Vajda-Papír Kft.

Hungary, Consumer Products

Issuer

B+

Outlook

Negative

Senior unsecured debt

B+

Rating composition

Business risk profile		
Industry risk profile	A	B+
Competitive position	B+	
Financial risk profile		
Credit metrics	B+	B+
Liquidity	+/-0 notches	
Standalone credit assessment		**B+**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**B+**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	6.2x	8.5x	6.9x	7.2x
Scope-adjusted debt/EBITDA	3.3x	3.5x	3.4x	4.8x
Scope-adjusted funds from operations/debt	25%	24%	23%	17%
Scope-adjusted free operating cash flow/debt	-57%	1%	-15%	-18%
Liquidity	28%	>200%	192%	88%

Rating sensitivities

The upside scenarios for the rating and Outlook (collectively):

- Reduction in fundamental cash flow volatility
- Debt/EBITDA sustained below 5.0x during upcoming investment cycle

The downside scenarios for the rating and Outlook (individually):

- Adverse developments in performance which would further negatively impact profitability, metrics, or liquidity
- Deterioration of debt/EBITDA to 5x or higher

*All credit metrics refer to Scope-adjusted figures.

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Related methodologies

General Corporate Rating Methodology, Feb 2025

Consumer Products Rating Methodology; October 2025

Table of content

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Leading market position in Hungary and solid positions across other European countries, supported by a robust portfolio of retail chain clients • Active in non-discretionary consumer products, benefiting from stable and consistent demand • Recent completion of base paper production facility leading to significantly reduced exposure to input cost volatility, enhancing cost predictability • Substantial portion of fixed-rate debt contributing to solid interest coverage	• High dependency on volatile cellulose and gas prices • Volatile profitability, with periods of negative margins partly due to absence of comprehensive hedging strategies • Projected subdued cash flow cover and substantial increase in leverage due to intensive capex

2. Rating Outlook

The Negative Outlook reflects our expectation that current investment plans will yield significant increases in leverage, accentuating the company's underlying cash flow exposure to volatile input prices.

3. Corporate profile

Vajda-Papír is a consumer goods company that makes and sells selected hygiene paper products like toilet paper, tissues, paper towels and napkins. Founded in 1999, the company has since become Hungary’s largest finished consumer paper producer, with more than a 25% market share, and largest exporter, active in more than 30 countries. Around a third of its products are private label. Vajda Group is owned by its founders, Mr Attila Vajda (50%) and Ms Szilvia Vajda Csata (50%).

The leading paper products manufacturer in Hungary

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
04 Nov 2025	Outlook change	B+/Negative
01 Nov 2024	Upgrade	B+/Stable
03 Nov 2023	Outlook change	B/Stable

5. Financial overview (financial data in HUF m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	0.6x	6.2x	8.5x	6.9x	7.2x	6.4x
Debt/EBITDA	45.6x	3.3x	3.5x	3.4x	4.8x	4.3x
Funds from operations/debt	-2%	25%	24%	23%	17%	19%
Free operating cash flow/debt	-16%	-57%	1%	-15%	-18%	5%
Liquidity	79%	28%	>200%	192%	88%	>200%
EBITDA						
Reported EBITDA	(360)	8,452	7,581	7,296	7,573	8,134
add: operating lease payments	782	1,215	1,278	1,278	1,278	1,278
Other items (incl. one-offs)	257	644	569	-	-	-
EBITDA	**679**	**10,312**	**9,428**	**8,573**	**8,850**	**9,412**
Funds from operations (FFO)						
EBITDA	679	10,312	9,428	8,573	8,850	9,412
less: interest	(1,172)	(1,650)	(1,106)	(1,235)	(1,225)	(1,462)
less: cash tax paid	(13)	(233)	(641)	(440)	(430)	(376)
Funds from operations	**(506)**	**8,428**	**7,681**	**6,898**	**7,195**	**7,574**
Free operating cash flow (FOCF)						
Funds from operations	(506)	8,428	7,681	6,898	7,195	7,574
Change in working capital	4,979	(8,508)	(1,607)	(31)	(660)	(704)
Non-operating cash flow	455	(4,717)	(4,130)	-	-	-
less: capital expenditures (net)	(9,226)	(13,396)	(591)	(10,300)	(13,339)	(4,000)
less: lease amortisation	(626)	(972)	(1,022)	(1,022)	(1,022)	(1,022)
Free operating cash flow	**(4,924)**	**(19,166)**	**332**	**(4,455)**	**(7,826)**	**1,848**
Interest						
Interest paid	1,016	1,412	1,175	1,080	1,294	1,532
Interest received	(0)	(5)	(325)	(100)	(325)	(325)
add: interest component, operating leases	156	243	256	256	256	256
Interest	**1,172**	**1,650**	**1,106**	**1,235**	**1,225**	**1,462**
Debt						
Reported financial (senior) debt	27,876	28,891	27,501	24,301	37,801	35,691
add: operating lease obligations	3,130	4,862	5,111	5,111	5,111	5,111
Debt	**31,005**	**33,753**	**32,611**	**29,411**	**42,911**	**40,801**

6. Environmental, social and governance (ESG) profile[1]

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

ESG factors: credit-positive credit-negative credit-neutral

ESG factors: credit neutral

ESG factors have no impact on Vajda-Papír's credit profile.

Vajda-Papír was among the first issuers to participate in the Hungarian National Bank's Green Bond Programme (NKP), demonstrating its early commitment to sustainable finance. The company operates under a comprehensive green bond framework, which outlines multiple environmental objectives primarily focused on resource efficiency and sustainability that must be met by 2030. Vajda-Papír has a three-member committee dedicated to monitoring progress in complying with green bond covenants. The company also commits to annual reporting on the allocation and use of bond proceeds. In May 2022, it published its first green bond allocation report, confirming full adherence to its stated commitments.

In 2023, Vajda-Papír released its inaugural ESG report, highlighting its environmentally responsible operations, including the energy-efficient design of its paper mill and its broader sustainable development initiatives. The company's focus on sustainable forest management and continuous improvement in energy efficiency and renewable energy use further reinforces its environmental credentials. Additionally, Vajda-Papír holds several recognised certifications including ISO, HACCP, FSC and the Nordic Ecolabel, which are increasingly valued by its customer base.

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

7. Business risk profile: B+ (revised from BB-)

The revised assessment reflects persistent EBITDA volatility stemming from continued input cost fluctuations. Vajda-Papír's business risk profile is underpinned by its solid market position in Hungary, moderate geographic diversification, and focus on non-discretionary consumer goods characterised by stable demand and low cyclicality. The consolidation of Vajda-Papír Scandinavia has added to the group's scale and profitability. However, the assessment remains constrained by the group's relatively limited size, narrow product diversification and modest brand recognition. While the completion of the second phase of its investment programme has enabled the group to produce surplus base paper for third-party sales, product diversification remains limited. Additionally, the group's profitability continues to be volatile, weighing on its risk profile.

Industry risk profile: A

The company operates in non-discretionary consumer products, a sector characterised by low cyclicality, low substitution risk and medium barriers to entry. Further, the group specialises in household hygienic paper products, which are less sensitive to macroeconomic fluctuations.

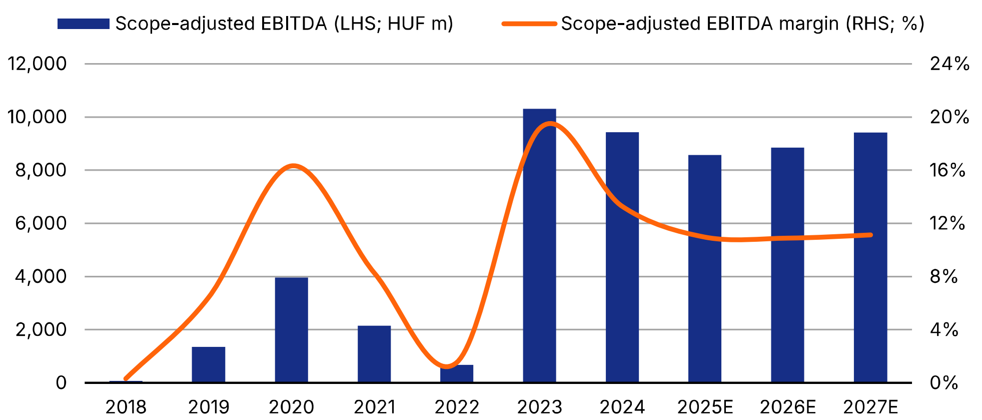
Solid domestic market share and moderate diversification

The group estimates its market share at around 25% in Hungary, encompassing both private label and proprietary brands. It also benefits from a well-diversified geographic footprint, with over 50% of revenues generated from exports. Furthermore, the group maintains a balanced and diversified customer base, primarily comprising established retail chains, with limited client concentration. Demand for its core product offering is expected to remain resilient, supported by the essential nature of its goods.

Volatile profitability

Market conditions have improved over the past two years, with input costs, particularly for cellulose and energy, normalising from 2022 peaks. This supported a rebound in the EBITDA margin from 2% in 2022 to 19% in 2023 and 13% in 2024, aided by in-house base paper production reducing reliance on external suppliers and supporting margin stability. We expect margins to moderate to around 11%, reflecting shifting consumer preferences toward private-label products and continued input cost volatility.

Figure 1: EBITDA and EBITDA margin



Source: Vajda-Papír, Scope estimates

Modest marketing spending

Vajda Papír owns several well-recognised brands and differentiates them across price ranges to clearly position premium versus budget products. However, marketing expenditure remains modest, at around 1% of sales in 2024. Overall, we assess the group's growth prospects as moderate.

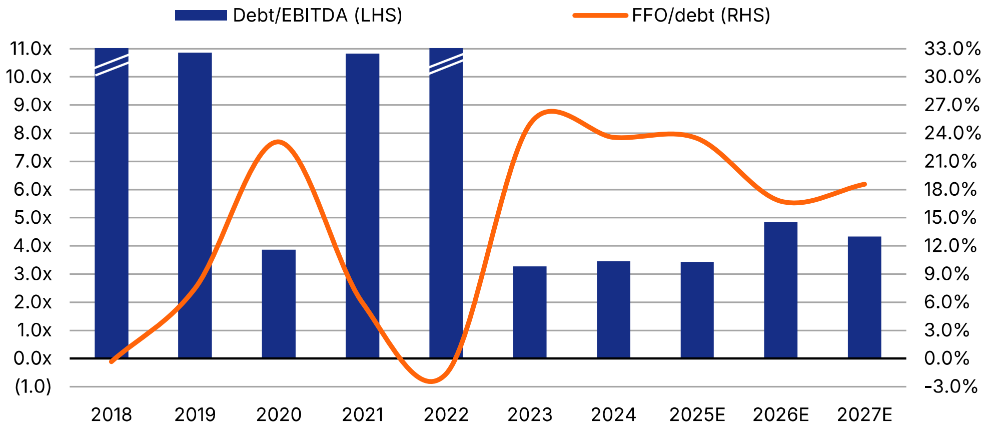
8. Financial risk profile: B+ (unchanged)

Credit metrics stabilised in the past two years

The group's financial standing markedly improved during the last two years after the integration of Vajda-Papir Scandinavia in late 2023 and following the stabilisation of input raw materials and energy prices. The integration of the Scandinavian subsidiary had a full impact on the income statement only in 2024, positively impacting credit metrics, as balance sheet positions were fully integrated already in 2023.

Despite the lower EBITDA margin in 2024 driven by the rebound of cellulose pulp prices from prior year lows, leverage increased only modestly in 2024 to 3.5x from 3.3x in 2023 due to deleveraging in the absence of significant capex. Strong interest cover continues to support the financial risk profile, remaining solid at 8.5x in 2024 (vs 6.2x in 2023), thanks to the low fixed interest rates on the bonds. Cash flow cover turned slightly positive in 2024 (1% vs -57% in 2023), driven by the absence of significant capex.

Figure 2: Leverage

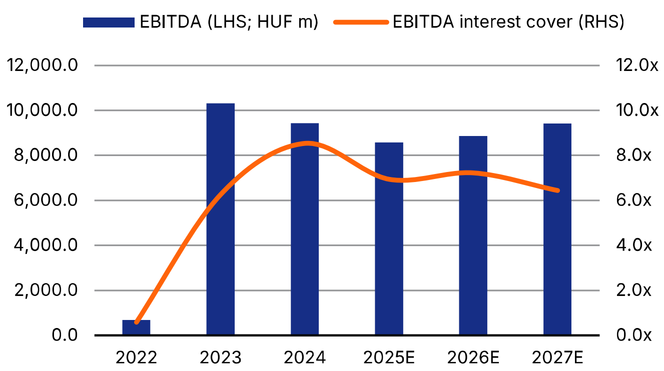


Source: Vajda-Papír, Scope estimates

Leverage to increase driven by significant capex

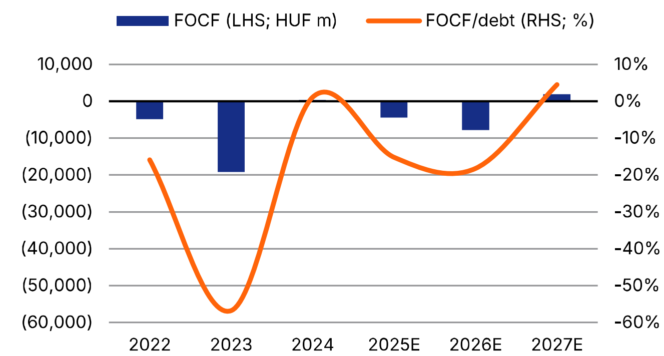
Looking ahead, the company plans substantial investments of around HUF 35bn to enhance efficiency, expand capacity, introduce new product lines and reduce energy reliance on third-party suppliers. These investments will elevate debt. As a result, we project that debt/EBITDA will rise to close to 5.0x in 2026 before stabilising at around 4.0x in 2027. Similarly, we expect cash flow cover to turn negative in 2025-2026 due to elevated capex before returning to positive levels in 2027 following the completion of the investment cycle. We note that the investment programme should support profitability over the medium term, although the exposure to volatile input costs will persist in the absence of changes to the company's hedging policy.

Figure 3: Interest cover



Source: Vajda-Papír, Scope estimates

Figure 4: Cash flow cover (FOCF/debt)



Source: Vajda-Papír, Scope estimates

Adequate liquidity

The adequate assessment of liquidity is backed by the ample cash and cash equivalents supplemented by available overdraft and factoring lines totalling HUF 1.7 bn. Cash and cash generation are forecast to fully cover the HUF 2bn in bank debt maturing in 2025. In 2026, cash and cash equivalents will temporarily fall as the company will fund its vast investments from own funds, negatively impacting liquidity. However, the liquidity assessment will remain positive as much of the funding for the capex programme has already been secured or is in advance negotiation stages.

We note that Vajda-Papír's senior unsecured bonds issued under the Hungarian National Bank's Bond Funding for Growth Scheme include a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 11.2bn and HUF 9.9bn) if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 30 days). Such an event could adversely affect the group's liquidity profile. The current rating headroom to entering the grace period is zero notches, underscoring the need to maintain at least the present credit quality to avoid triggering the covenant.

Table 1. Liquidity sources and uses (in HUF m)

	2024	2025E	2026E
Unrestricted cash (t-1)	13,767	11,376	3,977
Open committed credit lines (t-1)	1,700	1,700	1,200
Liquid inventory (t-1)	2,996	5,620	5,710
FOCF (t)	332	(4,455)	(7,826)
Short-term debt (t-1)	3,881	5,283	4,260
Liquidity	**>200%**	**192%**	**88%**

Source: Vajda-Papír, Scope estimates

9. Supplementary rating drivers: +/- 0 notches

Credit-neutral supplementary rating drivers

The ratings remain unaffected by supplementary rating drivers. We note, however, that the reliability of the business plan is somewhat limited, as forecasting is hindered by the group's insufficiently structured hedging practices.

10. Debt ratings

Senior unsecured debt rating: B+

Senior unsecured debt is rated B+, in line with the issuer rating. Our recovery analysis assumes a hypothetical default scenario in 2026, based on the estimated liquidation value of the group's assets and assumed outstanding senior unsecured debt of HUF 17.9bn, including fully drawn available overdrafts. Despite an estimated 'above-average' recovery, the senior unsecured debt rating is aligned with the issuer rating to reflect the anticipated increase in indebtedness over the coming period.

In November 2020, Vajda-Papír issued a HUF 11.2bn senior unsecured bond (ISIN: HU0000359989) followed by a second HUF 9.9bn senior unsecured green bond (ISIN: HU0000360474) in May 2021, both under the Hungarian Bond Funding for Growth Scheme. The bonds are guaranteed by VAJDA REAL ESTATE Kft., a company within the issuer's corporate group.

Bond proceeds were allocated to loan refinancing, investment capex to expand base-paper production, and working capital financing. Both bonds have tenors of 10 years and fixed coupon rates of 3.5%. The bond repayment schedule is the same for the two bonds: in six instalments with 10% of the principal value due annually from the fifth year and a balloon payment of 50% at maturity. Amortisation begins in 2025 for the first bond and 2026 for the second. In addition to the rating deterioration covenants, bond covenants include non-payment, insolvency proceedings, cross-default, pari passu, negative pledge, change of control and dividend payment restrictions.

Appendix 1. Peer comparison

	Vajda-Papír Kft.	Hell Energy Magyarország Kft.	NATURTEX Kft.	Tranzit-Food Kft.	Kometa 99 Zrt.
Issuer rating/Outlook	B+/Negative	B+/Stable	B+/Stable	BB-/Stable	B+/Stable
Last reporting date	31 December 2024	31 December 2024	31 December 2024	31 December 2023	31 December 2023
Business risk profile	**B+**	**BB+**	**B+**	**BB-**	**BB-**
Financial risk profile	**B+**	**B**	**BB-**	**BB+**	**B+**
EBITDA interest cover	8.5x	8.9x	17.4x	-10.3x	-5.2x
Debt/EBITDA	3.5x	4.4x	2.7x	0.2x	4.5x
FFO/debt	24%	20%	34%	430%	28%
FOCF/debt	1%	-5%	-1%	463%	5%
Standalone credit assessment	**B+**	**B+**	**B+**	**BB-**	**B+**
Supplementary rating drivers	**+/- 0 notches**	**+/- 0 notches**	**+/- 0 notches**	**+/- 0 notches**	**+/- 0 notches**

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