

Rating Action: Moody's changes Grupo Antolin's outlook to stable; affirms B3 CFR

17 Mar 2021

Frankfurt am Main, March 17, 2021 -- Moody's Investors Service ("Moody's") has today affirmed the B3 corporate family rating and the probability of default rating (PDR) at B3-PD of Grupo Antolin-Irausa, S.A. (Grupo Antolin). At the same time Moody's changed the outlook to stable from negative.

"The change in outlook to stable is driven by a solid recovery in operating performance and cash generation in the third quarter 2020, but in particular a continued solid liquidity profile and the expectation that a recovery in global light vehicle sales will allow the company to recover its financial metrics in 2021 to levels more appropriate for its B3 rating.", said Falk Frey, a Moody's Senior Vice President and Lead Analyst for Grupo Antolin.

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

RATINGS RATIONALE

The affirmation of Grupo Antolin's B3 rating reflects Moody's expectation that the company's liquidity remains adequate going forward, while leverage (Moody's adjusted debt / EBITDA) will, after an anticipated temporal increase to almost 9x in 2020 (5.1x as of December 2019), return into the range of 5.5x -- 6.5x by year-end 2021, which Moody's consider to be appropriate for the B3. The improvement will be supported by (i) Moody's expectation of a recovery in global light vehicle sales from 2021, after a sharp drop in 2020, (ii) the company's actions of cost reduction and variabilization in order to benefit from the recovery in volumes, and (iii) the operating turnaround of the group's previously loss-making facilities in Spartanburg and Alabama.

Moody's forecasts for the global automotive sector a 7% recovery in unit sales in 2021, compared with a decline of 14.1% in 2020. However, future demand for vehicles could be weaker than our current estimates, the already competitive environment in the auto sector could intensify further, and Grupo Antolin could encounter greater headwinds than currently anticipated.

The rating balances Grupo Antolin's (1) strong position in the market for automotive interior products, (2) size and scale as a tier 1 automotive supplier, (3) adequate liquidity, and (4) resilience to raw material price volatility.

The rating also reflects (1) Grupo Antolin's exposure to the cyclical nature of the global automotive industry; (2) a highly competitive market environment for interior products, with relatively little growth prospects and high pricing pressure, reflected by a negative EBITA margin of -2.4% for the LTM 09/2020 which was already weak in 2019 (1.9%) pre-Covid impact; (3) its high gross leverage of 13.3x for the LTM 09/2020 (in 5.1x 2019); and (4) its low free cash flow (FCF), a negative €104 million over the last five years, given its high capital spending and low operating profit margin.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook recognizes Grupo Antolin's ability to maintain a solid liquidity position throughout the severe downturn triggered from the Covid-19 outbreak and moreover, reflects our expectation of continued progress in Grupo Antolin's financial recovery starting to materialize in Q3 2020 that should lead to financial metrics becoming more adequate for the current B3 rating level e.g. EBIT margin improvement to around 1% (-2.4% LTM 09/2020) and leverage in the range of below 6x (13.3x LTM 09/2020), whereas free cash flow will become positive only by 2022.

LIQUIDITY

As of the end of September 2020, the company's cash balance was around €450 million in addition to the availability of its €200 million RFC of which its maintenance covenants are suspended until June 2021. Afterwards, test levels of net debt/adjusted EBITDA less than 3.5x and EBITDA/financial expenses greater than 4.0x apply. Moody's expects that these covenants will be met once they become effective again.

Grupo Antolin has no major debt maturities until 2024 and only minor amounts of short-term debt falling due, most of which are renewable credit facilities that are typically rolled over. Against previous assumptions, we, we expect the group to generate a negative free cash flow in an amount in the mid double digit million for 2021 and a slightly positive FCF thereafter.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive rating pressure for Grupo Antolin could be built in a scenario of a sustained recovery in car demand coupled with effects from Grupo Antolin's efficiency measures implemented that will result in a recovery in metrics to pre-outbreak levels. More specifically adjusted Debt/EBITDA would have to drop back sustainably below 5.5x with an EBITA margin sustainably above 2.5%. This compares with our current expectations of below 6x leverage and 1% EBITA margin for fiscal year 2021 and 5.1x and 1.4% in 2019 pre Covid-19 impact respectively.

Negative pressure would evolve in case of a prolonged and deep slump in demand - in contrast to Moody's current base case scenario - leading to more balance sheet deterioration and a longer path to restoring credit metrics in line with a B3 credit rating (EBITA margin at least 2%, debt/EBITDA not exceeding 6.5x on a sustained basis). A significant deterioration in Antolin's liquidity profile would also result in a downgrade.

The principal methodology used in these ratings was Automotive Supplier Methodology published in January 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1170606. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

LIST OF AFFECTED RATINGS:

Affirmations:

- ..Issuer: Grupo Antolin-Irausa, S.A.
-Probability of Default Rating, Affirmed B3-PD
-LT Corporate Family Rating, Affirmed B3
-Senior Secured Regular Bond/Debenture, Affirmed B3

Outlook Actions:

- ..Issuer: Grupo Antolin-Irausa, S.A.
-Outlook, Changed To Stable From Negative

COMPANY PROFILE

Headquartered in Burgos, Spain, Grupo Antolin-Irausa, S.A. is a family-owned tier 1 supplier to the automotive industry. It focuses on the design, development, manufacturing and supply of components for vehicle interiors, which includes cockpits, overheads (headliners), door trims, and interior lighting components. In the first nine months 2020, Grupo Antolin generated revenue of €2.6 billion.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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