MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Pro-Gest's CFR to Caa2 from Caa1; negative outlook

20 Mar 2020

Milan, March 20, 2020 -- Moody's Investors Service, (Moody's) has today downgraded Pro-Gest S.p.A.'s ("Pro-Gest" or the "company") corporate family rating (CFR) to Caa2 from Caa1, its probability of default rating (PDR) to Caa2-PD from Caa1-PD and the rating on the company's €250 million senior unsecured notes due 2024 to Caa3 from Caa2. Pro-Gest is an Italian vertically integrated producer of recycled paper, containerboard, corrugated cardboard and packaging solutions. The outlook remains negative.

"The ratings downgrade reflects the spread of the coronavirus across Italy and Europe and the resulting weakening operating conditions which will hamper the performance recovery of Pro-Gest, at least for 2020, at a time when the company's liquidity is extremely fragile, its performance is already suffering from weaker volumes and lower prices, and it remains exposed to regulatory/legal developments related to its Mantova plant and the payment of the anti-trust fine," says Donatella Maso, a Moody's Vice President -- Senior Analyst and lead analyst for Pro-Gest.

A full list of the affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The rating action reflects the weakening macroeconomic and operating conditions that the company is facing on the back of the coronavirus outbreak across Italy and Europe which will hamper the performance recovery of Pro-Gest in 2020 at the time when its liquidity is very tight.

While it is difficult to assess the impact at this point in time, as it depends on the length and severity of the outbreak, Moody's expects that Pro-Gest's sales volumes could be negatively affected in 2020 because of its large exposure to Italy, where 90% of its sales are generated, and to certain cyclical end-markets such as manufacturing, chemicals and fashion retail, albeit over 66% of sales derive from more resilient food end-markets. Moody's baseline scenario currently assumes a 0.5% decline in GDP in Italy in 2020. Potential fall in sales volumes combined with low selling prices, which are not showing signs of stabilisation, will only be partially mitigated by lower energy costs, and will constrain the recovery in Pro-Gest's operating performance.

Despite the company has successfully achieved a waiver for the covenants in its €75 million mini bonds and €59 million loans outstanding for the December 2019 and June 2020 test dates, Moody's expects that Pro-Gest will be in breach of covenants at the end of December 2020, even if it obtains the authorisation to start the production activities in Mantova, an event which could also be further delayed given the current restrictions in Italy.

In order to complete the covenant waivers, the company has agreed to an accelerated amortisation profile for one of the mini bonds resulting in an incremental €7 million repayment to be paid between March and April 2020, further pressuring an already weak liquidity. The company relies only on cash on balance sheet cash and short-term uncommitted lines, as Pro-Gest has not completed a process to secure any additional external liquidity funding in the past few months.

Moody's understands that the company is currently seeking additional sources of liquidity including the disposal of assets, mostly of one subsidiary company for €40 million in 2020 and €18 million in 2022, inventory reduction, factoring or reverse factoring arrangements for €45 million, and the potential equity injection from a strategic investor. However, there is a high risk that some of these transactions could be suspended or postponed in light of the unprecedented environment owing to the coronavirus outbreak.

Lastly, Pro-Gest might have to start repaying the €47.5 million antitrust fine for engaging in alleged anti-competitive practices in 20 monthly instalments if it does not obtain a payment suspension (until the final decision of the Administrative Court). Moody's notes that the company has already paid €2.4 million of this fine in February.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The paper packaging sector could be affected to a degree by this shock given its sensitivity to consumer demand and sentiment. More specifically, the weaknesses in Pro-Gest's credit profile, including its exposure to Italy and to certain cyclical end-markets, combined with a challenging trading environment characterised by low selling prices, have left it vulnerable to shifts in market sentiment in these unprecedented operating conditions and Pro-Gest remains vulnerable to the outbreak continuing to spread. Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Today's action reflects the impact on Pro-Gest of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered.

The lack of authorization to produce at its Mantova mill resulted from environmental issues mainly linked to the building of an incinerator in the plant. The suspension of operations in Mantova have led to running costs of around €10 million through Q3 2019, depressing the company's EBITDA. However, Moody's notes that Pro-Gest has, in its most recent formal proposal, given up the possibility to build such incinerator in an effort to resolve the matter and to resume production at Mantova, and the administrative procedure is ongoing under this assumption. From a corporate governance perspective, Moody's has factored in the company's weak liquidity management, at a time when operating performance has deteriorated.

LIQUIDITY

Moody's considers Pro-Gest's liquidity as very weak. Given the lack of committed lines, the company relies on the €39 million of cash held on balance sheet and €63 million availability under €150 million of uncommitted short-term facilities at the end of February 2020 to support its near-term liquidity needs such as mandatory debt repayments, committed investments, and the payment of the antitrust fine. Moody's expects that the company will deplete its cash balance by Q2/Q3 2020, unless it secures additional liquidity sources, including the envisaged sale of non-core assets, new funds from committed credit lines or a strategic equity partner.

STRUCTURAL CONSIDERATIONS

The Caa2-PD PDR is in line with the CFR. This is based on a 50% family recovery rate, as typical for transactions with both bond and bank debt. The Caa3 rating on the senior unsecured notes due 2024 is one notch below the CFR, reflecting the large amount of debt sitting at operating subsidiaries that are not guaranteeing the notes and considered senior to the notes. The capital structure includes an export credit facility of €36 million, medium-and long-term facilities of €48 million, Italian mini bonds of €75 million, and finance leases of €19.7 million.

The 2024 notes are unsecured and guaranteed by the issuer and certain subsidiaries, which accounted for 60% of total assets on an aggregated basis, 79% of consolidated revenue and other income, and 62% of EBITDA (gross of intragroup transactions) as of June 2019.

RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook on Pro-Gest's ratings reflects the high uncertainty over any recovery prospects for the company's performance and liquidity on the back of deteriorating trading conditions and a heightening risk of near-term default on upcoming debt service obligations.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upward pressure on the ratings is unlikely in the short term but the outlook on the ratings could be stabilised if the company (1) sets up a stronger and permanent liquidity platform through committed credit lines, or other external liquidity sources, including the completion of the sale of non-core assets by the end of Q1; (2) obtains the authorization to resume the production activities in Mantova; and (3) demonstrates signs of improving its operating performance in a very challenging operating environment.

Downward pressure on the ratings could develop if (1) the company's performance and liquidity continue to deteriorate, for example if the company fails to secure additional liquidity sources in the coming months, or (2) recovery prospects for debtholders weaken in a potential debt restructuring scenario.

LIST OF AFFECTED RATINGS

..Issuer: Pro-Gest S.p.A.

Downgrades:

....Probability of Default Rating, Downgraded to Caa2-PD from Caa1-PD

....Corporate Family Rating, Downgraded to Caa2 from Caa1

....Backed Senior Unsecured Regular Bond/Debenture, Downgraded to Caa3 from Caa2

Outlook Action:

....Outlook, Remains Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Paper and Forest Products Industry published in October 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in Treviso (Italy), Pro-Gest S.p.A. is an Italian vertically integrated producer of recycled paper, containerboard, corrugated cardboard and packaging solutions. The company operates three recycling plants, six paper mills, four corrugators, eight packaging plants, and two tissue converting plants or overall 23 production facilities, all located in Italy, and employs over 1,100 people.

For the last twelve months ended 30 September 2019, Pro-Gest reported core revenue of around €450 million and EBITDA of €77 million (Moody's adjusted, before the provision for the antitrust fine). The company is family owned, and Bruno Zago, who founded Pro-Gest in 1973, is also its CEO.

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