

Kruk S.A.'s Proposed Senior Unsecured Bond Rated 'BB-'

April 17, 2023

S&PGR Rates Kruk S.A.'s New Senior Unsecured Bond 'BB-'

PARIS (S&P Global Ratings) April 17, 2023--S&P Global Ratings today assigned its 'BB-' issue rating to the proposed euro-denominated senior unsecured notes that Kruk S.A. plans to issue in the Nordic capital market. The rating is subject to our review of the notes' final documentation.

Kruk, a Poland-based distressed debt purchaser (DDP), is offering its first senior bond outside the Polish debt market. We expect the company will use the net proceeds to finance its ambitious investment strategy and refinance its existing revolving credit facility.

We already incorporated this additional debt in our base case forecast when we assigned the 'BB-' issuer credit rating to Kruk (see Related research). We expect a moderate increase in the leverage ratio over the next two years, with gross debt to cash-adjusted EBITDA of about 2.6x by year-end 2024 versus 2.3x estimated at year-end 2022. This compares well with other DDP peers that are usually highly leveraged. Similarly, cash-adjusted EBITDA interest coverage is expected to decrease to about 5x at year-end 2024.

The company's largest debt maturities for its current bonds are in 2027 and therefore there is no significant short-term refinancing risk.

Issue Ratings--Recovery Analysis

Key analytical factors

- We assigned the senior secured notes an issue rating of 'BB-', with the recovery rating of '3' based on our expectation of meaningful recovery prospects (50%-90%; round estimate: 65%).
- In our hypothetical default scenario, we assume a default in 2027. In our view, a default on the group's debt obligations would most likely occur because of adverse operational issues, difficult collection conditions, or greater competitive pressures leading to mispricing of portfolio purchases.
- In such a scenario, we assume the group's debt portfolio would be sold.

Simulated default assumptions

- Year of default: 2027

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- Jurisdiction: Poland

Simplified waterfall

- Net portfolio value on liquidation: PLN4,889 million
- Bankruptcy costs: PLN244 million
- Priority claims: PLN2,725 million
- Collateral value available to senior secured creditors: PLN1,929 million
- Total senior secured debt at default: PLN2,774 million
- Recovery expectations on the senior secured notes: 50%-90% (rounded estimate: 65%)

Note: All debt amounts include six months of prepetition interest.

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 | 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

- Kruk S.A. Assigned 'BB-' Rating; Outlook Stable, March 13, 2023

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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