S&P Global
Ratings

RatingsDirect®

Research Update:

Norway-Based Debt Collector Axactor ASA 'B' Rating Affirmed Amid Refinancing; Outlook Remains Stable

August 28, 2023

Rating Action Overview

- Axactor ASA's new four-year, senior unsecured, Norwegian krone (NOK) 2.3 billion (about €200 million) bond is part of a refinancing exercise ahead of its €200 million, January-2024 (ACR02) maturity.
- In conjunction with the issuance, the company has sought to revise the covenants of the new bond to allow for maneuverability on interest coverage, recognizing that interest rates are at a structurally higher level.
- We anticipate revenue growth of about 4%-6% in 2023 will provide Axactor a strong base to maintain a fairly stable leverage profile over the next two years.
- We therefore affirmed our 'B' long-term issuer credit rating on the company and assigned our 'B' issue rating to the proposed new issuance, with the recovery rating unchanged at '3'.
- The stable outlook reflects our expectation that, over the next 12 months, Axactor will continue to see gross collection growth, allowing it to sustain adjusted debt to EBITDA below 5.0x while maintaining sufficient headroom to the bond covenants.

PRIMARY CREDIT ANALYST

Olivia K Grant
Dubai
+971 56 680 1008
olivia.grant
@spglobal.com

SECONDARY CONTACTS

Heiko Verhaag, CFA, FRM
Frankfurt
+ 49 693 399 9215
heiko.verhaag
@spglobal.com

Philippe Raposo
Paris
+ 33 14 420 7377
philippe.raposo
@spglobal.com

Rating Action Rationale

We expect Axactor's collections to continue to expand about 10%-11% per year on the back of strong nonpeforming loan (NPL) acquisitions in previous years. The company has experienced substantial growth over the past few years via NPL purchases, which have allowed it to close the size gap with European peers. In line with Axactor's guidance, we expect a slower pace of new portfolio acquisitions (about €100 million-€150 million) over the coming year as market dynamics shift and Axactor looks to ensure that the pricing of its nonperforming asset (NPA) portfolio correctly reflects these developments. In sum, we believe the company will strive to deliver a return on equity at or above 9% for 2023.

Axactor's refinancing activity should ensure liquidity needs remain covered over the coming 12 months. With the company's refinancing of the €545 million revolving credit facility (RCF) at the end of June and management of the upcoming maturity of the January 2024 bond, the weighted average maturity has increased to about 3.5 years, which reinforces our view of an adequate liquidity position. Furthermore, recognizing that interest rates are currently much higher than when it issued the September 2026 bond in August 2021, Axactor has adjusted the bond covenants to provide greater interest coverage headroom. The revised covenants allow for interest coverage as a share of cash adjusted EBITDA of 3x, down from 4x. As of June 30, 2023, this figure was 4.2x.

We expect leverage to remain stable, although we recognize operating performance could be challenged given the backdrop for DDPs. Axactor remains committed to being an industry cost leader. However, longer lead times for collections given the macroeconomic environment could create cost pressures that weigh on earnings over the next 12 months. Similarly, revaluations over 2022 were significantly lower than previous years as the company worked to exit its secured real-estate-owned (REO) portfolio. Although, given current market dynamics, negative revaluations could still be necessary. As a result, we see Axactor maintaining stable leverage, with cash-adjusted debt to EBITDA at about 4.0x-4.5x over the next two years compared with 4.4x at year-end 2022. This incorporates our view that debt will also remain relatively stable, given the company's revised investment pace.

We continue to expect Axactor to maintain a balanced financial policy. At the start of the year, Axactor announced a dividend payout ratio target of 20%-50% of consolidated profit after tax, which is in line with the company's strategic plan. More generally, we consider Axactor's financial policy to be broadly balanced and do not expect its dividend target to alter the capital structure in a way that would be detrimental to the company's overall creditworthiness. Furthermore, we do not view the company's dominant shareholder, Geveran Trading Co. Ltd. (Geveran), as a negative influence. This view is further reinforced with Geveran providing support in the refinancing activity, purchasing about one-third of the newly issued bond.

Outlook

The stable outlook reflects our expectation that, over the next 12 months, Axactor will continue to see gross collection growth, allowing it to sustain adjusted debt to EBITDA below 5.0x while maintaining sufficient headroom to the bond covenants.

Downside scenario

We could lower our ratings if liquidity pressure heightens, which would likely come alongside renewed pressure on covenants.

We could take a similar action if asset quality weakens, which would be exhibited in a marked increase in leverage, including adjusted debt to EBITDA to materially above 5.0x on a prolonged basis, and point to financial policy deficiencies.

Upside scenario

We see limited upside for our ratings over the next 12 months. However, we could take a positive rating action if Axactor sustainably improves its leverage beyond our current expectations such that adjusted debt to EBITDA remains well below 3.5x and debt to statutory EBITDA remains below 8.0x, without jeopardizing future earnings potential with portfolio acquisitions below its replacement rate. This would be contingent on sufficient headroom under its covenants, no indications of asset quality problems, and solid liquidity buffers.

Company Description

Axactor is a Norway-based debt purchaser and servicer founded in 2015. Its core business is the purchasing of nonperforming debt in the Nordics, Spain, Germany, and Italy. It specializes in unsecured consumer debt from banks and other consumer lenders. Approximately 20%-25% of statutory group revenue comes from consumer debt collection on behalf of third parties and ancillary services. The group is publicly traded on the Oslo Stock Exchange but investment company Geveran Trading Co Ltd., which is indirectly owned by Mr. John Fredriksen, owns about 47% of share capital.

Our Base-Case Scenario

Assumptions

- Revenue growth of about 4%-6% in 2023 and then about 2%-4% in 2024 as the macroeconomic backdrop creates uncertainty around households' repayment capacity.
- A slight increase in costs over 2023-2024 but adjusted EBITDA margins improve to 68%-70% over the same period, as the group leverages its asset base and efficient collection platform.
- Portfolio acquisitions above the replacement rate, but at a more measured pace of about €150 million over 2023-2024, given pricing dynamics.

Key metrics

Axactor ASA --Key metrics*

	--Fiscal year ends Dec. 31--		
	2022a	2023f	2024f
Debt to cash adjusted EBITDA (x)	4.4	4.0-4.5	3.5-4.0
Debt to reported EBITDA (x)	7.9	8.0-9.0	8.0-9.0
Cash adjusted EBITDA cash interest coverage (x)	4.2	2.0-3.0	2.0-3.0
Reported EBITDA cash interest coverage (x)	0.3	0.8-1.8	0.8-1.8
Debt-to-tangible equity (x)	2.8	2.8-3.3	2.8-3.3

All figures adjusted by S&P Global Ratings. *EBITDA excluding the add-back for portfolio amortization. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Axactors's liquidity as adequate based on its estimated sources exceeding uses 1.2x in the next 12 and 24 months from June 30, 2023.

Principal liquidity sources include:

- Cash and liquid assets of €34.2 million;
- Net new issuance of €44 million under the September 2027 bond once the January 2024 maturity is managed;
- Undrawn capacity of €34 million under the RCF; and
- Cash funds from operations (FFO) of €155 million.

Principal liquidity uses include:

- Maintenance portfolio purchases of about €100 million-€150 million to replenish Axactor's asset base;
- No significant debt maturities over the next two years;
- Capital expenditure of about €5 million; and
- Dividends of about 20%-50% of net profits, in line with guidance.

Covenants

Axactor has several covenants under its RCF and bond documentation, and we expect the company will maintain adequate headroom. In conjunction with the refinancing of the bond maturing in January 2024, Axactor revised the covenants for the new bond and we anticipate that holders of the September 2026 bond will agree to the change in terms. Axactor has received ongoing wavers from the bank backing the RCF to avoid a covenant breach. We note that leverage under the covenant definition considers net interest-bearing debt as a share of pro-forma adjusted cash EBITDA.

RCF covenants:

- Restricted group leverage ratio below 3.0x;
- Portfolio loan to value (LTV) ratio below 60%;
- Portfolio collection performance above 90%; and
- Parent LTV ratio below 80%.

Bond covenants (ratios as of June 30, 2023):

Bond maturing September 2026

- Interest coverage ratio above 4.0x (4.2x);
- Leverage ratio below 4.0x (3.8x);

- Net LTV ratio below 80% (73.0%); and
- Net secured LTV ratio below 65% (39%).

Proposed new issuance (bond maturing August 2027)

- Interest coverage ratio above 3.0x;
- Leverage ratio below 4.0x;
- Net LTV ratio below 75%; and
- Net secured LTV ratio below 60%.

Issue Ratings--Recovery Analysis

Key analytical factors

- The issue rating on Axactor's senior unsecured note is 'B', in line with the issuer credit rating. This is based on a recovery rating of '3', indicating our expectation of meaningful recovery (50%-70%; rounded estimate: 60%) in an event of default. The recovery rating is constrained by Axactor's sizable multicurrency senior secured RCF (€545 million), which is structurally superior to its senior unsecured bonds.
- In our simulated default scenario, we envisage a default in 2026, reflecting a significant decline in cash flow because of lost clients, difficult collection conditions, or greater competitive pressures, leading to the mispricing of portfolio purchases.
- We calculate a combined enterprise value, taking into consideration the different business segments and assuming Axactor finds a potential acquirer for its portfolio of debt receivables. We apply a haircut of 30% to the book value of the debt portfolios and use full-year 2022 figures.
- In addition, we assume earnings from its third-party servicing business will decline and apply a valuation using a 4.0x EBITDA multiple. We assess Axactor on a going-concern basis, given its established relationships with customers.

Simulated default assumptions

- Simulated year of default: 2026
- EBITDA multiple: 4.0x
- Jurisdiction: Norway
- RCF is 85% drawn at default. We do not add Axactor's €275 million accordion option to prior-ranking claims because it is not committed, and we do not anticipate it will be used as a funding vehicle within the regular course of business.

Simplified waterfall

- Gross enterprise value at default: €901 million

- Net enterprise after 5% administrative costs: €856 million
- Prior ranking claims: €488 million under the RCF
- Collateral value available to unsecured debt: €367 million
- Senior unsecured debt claims: about €572 million
- Recovery expectation: 50%-70% (rounded estimate: 60%)

Note: Debt amounts include six months of accrued interest that we assume will be owed at default

Ratings Score Snapshot

Issuer Credit Rating	B/Stable/--
Business risk:	Fair
Country risk	Low
Industry risk	Moderately High
Competitive position	Fair
Financial risk:	Highly Leveraged
Cash flow/leverage	Highly Leveraged
Anchor	b
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	b

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

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

Related Research

- Axactor ASA, June 30, 2023
- Economic Outlook Eurozone Q2 2023: Rate Rises Weigh On Return To Growth, March 27, 2023
- Europe's Distressed Debt Purchasers Face Mounting Risks Amid Tough Economic Conditions, Jan. 24, 2023

Ratings List

New Rating	
Axactor ASA	
Senior Unsecured	B
Ratings Affirmed	
Axactor ASA	
Issuer Credit Rating	B/Stable/--
Axactor ASA	
Senior Unsecured	B
New Rating	
Axactor ASA	
Senior Unsecured	
NOK0 mil bnds	B
Recovery Rating	3(60%)
Ratings Affirmed	
Axactor ASA	
Senior Unsecured	
Local Currency	B
Recovery Rating	3(60%)