mn. The decline was mostly due to weakness in the Nordics and challenging market conditions in the Americas. Performance was better in other geographies such as the Middle East and Italy. In terms of brands, Flos' revenues dropped 16.3% to EUR 55 mn, while Louis Poulsen was down 25.7% at EUR 34 mn. B&B Italia, which had recorded 11% growth in H1, declined 24.4% to EUR 201 mn in Q3. Adjusted EBITDA held up well in the light of the substantial sales decline, falling by 11.1%. The margin improved 233 bps to 25.4%, due to good cost control. We note that raw material costs dropped from EUR 61 mn to EUR 44 mn, while personnel costs declined from EUR 40 mn to EUR 35 mn thanks to the group's flexible work arrangements.

Cash-flow generation weakened slightly, with FOCF post leases of EUR 2 mn (Q3/22: EUR 8 mn). Besides the lower EBITDA, this was mostly due to increased cash interest of EUR 13 mn (EUR 7 mn). Working capital was up by EUR 3 mn (EUR 10 mn increase; please see the financial table below for more details on cash flow). Net debt rose sequentially to EUR 980 mn from EUR 974 mn. Credit stats weakened marginally, with net leverage of 4.6x. Pro-forma liquidity was sound, after IDG pursued a refinancing transaction post balance sheet date (please view our Event Flash published November 7th for more details).

(in EUR mn) YE December	LTM Q3 2023A	Q3 2022A	Q3 2023A	Change	9M 2022A	9M 2023A	Change
Total revenues	**814**	**211**	**170**	**-19.3%**	**616**	**582**	**-5.6%**
growth (% y-o-y)	*1.1%*	*26.2%*	*-19.3%*		*26.4%*	*-5.6%*	
Raw material costs	(222)	(61)	(44)		(164)	(155)	
Personnel costs	(164)	(40)	(35)		(119)	(118)	
Service costs	(232)	(57)	(45)		(170)	(153)	
Provisions	(2)	(0)	(0)		(1)	(1)	
Other costs and charges	(19)	(7)	(9)		(27)	(27)	
Depreciation & Amortisation	(51)	(12)	(13)		(33)	(39)	
EBIT	**123**	**33**	**23**		**102**	**89**	
EBITDA (rep.)	**174**	**45**	**37**	**-17.6%**	**134**	**128**	**-4.7%**
Margin %	21.4%	21.1%	21.5%	44 bps	21.8%	22.0%	19 bps
EBITDA (adj.)	**213**	**49**	**43**	**-11.1%**	**150**	**145**	**-3.4%**
Margin %	26.2%	23.1%	25.4%	233 bps	24.3%	24.9%	55 bps
EBITDA (rep.)	**174**	**45**	**37**		**134**	**128**	
Taxes paid	(10)	(1)	(4)		(10)	(8)	
Other	(22)	(8)	(4)		(11)	(18)	
FFO before interest	**142**	**35**	**29**		**114**	**102**	
Cash interest	(68)	(7)	(13)		(33)	(46)	
FFO	**74**	**28**	**16**		**81**	**56**	
Change in working capital	(12)	(10)	(3)		(40)	(26)	
Operating cash flow	**62**	**18**	**13**		**41**	**30**	
Capex	(37)	(7)	(7)		(23)	(25)	
Capex % of revenues	4.6%	3.1%	4.1%		3.8%	4.3%	
Free operating cash flow	**25**	**11**	**6**		**18**	**5**	
Lease payments	(17)	(3)	(3)		(9)	(10)	
Free operating cash flow after leases	**7**	**8**	**2**		**9**	**(5)**	
Shareholder payments	0	–	(0)		(1)	0	
Acquisitions	1	–	–		(75)	–	
Free cash flow (after acquisitions)	**8**	**8**	**2**		**(68)**	**(5)**	
Senior secured bonds	870	870	870		870	870	
Other debt/ leases	177	196	177		196	177	
Total debt	**1,047**	**1,066**	**1,047**		**1,066**	**1,047**	
Cash	67	82	67		82	67	
Net total debt	**980**	**984**	**980**		**984**	**980**	
Total debt to EBITDA (adj.)	**4.9x**	**5.1x**	**4.9x**		**5.1x**	**4.9x**	
Net debt to EBITDA (adj.)	**4.6x**	**4.7x**	**4.6x**		**4.7x**	**4.6x**	
FFO to total net debt	**7.5%**	**10.5%**	**7.5%**		**10.5%**	**7.5%**	
FOCF to total net debt	**0.8%**	**1.9%**	**0.8%**		**1.9%**	**0.8%**	
EBITDA (Adj.) to cash interest	**3.1x**	**6.6x**	**3.4x**		**4.5x**	**3.1x**	
FFO to cash interest	**2.1x**	**4.8x**	**2.3x**		**3.4x**	**2.2x**	

Management suggested during the conference call that market conditions will remain challenging for the time being, though there will likely be some sequential improvement in Q4/23. IDG disclosed that EUR 21 mn of its extended EUR 140 mn RCF is currently drawn, with a cash position of EUR 70-80 mn. With regard to a potential refinancing of its FRNs, management is observing market conditions but nothing concrete is on the agenda.

The results were weak, though in line with expectations and statements made during the bond roadshow. We foresee some softness in the next few quarters, but believe that the long-term favourable trends remain intact. Despite recent softness, we continue to like the bonds at these levels.

Felix Fischer

Kiloutou | LARA: Medium Risk | Credit Bias: Stable | ESG: Adequate

Peter Low

Q3/23 earnings review: decent quarter

"Hold" the KILOTO structure e.g. with the 3.375% 12/26 secured bonds at 93.7 or a Z-spread of 260 bps (YTW: 5.7%)

Kiloutou reported decent Q3/23 results yesterday. Revenues rose 14.7% y-o-y (+4.9% at constant scope) to EUR 305 mn. EBITDA advanced 13.4% (+2.6%) to EUR 124 mn, with the margin down 60 bps at 39.2%. The top-line and EBITDA growth was supported by acquisitions and price hikes.

The French market (62% of Q3/23 sales) registered a 7.0% sales rise y-o-y (+4.7% at constant scope) and 2.7% EBITDA growth (+0.6%). The International market (38% of sales) reported 29.8% higher sales (+5.2% at constant scope) and 37.4% EBITDA growth (+6.9%).

Reported FCF was EUR 22 mn, up y-o-y (Q3/22: -EUR 5 mn), supported by improved EBITDA, reduced growth fleet capex at EUR 19 mn

(EUR 46 mn) and a working-capital release of EUR 7 mn (EUR 4 mn build-up). Reported net debt was EUR 1.76 bn, down q-o-q from EUR 1.77 bn. Reported net leverage fell 0.1x to 3.9x. Liquidity included EUR 71 mn of cash and a EUR 120 mn available RCF.

(€ millions)	Period ended September 30			Quarter ended September 30		
	2022	2023	Var	2022	2023	Var
EBITDA post IFRS	**264.9**	**337.5**	**72.6**	**109.3**	**124.0**	**14.7**
Rent IFRS 16	(50.0)	(58.9)	(8.9)	(19.6)	(20.6)	(1.0)
EBITDA pre IFRS16	**214.8**	**278.5**	**63.7**	**89.7**	**103.4**	**13.7**
Net proceeds from disposal of fixed assets	2.2	6.3	4.1	0.7	0.3	(0.4)
Fleet capital expenditures (maintenance)*	(68.5)	(123.3)	(54.8)	(21.7)	(33.7)	(11.9)
Other capital expenditures	(17.6)	(20.8)	(3.2)	(7.3)	(7.5)	(0.2)
Financial expenses	(41.6)	(58.3)	(16.7)	(13.6)	(17.9)	(4.3)
Income taxes	(7.8)	(6.0)	1.8	(1.9)	(3.5)	(1.6)
+/- Change in net working capital	7.2	(34.2)	(41.4)	(3.5)	7.2	10.7
Other impacts	0.0	0.8	0.8	(0.0)	(5.8)	(5.8)
Recurring free cash flow	**88.7**	**43.0**	**(45.7)**	**42.3**	**42.5**	**0.2**
Fleet capital expenditures (growth)*	(135.1)	(69.4)	65.7	(45.7)	(19.0)	26.7
Non-recurring items	(3.7)	(3.5)	0.2	(1.4)	(1.6)	(0.2)
Free cash flow	**(50.1)**	**(29.9)**	**20.2**	**(4.8)**	**22.0**	**26.7**
Acquisitions	(282.4)	(16.0)	266.4	(22.0)	(11.9)	10.0
Currency variation	(0.5)	0.1	0.5	(0.3)	(0.5)	(0.2)
Change in net debt	**(332.9)**	**(45.8)**	**287.1**	**(27.0)**	**9.6**	**36.6**

* Based on estimated budget split

1 Excluding change in IFRS-16 lease liabilities

Source: Company

In our view, the Q3/23 results were decent. Organic top-line growth was solid for both segments. EBITDA margins softened y-o-y, but nevertheless remained strong. We view favourably the positive FCF in the quarter. We await more colour on Kiloutou's operations and outlook, with an earnings call scheduled for 3 pm CET today.

Peter Low

Klockner Pentaplast | LARA: High Risk | Credit Bias: Stable | ESG: Adequate

Peter Low

Q3/23 earnings review: results affected by FX

"Buy" the KPERST 4.25% 03/26 secured bonds at 83.5 or a Z-spread of 972 bps (YTW: 13.4%), and the 6.5% 09/26 subordinated notes at 59.5 or Z-spread of 2,570 bps (YTW: 30.9%)

Klockner Pentaplast (KP) published its Q3/23 report yesterday. Net sales fell 23% y-o-y (-18% in constant currency terms and excluding hyperinflation (CC)) to EUR 486 mn, owing to lower volumes from destocking and weak demand. Adjusted EBITDA inched down 1% (+13% at CC) to EUR 63 mn, with the margin expanding 290 bps to 13.0%. EBITDA adjustments increased to EUR 13 mn from EUR 1 mn. The adjustments included EUR 7 mn of restructuring costs and EUR 5 mn of exceptional energy costs (related to the purchase of additional volumes over the level set out in the risk management policy).

Net sales in Pharma, Health & Protection and Durables fell 26% y-o-y (-15% at CC) to EUR 253 mn, owing to reduced volumes from customer destocking and soft market demand. Adjusted EBITDA was down 16% (-1% at CC) at EUR 46 mn, with the margin increasing 230 bps to 18.2%. The EBITDA decrease was due to lower sales volumes, partly offset by reduced raw-material costs. Net sales in Food Packaging fell 19% (-12% at CC) to EUR 234 mn, on account of the pass-through of lower costs and reduced volumes. Adjusted EBITDA rose 43% (+49% at CC) to EUR 32 mn, with the margin expanding 530 bps to 13.5%. EBITDA was supported by price management, productivity improvements and the turnaround of some sites, partly offset by lower volumes. Corporate/other adjusted EBITDA losses were up 12% at EUR 14 mn, owing to higher IT investments and one-off professional fees.

Q3/23 OCF fell y-o-y to negative EUR 22 mn (Q3/22: EUR 6 mn), due to increased EBITDA adjustments and higher cash interest of EUR 71 mn (EUR 55 mn), but partly offset by a EUR 2 mn working-capital release (EUR 20 mn build-up). Capex decreased to EUR 12 mn, from EUR 21 mn a year ago. Net debt was EUR 2.04 bn, up q-o-q from EUR 1.98 bn. Net secured leverage and net leverage were 6.8x and 7.9x, respectively, up sequentially from 6.5x and 7.7x. Liquidity included EUR 94 mn of cash (excluding cash at discontinued operations) and EUR 150 mn of available RCF.

The Q3/23 results were materially affected by FX headwinds. The underlying results were decent, with an increase in EBITDA despite headwinds from destocking and weak demand. Cash flow was soft, and leverage remains highly elevated. It will be vital for KP to achieve significant EBITDA growth and deleverage substantially in the next few years to ensure that debt refinancing would be possible in the medium term. We await more colour on the company's operational development and outlook, with an earnings call scheduled for 3 pm CET today.

Peter Low

Loewen Play | LARA: High Risk | Credit Bias: Stable | ESG: Adequate

Felix Fischer

Q3/23 earnings review: top-line recovery offset by higher costs

"Hold" the LPLAYG 7.75% 12/25 bonds at 89 (YTW: 14.7%)

Loewen Play has reported its Q3/23 results, with no 9M/22 numbers available due to a financial restructuring. For the quarter, the average number of AWPs in Germany dropped 7.3% y-o-y to 6,792, owing to tighter regulations. AWPs in the Netherlands rose 16.8% to 1,097, with the company opening an additional site in this market. The average utilisation improved c. 500 bps to 31.7%, with the average gross gaming revenues per machine per day up a solid 16.8% at EUR 99.5. As a result of these developments, revenues increased 8.6% to EUR 60 mn. However, EBITDA declined 6.5% to EUR 16 mn. Excluding leases, EBITDA was down 7.3% at EUR 10 mn, with the margin contracting from 31.2% to 26.8%.

Key Figures	Q3 (three months period)			YTD (nine months period)
(in EUR k)	Sep-2023	Sep-2022	Δ %	Sep-2023
Revenues	59,560	54,854	8.6%	185,568
EBITDA	15,990	17,101	(6.5%)	52,825
Adj. EBITDA (w/o IFRS 16)	9,682	10,445	(7.3%)	33,652
EBITDA margin %	26.8%	31.2%	(4.4) ppt	28.5%
Adj. EBITDA margin %	16.3%	19.0%	(2.7) ppt	18.1%
Avg no. of sites Germany	391	413	(5.3%)	397
Avg no. of sites Netherlands	9	8	12.5%	9
Avg no. of AWPs Germany	6,792	7,330	(7.3%)	6,971
Avg no. of AWPs Netherlands	1,097	939	16.8%	1,046
Statistics Germany:				
Avg GGR / machine / day €	99.5	85.2	16.8%	101.4
Avg payout ratio %	64.7%	65.3%	(0.6) ppt	64.3%
Avg utilization %	31.7%	26.7%	5.0 ppt	31.8%

Source: Company

The EBITDA decline was driven by increased costs. In particular, mostly owing to an increase in minimum wage requirements, employee benefit expenses rose 15.3% y-o-y to EUR 21 mn (l-f-l increase of 10.4%, as Q3/22 had benefited from state aid), while entertainment taxes were up 11.1% at EUR 10 mn. Other operating expenses also advanced 25.7% to EUR 12 mn, mostly on account of higher energy, marketing, maintenance and insurance costs. Cash generation improved, with FOCF post leases at EUR 1 mn compared to an outflow of EUR 3 mn for Q3/22. Working capital increased by EUR 7 mn, compared to a EUR 8 mn increase for Q3/22. Capex remained low at EUR 1 mn. Net debt (including leases but excluding subordinated PIK notes) was EUR 356 mn, down EUR 1 mn sequentially. We estimate net leverage (including leases) at c. 6x on a pro-forma basis (no calculation possible, as Loewen Play has not released Q4/22 results in light of the financial restructuring). Liquidity including EUR 53 mn of cash (excluding cash in tubes) remains adequate for the time being.

Positively, the Federal State of Saxony-Anhalt has unveiled new legislation which includes a 15-year transition period for multi-arcade sites. That said, Loewen Play only operates four arcades in this state, out of its total of 391 in Germany. Conversely in Bremen, where the company also operates four arcades (43 AWPs), a court has ruled that all of its sites are in violation of minimum distance requirements for competitors and schools. Hence, these arcades will likely have to be shut down. Furthermore, the Federal State of Saarland (where the group operates 10 arcades with 110 AWPs) has passed an amendment to existing laws, which will become effective from December 2023. The main changes are a two-hour reduction for opening times at night, a mandatory charge for beverages and the prohibition of smoking cabins in arcades.

The company's results were mixed in our opinion. While Loewen Play's revenue recovery continues, this has been offset by increasing cost pressure and further unfavourable regulatory developments. The company will host a conference call on 14 December 2023, after which we will comment further.

Felix Fischer

Loxam | LARA: Medium Risk | Credit Bias: Stable | ESG: Adequate

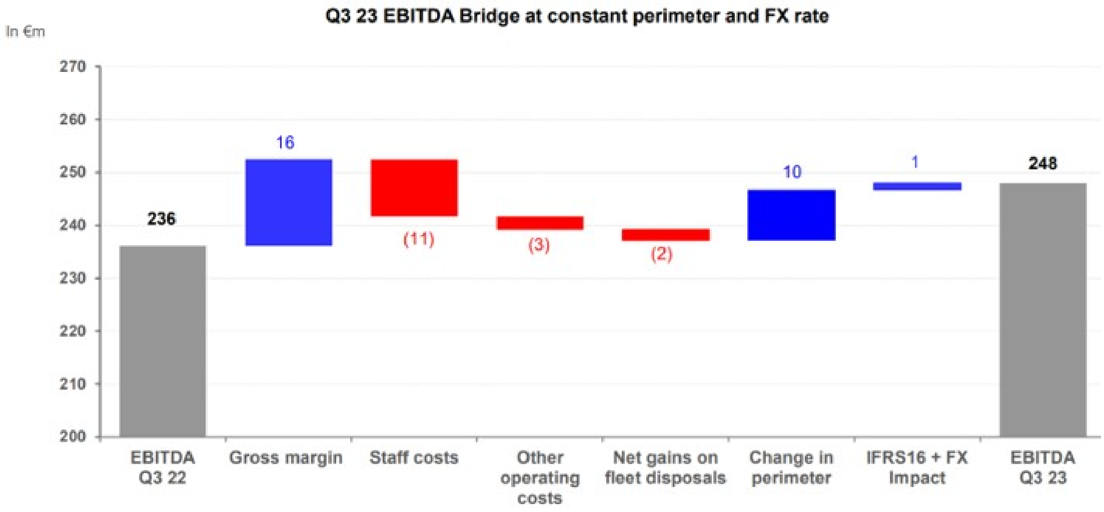
Peter Low

Q3/23 earnings call takeaways: to reduce capex and deleverage

Move to "Buy" from "Hold" on the LOXAM 6.375% 05/28 secured notes at 100.8 or a Z-spread of 309 bps (YTW: 6.2%); Hold" the rest of the structure e.g. with the 2.875% 04/26 secured notes at 94.5 or Z-spread of 219 bps (YTW: 5.5%), and the 5.75% 07/27 subordinated bonds at 94.3 or Z-spread of 458 bps (YTW: 7.7%)

Loxam held a conference call to discuss its Q3/23 results yesterday, with highlights as follows:

- Q3/23 EBITDA growth was thanks to higher gross profit and acquisitions, albeit partly offset by increased staff and other costs as well as lower gains on fleet disposals. The staff cost increase was due to cost inflation, a larger headcount and insourcing of drivers/mechanics.



Source: Company

- Loxam's revenue exposure to the new residential construction market is c. 10%.
- The company's 50%-owned JV, Fortrent Oy, sold its Russian subsidiary post Q3/23. The amount of proceeds will likely be modest at c. EUR 10 mn.
- The FY 2024 outlook remains positive. Loxam expects the French market to continue growing, albeit at a slower pace compared to FY 2023. The Nordics will likely remain soft. The Rest of the World segment should see moderate growth, thanks to good activity levels in Southern Europe, Brazil and the Middle East.
- New equipment prices should be stable to up 5% in FY 2024. Fleet capex will likely stand at EUR 500 mn in FY 2023 (vs. EUR 738 mn in FY 2022). The company expects fleet capex to fall further in FY 2024, though this has not yet been finalised. Maintenance capex is estimated at c. EUR 350 mn. Loxam will continue considering bolt-on M&A deals, albeit the amount of M&A in FY 2024 will likely be lower y-o-y. Management expects to deleverage to c. 4.6x by FYE 2023, and foresees further deleveraging in FY 2024.
- The company is monitoring the financial markets for a potential refinancing of the secured notes due 2025. Loxam expects the potential refinancing transaction to be leverage and cash neutral.
- There are currently no plans to pursue bond buybacks.

The Q3/23 results were solid in our view. We note that organic sales growth remained positive, on the back of favourable development in France and Rest of the World. The Nordics remained soft. EBITDA development was decent. Cash flow remained negative, as Loxam pursued growth through capex and acquisitions. The outlook is still somewhat decent, supported by growth in other sectors but weighed down by a slowdown in the new residential construction market. We foresee top-line growth in Q4/23 and FY 2024, thanks to higher prices, improved volumes and acquisitions. The margins should stay broadly stable, supported by higher prices and operational efficiencies, albeit offset by cost inflation. Cash burn should ease in Q4/23 and FY 2024, owing to reduced capex. The pace of M&A bolt-ons should also ease. We expect the company to deleverage in Q4/23 and FY 2024. We remain comfortable with the credit profile, given Loxam's ability to maintain solid EBITDA margins, as well as its flexibility to reduce capex and generate significant FCF in the event of a meaningful deterioration in market conditions. We move to **"Buy"** from "Hold" on the 6.375% 05/28 secured bonds, as we see the yields as attractive. We maintain our **"Hold"** recommendation on the rest of the bonds.

Peter Low

McLaren | LARA: High Risk | Credit Bias: Negative | ESG: Adequate

Felix Fischer

Q3/23 earnings review: another dismal quarter

"Hold" the MCLAUT 7.5% 08/26 notes trading at a mid-price of 86 or Z-spread of 967 bps (YTW: 14.0%)

McLaren has reported dismal Q3/23 results, with the company continuing to face operational issues. Furthermore, underlying demand appears to be softening. Deliveries slumped 49.2% y-o-y to 277 vehicles, as McLaren looked to resolve the persistent operational issues. The order book declined sequentially from 1,581 vehicles to 1,511, suggesting that demand for the company's vehicles has slowed, also considering that the limited deliveries should have led to an increase in the order book. Revenues plunged 59.8% y-o-y to GBP 64 mn. The steeper decline compared to the volume development stemmed from a less favourable mix which mostly comprised the Atura (model with the lowest selling price) and GT vehicles, while the higher priced 750S will only start selling in Q4. Adjusted EBITDA deteriorated further from negative GBP 29 mn to negative GBP 73 mn. Cash burn accelerated, with negative FOCF very high at GBP 208 mn in the quarter (-GBP 452 mn for 9M). Apart from the highly negative EBITDA, this was driven by a GBP 60 mn working-capital increase, while capex rose to GBP 53 mn from GBP 49 mn. Cash interest stood at GBP 19 mn. To avoid a liquidity crunch, shareholders injected GBP 150 mn of equity into the company in Q3. Still net debt increased from GBP 422 mn to GBP 501 mn. Give the GBP 185 mn adjusted EBITDA loss for LTM Q3 and negative FOCF of GBP 499 mn, McLaren's credit stats were not meaningful. Liquidity was very poor at GBP 55 mn, comprising GBP 18 mn of cash and GBP 37 mn of undrawn credit lines. That said, shareholders injected a further GBP 80 mn in Q4 to prevent the company from becoming insolvent.

On the conference call, management suggested that Q4/23 will also be weak (albeit better than Q3) as the company looks to resolve its operational issues. Positively, the launch of the 750S (currently being shipped to dealers) should support the numbers. Overall, McLaren anticipates c. 2 k vehicle deliveries for FY 2023. Capex will likely be at the upper range of GBP 150-200 mn. The company foresees a better FY 2024, with substantial improvement in cash flow (albeit remaining negative). It highlighted that the previously announced recapitalisation involving shareholders is ongoing, and will include new funding for the group. The transaction is anticipated to simplify McLaren's group structure and streamline corporate governance. Lazard continues to advise the company. In the meantime, McLaren expects to receive further funding from shareholders.

The results were dismal, with no positive developments of note. Apart from the poor numbers, it appears to us that demand for McLaren's products is less strong than management believes. In this context, the very low volumes sold due to the company's operational issues should normally have led to an increase in the order book rather than a decline, suggesting that demand for McLaren's vehicles was very low in Q3/23. Bondholders remain entirely dependent on the goodwill of the shareholders, which have injected nearly GBP 1.4 bn into the company since end-2019. Meanwhile, EBITDA declined from GBP 251 mn for FY 2019 to negative GBP 185 mn for LTM Q3/23. Positively, shareholders appear willing to render further support and recapitalise the group, which if successfully executed will likely lead to a take-out of the bonds. While we have our doubts on whether McLaren can be a viable business on a standalone basis, the company might attract interest from a larger OEM over the longer term, which could be what the sponsors are banking on.

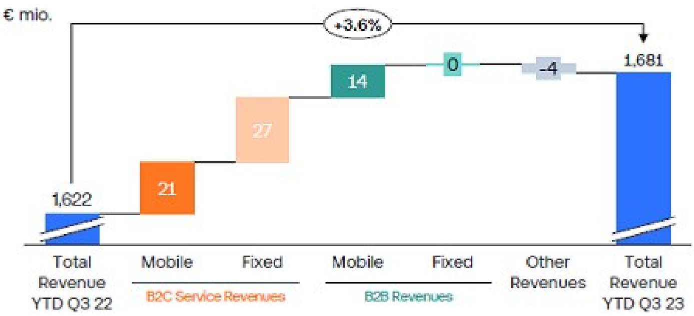
Felix Fischer

Odido (formerly T-Mobile NL) | LARA: Medium Risk | Credit Bias: Stable | ESG: Adequate   Haidje Rustau

Q3/23 earnings review: lacklustre results

"Hold" the TMOBNL 5.5% 01/30 subordinated notes at 87.8 or a Z-spread of 517 bps (YTW: 8.2%), and the 3.75% 01/29 secured bonds at 92.5 or Z-spread of 255 bps (YTW: 5.5%)

Odido (formerly T-Mobile NL) has reported its Q3/23 results and held an earnings call. Revenues rose 1.8% y-o-y to EUR 563 mn. Meanwhile, EBITDA fell 2.7% to EUR 208 mn as the margin shrank to 37.0% from 38.7%. 9M revenues increased 3.6% to EUR 1,681 mn, while EBITDA was 2.2% lower at EUR 625 mn. 9M revenue growth was driven by higher B2C service revenues (both mobile and fixed), while mobile B2B revenues also increased. Fixed B2B revenues were flat.



Source: Company

As in H1/23, YTD Q3 EBTDA was impacted by a number of one-off items, including a EUR 5 mn settlement payment that had inflated EBITDA in Q2/22. The margins were affected by inflation as well as investment in growth for fixed (which requires a number of upfront payments), with benefits from earlier price increases not yet fully realised. There were also additional costs related to the rebranding. Odido had 5.60 mn consumer mobile connections (+23 k sequentially vs. 13 k additions in Q2/23). B2B mobile connections were up 29 k at 1.61 mn (+34 k in Q2). Consumer mobile ARPU was up EUR 0.5 sequentially at EUR 15.5, while B2B mobile ARPU decreased by EUR 0.2 to EUR 13.2. Odido reported net debt of EUR 3,647 mn, with net leverage of 5.22x. Net senior secured leverage stood at 4.43x. Both ratios were lower sequentially, compared to H1 net leverage of 5.39x and net senior secured leverage of 4.58x.

Management provided further details on the results during the well-attended earnings call. The company has now rebranded its offering from T-Mobile and Tele2 to Odido, with the process nearly completed. While this has led to additional costs, there will be a reduction in brand licence fees. Churn has increased temporarily, though this was partly due to a price hike.

Odido's Q3/23 results were disappointing overall, with only very modest revenue growth and a further margin weakening. We expect a degree of improvement over the coming quarters, as one-off expenses and inflationary pressures begin to decrease. Continued growth in the subscriber base should also increase benefits from operating leverage. Cash generation will likely remain constrained in the near term due to high capex increases, and leverage should hence remain elevated.

Haidje Rustau

Paprec Group | LARA: Medium Risk | Credit Bias: Stable | ESG: Adequate

Ian Wong

9M/23 earnings review: decent results; pro-forma net leverage flat q-o-q

"Buy" the new PAPREC 6.5% 11/27s at 104.2 (ask) or a Z-spread of 234 bps (YTW: 5.4%), and the 7.25% 11/29s at 104.5 (ask) or Z-spread of 298 bps (YTW: 6.0%); "Hold" the 3.5% 07/28s at 92.2 (mid) or Z-spread of 254 bps (YTW: 5.5%)

Paprec Group has reported decent 9M/23 results, with total volumes rising 4.2% y-o-y to 11.65 mn tonnes mostly driven by organic growth. Revenues inched up 1% to EUR 1,776 mn, with higher revenues related to waste services (+16%) offset by a decline in sales of recycled materials (-27%). Despite the stable top-line growth, gross profit rose 10% to EUR 1,291 mn (thanks to lower purchase of waste) and the gross margin expanded to 72.7% from 66.5%. The chart below provides an overview of gross profit development for recycled materials and services:

Source: Company

EBITDA fell 5% y-o-y to EUR 278 mn and the EBITDA margin worsened from 16.6% to 15.7%, on account of inflation and higher energy prices. Energy costs are higher in 2023, as Paprec had purchased hedges in 2022. LTM Q3/23 pro-forma adjusted EBITDA stood at EUR 419 mn, up from EUR 417 mn in LTM Q2.

Company-reported OCF for the semester declined 8% y-o-y to EUR 263 mn, largely driven by the lower EBITDA. Capex rose from EUR 178 mn to EUR 185 mn, including growth capex of EUR 98 mn. We calculate FOCF after interest of EUR 26 mn (9M/22: EUR 58 mn).

Net debt (including leases) increased to EUR 1,312 mn in Q3/23 from EUR 1,270 mn in Q2, due to a lower cash position and increased finance leases, albeit partly offset by a slight reduction in bilateral facilities. Credit stats were stable sequentially, with pro-forma net leverage unchanged at 3.1x. Liquidity remained sound at c. EUR 506 mn, including EUR 206 mn of cash and an undrawn EUR 300 mn SSRCF.

Earnings Call Highlights

- The backlog from public customers awarded in the last 18 months amounted to over EUR 1.5 bn.
- Paprec will continue to increase its market share in France and expand in Spain, the UK (Scotland) and Switzerland.
- Management said that the prices of most raw materials from recycling (RMR) sold fell in H2/22, but have since stabilised. Demand for RMR dropped due to an expected general economic slowdown in Europe and elevated energy prices, and have since remained stable.
- The decline in RMR volumes, particularly for plastics, was due to an increase in electricity prices which led to higher prices for plastics. As a result, some of Paprec's customers turned to virgin materials instead of recycled materials. Management expects the situation to recover in the next 18 months due to EU regulations (which require producers that use plastics to incorporate 25% of recycled plastics in their process).

- The company historically purchases energy hedges one year in advance.

- The 2024 margins will benefit from electricity hedges secured in 2023 at EUR 155/MWh (vs. EUR 300/MWh secured in 2022 for 2023). This will lead to EUR 25 mn of savings from 1 January 2024.

- 9M/23 capex was in line with management's expectations.

- The q-o-q increase in financial leases was partly due to capex and external growth (i.e. M&A). For example, following an acquisition in July, Paprec took on the financial leases of the acquired company.

- The acquisition of Spanish company CLD was closed on November 29th. The company conducts waste collection, road cleaning, graffiti cleaning, sewer system management, industrial waste management, technical cleaning and waste treatment. CLD's FY 2023 revenues are projected at c. EUR 103 mn (FY 2022: EUR 76 mn). Paprec only acquired 50% of CLD, at an EBITDA multiple slightly higher than c. 5x. On the H1/23 call, management commented that the acquisition was acquired at an EBITDA multiple of c. 5x.

- Management stated that M&A have historically been carried out at a c. 5x EBITDA multiple, as the company wants to maintain its credit rating and stay within its net leverage target.

- Guidance for 2024 will be provided on the next earnings call.

Paprec's 9M/23 results were decent, with moderate volume growth. Gross profit was higher despite flat revenues, but EBITDA and the EBITDA margin declined on account of inflation as well as increased energy costs. Cash generation weakened y-o-y, largely driven by the lower EBITDA. Pro-forma net leverage was unchanged sequentially. Liquidity remained sound. For FY 2023, the EBITDA margin will likely be weighed down by inflation and higher energy prices. This should improve in FY 2024, on account of lower energy hedges secured in 2023 for 2024. M&A should remain on the company's agenda, albeit net leverage will likely be maintained at 2.5-3.5x. We remain comfortable with the credit profile, given the sound industry outlook, decent credit stats and sensible financial policy.

Ian Wong

Pasubio | LARA: Medium Risk | Credit Bias: Positive | ESG: Adequate

Si Yong Ng

Q3/23 earnings review: decent numbers

"Hold" the PSUBIO 09/28 FRNs at 96.6 or a discount margin of 538 bps (YTW: 9.3%)

Pasubio has released decent Q3/23 results, and will hold a conference call later today. Revenues fell 1.6% y-o-y to EUR 84.4 mn. The company also provided net revenue figures, which were adjusted for customer disputes, sales of unfinished leather, as well as timing differences between management and statutory accounts. Net revenues fell 0.6% to EUR 82.5 mn. However, adjusted EBITDA was up 1.3% at EUR 15.4 mn, helped by cost savings.

OCF improved significantly y-o-y to a EUR 11 mn surplus (Q3/22: EUR 1.4 mn surplus). This was mainly due to a working-capital release of EUR 3.1 mn (EUR 5 mn investment) and lower cash interest of EUR 6.3 mn (EUR 8.3 mn). Capex was higher at EUR 5.3 mn (EUR 4.2 mn), resulting in a EUR 5.6 mn FOCF surplus.

Reported net debt stood at EUR 343 mn, down from EUR 351 mn at Q2/23, while reported net leverage was broadly unchanged q-o-q at 4.7x. We note that net leverage was based on pro-forma adjusted EBITDA, which included EUR 2.3 mn of estimated synergies from the Hewa acquisition and EUR 2.9 mn of run-rate cost savings. If excluding these, net leverage amounted to 5x. Liquidity was adequate, with EUR 22.7 mn in cash and cash equivalents, as well as EUR 58 mn available under the EUR 65 mn RCF.

Pasubio's 9M/23 performance was solid, helped by positive organic growth and price increases. Adjusted EBITDA improved 10.8% y-o-y to EUR 49.3 mn, on the back of a more modest 2.1% increase in revenues to EUR 274.7 mn.

Pasubio's Q3/23 results were decent in our view, with adjusted EBITDA improving despite revenues coming in slightly lower. Cash-flow performance strengthened y-o-y due to working-capital movements, as well as reduced cash interest. Meanwhile, net leverage was broadly flat q-o-q.

We will comment further following the earnings call.

Si Yong Ng

Pfleiderer | LARA: High Risk | Credit Bias: Negative | ESG: Adequate

Felix Fischer

Q3/23 earnings review: numbers weak, but engineered wood's profitability improves

"Hold" the PFLEID bonds e.g. with the 4.75% 04/26s trading at a mid-price of 71 or YTW of 22.0%

Pfleiderer has reported weak Q3/23 results. While engineered wood products posted decent numbers considering the soft markets, Silekol's numbers were substantially weaker y-o-y. Revenues slumped 30.6% to EUR 210 mn. Revenues for engineered wood products were down 24.4% to EUR 174 mn, while Silekol plunged 51.5% to EUR 46 mn. Core volumes for engineered wood fell 7.2%, while prices had a negative impact of 10.1%, as the company passed through lower raw-material costs. Furthermore, electricity sales were EUR 20 mn lower, as Pfleiderer moved to consuming energy produced from selling energy to the grid.

The sales decline of Silekol was mostly due to lower prices, with volumes down 11.9% y-o-y on account of the substantial softening of the markets. The gross margin fell from 14.8% to 12.9%, which we mostly attribute to lower volumes and less favourable economy of scales. While most other cost positions remained fairly stable, other operating income/expenses surged from EUR 1 mn to EUR 12 mn. The company did not disclose the reason for the sharp increase, but we believe that the benefits from prior energy hedging boosted other operating income.

Adjusted EBITDA was down 18.1% y-o-y to EUR 32 mn. Adjusted EBITDA for engineered wood increased 2.3%, mostly thanks to the initiated cost savings. In addition, we believe that the benefits of electricity hedging had a positive impact on EBITDA. Silekol's EBITDA declined from EUR 14 mn to EUR 6 mn, as the markets deteriorated significantly. Cash generation softened. We calculate FOCF post-leases of EUR 6 mn (Q3/22: EUR 16 mn). While working capital increased EUR 3 mn (EUR 3 mn decrease), capex was EUR 3 mn lower at EUR 13 mn. Net debt declined sequentially from EUR 711 mn to EUR 709 mn, but the credit stats weakened due to the lower EBITDA. We calculate net leverage of 5.0x, up 0.3x sequentially. Liquidity, including EUR 72 mn of cash, remained sufficient. To mitigate the impact of the challenging environment, Pfleiderer will implement further cost-saving measures, which the company expects will have a EUR 25 mn positive impact on EBITDA (see the table below).

In € million	LTM Sep 2023
Adjusted EBITDA	**142.8**
Initiated capex projects - new Silekol reactors	6.0
Initiated capex projects - other	3.7
Efficiency improvement program	10.3
Procurement initiatives	4.0
Other initiatives (R&M, energy)	0.6
Add: Total Result of Initiatives	**24.6**
Pro Forma Adjusted EBITDA	**167.4**

Source: Company

The Q3/23 numbers were weak, given the positive impact from the termination of electricity hedging (disclosure in this regard was very poor). However, the initiated efficiency-enhancement measures partly mitigated the negative impact of the challenging environment. We anticipate that the numbers will remain soft for now. That said, we note positively that cash generation has been holding up reasonably well, and believe that the cost-saving initiatives should further support the margins. Pfleiderer will host an earnings call on December 7th.

Felix Fischer

Picard | LARA: High Risk | Credit Bias: Stable | ESG: Adequate — Si Yong Ng

Q2/23-24 earnings review: soft results driven by higher energy costs

"Buy" the PICSUR 3.875% 07/26s at 95.6 or a Z-spread of 260 bps (YTW: 5.8%), and the 07/26 FRNs at 99.5 or discount margin of 422 bps; "Hold" the rest of the bonds

Picard reported its Q2/23-24 results yesterday, with a conference call scheduled for next Wednesday. Revenues rose 5% y-o-y to EUR 364 mn, thanks to growth in France, Belgium and Luxembourg, but was partly offset by lower sales to other locations with partners and franchisees. Sales in France advanced 5% to EUR 355 mn (+2.9% in l-f-l terms), with decreased ticket numbers more than offset by a larger average basket size.

Gross profit improved 3.1% y-o-y to EUR 165 mn, while the gross margin fell 90 bps to 44.4%. The gross margin decline was mainly due to more rewards earned by customers under Picard’s loyalty programme. Moreover, last year’s gross margin had benefited from a favourable mix and the start of the inflationary wave. EBITDA slid 14.5% to EUR 46 mn, with the margin down 280 bps at 12.6% due to higher operating expenses (mainly energy costs).

OCF net of interest paid fell y-o-y to a EUR 7 mn surplus (Q2/22-23: EUR 38 mn surplus), driven by the earnings decrease, increased working-capital investment of EUR 21 mn (EUR 3 mn investment), as well as higher cash interest and taxes paid. Capex rose to EUR 17 mn (EUR 7 mn), with FCF at an EUR 11 mn deficit. However, we note that the FCF figure excluded EUR 16 mn of lease payments (EUR 14 mn), which had been re-classified as financing cash flow following the implementation of IFRS-16. Including this, FCF would be a EUR 27 mn deficit.

We estimate that net debt rose q-o-q to EUR 1,902 mn (Q1/23-24: EUR 1,881 mn), while net leverage was up 0.3x at 6.8x.

Picard's Q2/23-24 results were weak in our view, with adjusted EBITDA falling c. 15% y-o-y despite the higher revenues. That said, this was driven by the spike in energy costs, excluding which adjusted EBITDA would have risen c. 5%. This indicates that underlying profitability has remained stable, and performance should recover once energy costs moderate. Cash-flow performance weakened as well, driven by the earnings decline, working-capital movements, as well as higher cash interest and taxes paid. Consequently, net leverage worsened sequentially.

We will comment in greater detail after the earnings call.

Si Yong Ng

Polynt | LARA: High Risk | Credit Bias: Stable | ESG: Adequate

Jayanth Kandalam

Q3/23 earnings review: decent results, but GVA/ton weakens

"Buy" the PLYIM 4.375% 11/26 bonds at 93.5 or a Z-spread of 327 bps (YTW: 6.8%), and the 9.5% 07/28 notes at 102.4 or Z-spread of 542 bps (YTW: 8.9%)

Polynt has reported decent Q3/23 results, considering the challenging macro backdrop. Revenues were down c. 28.5% y-o-y at EUR 550 mn, due to weak volumes (-8%) and lower prices in response to soft feedstock prices. In Europe, volumes were affected by poor demand amid increased competition, while the Americas saw a material drop in demand, especially in the US, following a slowdown in some key segments and markets. Asian volumes were below prior-year levels, as Chinese market demand decreased.

GVA declined c. 17% y-o-y to EUR 215 mn while GVA/ton was only c. 9% lower, reflecting the company's margin-over-volume strategy. Fixed costs dipped c. 13%. As a result, reported adjusted EBITDA came in at EUR 124.5 mn, down c. 19%. The lower fixed costs were driven by cost-saving actions, a review of the bonus provision and favourable FX. Management noted that compared to the Q3 results released by several listed chemicals companies, Polynt's performance is in the top quartile, showing the company's resilience when faced with weak market conditions.

Cash-flow development was solid as usual, driven by working-capital management, which allowed the group to release c. EUR 31 mn over the quarter and EUR 13 mn in 9M/23. Prior to a special dividend payment made in Q3, the group had FCF of over EUR 68 mn. Net leverage at end-Q3 was c. 2.2x. Total liquidity amounted to c. EUR 700 mn, including full availability under the EUR 100 mn RCF and the EUR 105 mn ABL, along with EUR 495 mn cash on hand.

Forward-looking statements were not provided in the report and presentation. We expect this to be discussed only during the call scheduled for December.

Polynt's results were quite good in our view, especially as margins rose y-o-y despite the drop in absolute EBITDA. Cash-flow development was once again a key strength, and liquidity is very strong.

Jayanth Kandalam

Profine | LARA: High Risk | Credit Bias: Positive | ESG: Weak

Felix Fischer

Q3/23 earnings review: robust numbers amid challenging environment

"Hold" the PRFINE 9.375% 07/28s at 98 or a Z-spread of 697 bps (YTW: 10.2%)

Profine has reported robust Q3/23 results, amid a substantial decline in new built activities. That said, the company derives c. 85% of its revenues from renovation and modernisation. Against the backdrop of rather low volumes for Q3/22, PVC volumes increased 1.4% y-o-y to 57 k tonnes. However, this was mostly driven by Russia, where PVC volumes surged to 11.9 k tonnes from 8.7 k tonnes. Excluding Russia, PVC volumes would have declined 4.3%. Sales fell 14.2% to EUR 214 mn, mostly due to substantially lower PVC costs and the pass-through to customers. Total output declined 6.5% to EUR 211 mn. The gross margin expanded to 48.6% from 39.6%, also mainly driven by PVC prices and the corresponding pass-through. Adjusted EBITDA edged up 1.2% to EUR 34 mn, with the margin rising 241 bps to 15.8%. Adjustments amounted to negative EUR 0.4 mn, while Q3/22 adjustments stood at EUR 5.5 mn due to unrealised FX translation effects.

Cash generation worsened, mostly due to less favourable working-capital development, with a release of EUR 6 mn (Q3/22: EUR 27 mn decline). Cash interest rose y-o-y to EUR 24 mn from EUR 16 mn, while capex jumped to EUR 10 mn from EUR 6 mn as the company executed several growth initiatives. We calculate negative FOCF post-leases of EUR 2 mn (positive EUR 20 mn). The company completed the refinancing of its bonds in Q3/23. Net debt sequentially increased to EUR 383 mn from EUR 378 mn, with stable credit stats and net leverage at 2.9x. Liquidity after the refinancing improved to EUR 153 mn (EUR 74 mn), comprising EUR 66 mn cash, EUR 3 mn unused factoring facilities and EUR 84 mn unused credit lines, with the EUR 85 mn super senior RCF not utilised for cash drawings (EUR 1 mn utilisation for guarantees).

With regard to the outlook, Profine acknowledged the challenging environment for new built, with no improvement expected in the short term. Still, the company anticipates broadly stable adjusted EBITDA y-o-y for FY 2023, along with revenues of EUR 850-900 mn.

The results were robust, despite ongoing pressure on volumes due to challenging market conditions underpinning the resilient business model. We anticipate a solid Q4/23 that is broadly in line with Q4/22, and remain comfortable with the credit profile. We will comment further after Profine's conference call, which is scheduled for December 4th.

Felix Fischer

Pro-Gest | LARA: Very High Risk | Credit Bias: Negative | ESG: Weak

Peter Low

Q3/23 earnings review: very weak quarter

"Hold" the PROGST 3.25% 12/24 bonds at c. 54.4 or a YTW of 87.6%

Pro-Gest published its Q3 and 9M/23 report yesterday. Sales fell 29% y-o-y to EUR 104 mn, owing to lower prices and reduced volumes. Other income fell to EUR 5 mn from EUR 29 mn. Changes in inventories rose to EUR 8 mn from EUR 1 mn. Total income declined 34% to EUR 117 mn. Adjusted EBITDA slumped 71% to EUR 3 mn, with the margin down 350 bps to 2.7%.

Q3/23 OCF was negative EUR 6 mn, down y-o-y (Q3/22: EUR 18.9 mn), owing to reduced EBITDA and a working-capital build-up of EUR 2.7 mn (EUR 23.5 mn release). Capex was slightly higher at EUR 11.6 mn. Net debt was EUR 550 mn, up q-o-q from EUR 532 mn, while net leverage rose to 8.9x from 7.7x. Pro-Gest's cash position was EUR 47 mn.

Movements of Working-capital Items in Cash-Flow Statement

	Q3/22	Q3/23	Change y-o-y
Inventories	(31.0)	(1.1)	30.0
Trade receivables	88.7	8.0	(80.7)
Trade payables	(28.2)	(4.7)	23.5
Accrued income and prepaid expenses	(0.6)	(0.1)	0.5
Accrued expenses and deferred income	0.3	(0.2)	(0.5)
Others	(5.7)	(4.5)	1.2
w/c changes	**23.5**	**(2.7)**	**(26.1)**

Source: Company, Lucror Analytics

In our view, the results were very weak. The numbers deteriorated y-o-y owing to soft market conditions. Cash flow was weak as well. Leverage rose further.

We note that the comparables are soft for Q4 (Q4/22: EUR 6 mn of adjusted EBITDA), before becoming tougher in H1 (Q1/23: EUR 22 mn; Q2: EUR 31 mn). During the Q2 earnings call, the company guided for FY 2023 adjusted EBITDA to come in close to FY 2022 levels (EUR 109 mn). However, given the weak 9M/23 development, we believe that Pro-Gest will revise its guidance downwards. In our opinion, it is difficult for the company to pursue a refinancing of the bonds due 12/24 in the near term, given its elevated leverage and the higher interest rate environment. Pro-Gest is rumoured to be seeking asset sales and private loans. While we believe the company has non-core assets (e.g. the Monza land site) that it may consider disposing, any resultant proceeds would be unlikely to cover the upcoming debt repayment. In the absence of a significant earnings boost and deleveraging in the near term, a debt restructuring might have to be executed, unless the shareholder provides equity support.

We note that the larger listed paper packaging peers are trading at c. 5.4-8.0x EV/2023 EBITDA estimates, according to Bloomberg. Given Pro-Gest's small scale and weaker geographical diversification, we believe that its valuation would likely be at the lower end of this range. Assuming that the company is able to generate c. EUR 60-80 mn of EBITDA in a more typical market environment and using a 5.5x EBITDA multiple, the fair value of the notes due 12/24 would be at c. 27-71. We maintain a "**Hold**" recommendation on the subordinated notes.

Peter Low

Progroup | LARA: Medium Risk | Credit Bias: Stable | ESG: Adequate

Peter Low

Q3/23 earnings review: dismal results

"Hold" the 3% PROGRP 03/26s at 95 or a Z-spread of 210 bps (YTW: 5.4%)

Progroup reported very weak Q3/23 results yesterday, which came in softer than expected. Sales fell 28.1% y-o-y to EUR 310 mn, with significantly lower sales prices only partly offset by increased volumes. Corrugated board volumes rose by 9.7%, while containerboard sales volumes were up 7.3%. The containerboard integration level (including swaps) stood at 83%, compared to 82% in Q2/23 and 85% in Q3/22. EBITDA slumped 61.5% to EUR 28 mn in Q3/23, with the margin contracting 790 bps to 9.1%. The EBITDA decline was due to lower sales prices and decreased gross margins.

Recovered paper prices fell by 2% sequentially. Recycled containerboard prices declined by 1%, while corrugated board prices were down 4%.

OCF after cash interest fell y-o-y to EUR 34 mn (Q3/22: EUR 101 mn), owing to the decreased EBITDA and lower working capital release of EUR 30 mn (EUR 50 mn). Capex increased to EUR 54 mn from EUR 27 mn. Net debt rose q-o-q to EUR 650 mn from EUR 635 mn. Net leverage was up 0.4x at 2.5x. Cash amounted to EUR 61 mn as of Q3/23.

Other highlights included:

- Progroup expects demand to remain subdued in Q4/23, albeit still higher y-o-y. Management foresees a slight market improvement in

FY 2024.

- There was a three-week unplanned shutdown of the company's combined heat and power plant in Eisenhuttenstadt in October 2023, owing to an operator error. Progroup's PM3 machine will also be down for a minimum of three weeks in November and December. The PM3 downtime was originally planned for spring 2024, but was brought forward as the replacement part had been delivered earlier than expected.

- Progress for the company's new plants and projects remain in line with its plans. PW 14 in Poland continued to ramp up, while PW 15 in Germany will likely begin operations in mid-2024. PW 16 in Italy is expected to start production in mid-2025. Development for the waste to energy power plant at the PM3 site remains in line with management's plans.

- Progroup acquired a piece of land in Stockstadt in Bavaria, Germany. The land may be used for a paper machine site, though this is not expected in the near term as the company does not want to start production before 2030. Progroup will make a down payment in the single-digit mn for the site in Q4/23, with the remaining payments to be paid in FY 2024.

- The company has obtained a EUR 60 mn sustainable loan to finance a new corrugated sheetboard plant PW16 in Italy.

The Q3/23 results were very weak in our view, softer than our expectations. Earnings were materially lower, given the very tough y-o-y comparable, soft market environment and destocking. Cash flow was weak, further impacted by a capex increase. Comparables remain tough for the next two quarters, with adjusted EBITDA of EUR 103 mn in Q4/22 and EUR 74 mn in Q1/23. The Q4/23 numbers will likely be soft, due to the difficult comparable, soft outlook and maintenance shutdowns. We await more colour on Progroup's operational development and outlook, which should be provided during the earnings call scheduled for 2 pm CET today.

Peter Low

RCS & RDS (Digi Communications) | LARA: Medium Risk | Credit Bias: Stable | ESG: Adequate

Haidje Rustau

Digi reaches preliminary agreement to acquire Masmovil/Orange remedy assets, Bloomberg reports

"Hold" the RCSRDS bonds e.g. with the 3.25% 02/28s trading at a mid-price of 86.3 or Z-spread of 414 bps (YTW: 7.2%)

RCS & RDS (Digi Communications) has reached a preliminary agreement to acquire assets from Orange/Masmovil should this be a regulatory requirement for the approval of their merger, Bloomberg reported. The deal is non-binding. The report does not specify which assets might be included.

We view this development as an indication that a regulatory decision on the merger is nearing. We would expect the acquisition to strengthen Digi's position in Spain, a market where it has been growing very successfully.

Haidje Rustau

Renk | LARA: High Risk | Credit Bias: Stable | ESG: Adequate

Si Yong Ng

Q3/23 earnings review: strong results; maintains FY 2023 guidance

"Buy" the REBECC 5.75% 07/25 notes at 99.5 or a Z-spread of 258 bps (YTW: 6.2%)

Renk released its Q3/23 results and held a conference call yesterday. Revenues rose 13.4% y-o-y to EUR 243 mn, helped by the consolidation of General Kinetics. Segmentally, growth was mainly driven by increases in Marine & Industry and Slide Bearings. Gross profit advanced 29.7% to EUR 93 mn, helped by volume growth, positive operating leverage and cost savings. Adjusted EBITDA rose to EUR 49 mn from EUR 46 mn, supported by the higher gross profit, but partly offset by increased central functions costs.

That said, OCF after interest worsened y-o-y to a EUR 40 mn deficit (Q3/22: EUR 33 mn surplus), driven mainly by a EUR 62 mn working-capital investment (EUR 18 mn release). During the call, management attributed the sharp rise in working capital to a temporary inventory increase to mitigate and reduce the risk of supply chain bottlenecks, as well as to a higher work-in-progress inventory arising from a bottleneck in final testing as Renk resolved its production challenges in H1/23. Capex was broadly flat y-o-y at EUR 5 mn, leading to a EUR 45 mn FOCF deficit.

Reported net debt increased q-o-q to EUR 458 mn from EUR 361 mn, with net leverage up 0.5x to 2.5x. The increase in net debt was driven by the FOCF deficit, as well as a EUR 50 mn shareholder loan repayment made during the quarter. Liquidity was solid, with EUR 70 mn in cash and cash equivalents, as well as an undrawn EUR 50 mn RCF.

The 9M/23 performance also robust, with revenues increasing 9.9% y-o-y to EUR 653 mn and adjusted EBITDA improving 6.1% to EUR 127 mn.

The call was uneventful, with the following highlights:

- The 9M/23 order intake grew 23.7% y-o-y to EUR 911 mn, of which EUR 266 mn was in Q3. This drove the order backlog to EUR 1,712 mn, which was 19.4% higher compared to a year ago.

- Renk maintained its FY 2023 guidance for revenues of EUR 900-1,000 mn, with an adjusted EBIT margin of c. 16-17%. It also kept unchanged its medium-term targets for a c. 10% revenue CAGR and c. 19-20% adjusted EBIT margin.

- Commenting on the postponed IPO, management said that shareholders are assessing their options, which could lead to the company attempting an IPO again. Management also said that it would consider refinancing the bonds if an IPO does not happen.

The Q3/23 performance was strong in our view, with robust revenue growth and adjusted EBITDA improving c. 6%. That said, performance was helped by the consolidation of General Kinetics during the quarter. Cash flow worsened mainly due to working-capital movements, although we believe this should reverse over time. Net leverage deteriorated due to the negative FOCF and cash outflows to repay the shareholder loan. Looking ahead, we expect the positive trends to continue and forecast a solid Q4, with the reported numbers likely to be boosted by the consolidation of General Kinetics. The top line will also benefit from the gradual reversal of the bottleneck at final testing. Cash flow should benefit from the improved earnings, as well as the partial reversal of the working capital investment in Q3. Given management's comments, we believe Renk will attempt an IPO again in the coming quarters, should the markets be supportive.

Si Yong Ng

Standard Profil | LARA: High Risk | Credit Bias: Stable | ESG: Adequate — Si Yong Ng

Q3/23 earnings review: robust results

"Buy" the STPRAU 6.25% 04/26 notes at 77 or a Z-spread of 1,531 bps (YTW: 19.4%)

Standard Profil (SP) has reported robust Q3/23 results, with an earnings call scheduled for next Wednesday. Revenues grew 9.2% y-o-y to EUR 113.5 mn, driven by price increases and organic growth. Gross profit surged to EUR 19.8 mn (Q3/22: EUR 7.9 mn), helped by price hikes, lower raw-material and energy prices, as well as increased efficiency. Similarly, adjusted EBITDA jumped to EUR 18.4 mn, from EUR 11.7 mn a year ago.

OCF (net of interest paid) increased y-o-y to a EUR 4.7 mn surplus (Q3/22: EUR 7.1 mn deficit), mainly driven by the improved earnings and a EUR 3.1 mn working-capital release (EUR 6.7 mn investment). This was partly offset by higher cash taxes and interest paid. Capex fell to EUR 10.5 mn (EUR 13.2 mn), resulting in an FCF deficit of EUR 5.8 mn.

Reported net debt including lease liabilities rose q-o-q to EUR 316 mn (Q2/23: EUR 306 mn), albeit net leverage fell 0.2x sequentially to 3.8x.

The 9M/23 results were also very strong, with revenues up 29.4% y-o-y at EUR 380 mn and adjusted EBITDA reaching EUR 70.9 mn (9M/22: EUR 36.7 mn). This was helped by EUR 15.2 mn of cost compensation from customers for FY 2022, which was finalised this year and accounted for in the Q1/23 numbers.

SP's Q3/23 performance was robust in our view, with adjusted EBITDA surging more than 50% y-o-y on the back of a c. 9% revenue increase. Positively, profitability was significantly stronger, thanks to price increases, moderating raw-material and energy prices, as well as cost savings. Cash-flow performance improved on account of better earnings, working-capital movements and reduced capex. Net leverage improved q-o-q, given the strong earnings development.

We will comment further after the earnings call.

Si Yong Ng

Stena AB | LARA: High Risk | Credit Bias: Stable | ESG: Adequate — Jayanth Kandalam

9M/23 earnings review: solid results

"Buy" the STENA 7.25% 02/28 EUR bonds at 104 or a Z-spread of 258 bps (YTW: 6.0%), and the 6.125% 02/25 USD notes at 99.3 or Z-spread of 145 bps (YTW: 6.6%); "Sell" the 5Y CDS at 315 bps

Stena has reported solid results for Q3 and 9M/23. The company sealed several contracts/transactions during 9M, including: [1] contract extensions with Esso Exploration and Production Guyana Limited for the Stena Drillmax and Carron (until 30 June 2024, with options for further extensions); [2] a two-year contract extension with BP Canada Energy Group for the Stena Icemax; [3] a contract with Ithaca Energy for the Stena Spey for one well commencing in June 2023, with an option for another well; and [4] Stena Drilling's exercise of a purchase option to acquire a new drilling vessel from Samsung Heavy Industries in South Korea, for a 10-year contract beginning Q1/24.

Operational Highlights

Consolidated revenues were up c. 6% y-o-y at SEK 40.8 bn, with growth recorded at all segments except Property and Adactum. Operational EBITDA rose c. 14% to SEK 10.9 bn. We discuss the development of segments below:

Stena Line reported revenues of SEK 14.7 bn, up c. 9% y-o-y, but operational EBITDA was c. 15% lower at SEK 3.6 bn. While passenger volumes increased, a softer freight market and higher costs (mainly related to increased bunker fuel prices) caused earnings to weaken. Freight volumes fell 3% and car volumes decreased 2%, while passenger volumes rose 1%.

Stena Drilling's revenues grew c. 42% to SEK 4.3 bn, while operational EBITDA more than doubled to SEK 1.9 bn. Management attributed this growth to the significantly higher number of operating days, together with stronger charter rates.

Stena Tankers registered revenues of SEK 12.6 bn, up c. 4% y-o-y, with operational EBITDA growing c. 27% to SEK 2.6 bn. The development came on the back of higher rates for the Medium Range and Suez segments.

Stena RoRo's revenues increased c. 25% y-o-y to SEK 794 mn and operational EBITDA rose c. 48% to SEK 653 mn, mainly thanks to a larger fleet in operation.

Stena Property's revenues were down c. 12.5% y-o-y at SEK 2.5 bn, albeit operational EBITDA was c. 7% ahead at SEK 1.56 bn. This was largely due to increased rental income and lower costs. The fair value of investment properties was only slightly higher, while the occupancy rate for Stena's Swedish properties was c. 98%.

Lastly, **Stena Adactum** registered a c. 4% y-o-y revenue decline to SEK 6.56 bn, with operational EBITDA down c. 14% at SEK 632 mn. Ballingslov's operational EBITDA decreased by SEK 152 mn to SEK 365 mn, mainly owing to lower sales, while Blomsterlande's operational EBITDA fell by SEK 28 mn to SEK 170 mn, largely due to higher operating costs. In contrast, Envac's operational EBITDA increased by SEK 22 mn to SEK 111 mn, thanks mainly to higher sales.

Cash Flow and Leverage

Cash flow for 9M/23 was affected by higher capex, while working capital was only slightly negative. We calculate net leverage for the consolidated group of c. 4.9x. During the period, Stena, issued a new 2028 senior bond to help refinance the existing senior secured notes, and increased the RCF size by EUR 93 mn to EUR 708 mn.

We note the solid results, particularly in the Drilling and Shipping segments. While there was some earnings weakness for Stena Line mainly due to inflation, we expect this to reverse next year unless economic conditions deteriorate further.

Jayanth Kandalam

United Group | LARA: High Risk | Credit Bias: Stable | ESG: Adequate

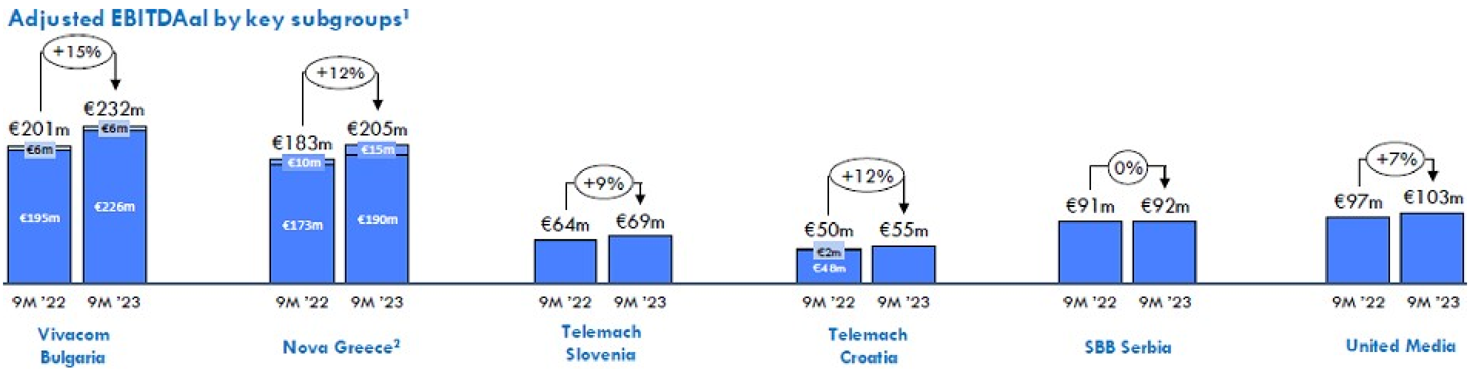
Haidje Rustau

Q3/23 earnings review: solid operating trends, but cash generation weaker than expected

"Hold" the ADRBID bonds e.g. with the 3.125% 02/26s at 95.0 or a Z-spread of 230 bps (YTW: 5.6%)

United Group (UG) reported its Q3/23 results and held an earnings call yesterday. Revenues rose 6.7% y-o-y to EUR 696 mn, while EBITDA increased 13.0% to EUR 275 mn as the margin expanded to 39.6% from 37.3%. Revenue growth was strongest at United Media (+10.5%), in Bulgaria (+8.0%) and in Slovenia (+7.6%), but all divisions delivered growth over the quarter. YTD revenues was up 6.5%, with a 12.5% EBITDA increase.

The 9M/23 EBITDAaL development by division is illustrated below:



1 Where applicable, data shown on l-f-l basis. United Media figure for 9M/22 excludes United Cloud, as it was separated from United Media from January 2023.

2 Adjusted EBITDAal for Nova Greece fibre network business at EUR 14.9 m in 9M/23, compared to EUR 9.6 m in 9M/22

Source: Company

Subscriber dynamics were strong, with a 7% y-o-y rise in pay-TV, 10% growth in broadband and 4% expansion in mobile subscribers. However, the base for legacy services such as DTH and fixed line telephony declined moderately. Fixed ARPU advanced significantly in Bulgaria (+12%) and was moderately higher in Slovenia and Serbia, but decreased 2% in Greece. Mobile ARPU rose 12% in Slovenia and 5% in Bulgaria, but was 6% lower in Greece.

OCF generation was significantly weaker y-o-y at EUR 192 mn (EUR 269 mn in Q3/22). This was mainly due to a smaller working capital inflow of EUR 25 mn (EUR 103 mn), though cash interest expense of EUR 111 mn was also higher (EUR 84 mn). Capex was much lower at EUR 161 mn (EUR 204 mn), which the company contributed to a build-up in inventory. UG spent EUR 43 mn on acquisitions, and there was a EUR 1,218 mn inflow for the tower sale. Reported net debt stood at EUR 3,992 mn (excluding leases of EUR 1,411 mn), with net leverage of 3.9x. The cash balance amounted to EUR 108 mn.

UG has delivered another solid quarter, with strong revenue and margin trends. KPI development was also largely positive, although ARPU development in Greece was disappointing. Cash generation for the quarter was weaker than we had expected, despite the relatively low capex. However, the tower transaction has resulted in more manageable debt levels. We also view favourably management's comment during the earnings call that the focus for the time being will remain on further organic growth.

We will comment further in an Earnings Flash later today.

Haidje Rustau