

Scope Hamburg downgrades Helvetia Environnement's issuer rating to B / negative from BB- / stable

Helvetia Environnement Groupe SA		8 September 2021	B
		Issuer rating	
		Outlook	negative
Sector	Waste collection, sorting and waste-to-materials & energy		

Rationale

Scope Hamburg has downgraded the issuer credit rating of Helvetia Environnement Groupe SA to B from BB-. The outlook was revised to negative from stable. The drivers are the company's lagging operating performance which remains below our expectations, and the currently pending refinancing of the CHF 75m 2017/22 public green bond due for repayment on 26 July 2022.

Overall, our assessment on the company's business risk profile remains unchanged at "moderate". For 2020/21 we see that business operations remain strongly impacted by sluggish recovery prospects and repeated confinement measures (COVID 19 recession). The level of waste collection activity remained low, particularly in the cantons of Geneva and Vaud, despite slight signs of recovery. On the other hand, prices for recoverable materials have shown a clear rebound in 2021 which should support a recovery in trading volumes in our view, particularly for irons and metals. Over the long run, we consider the pandemic situation as extraordinary in our assessment of the market cyclicality. Structural long-term growth drivers remain, in our view, the increasing environmental regulations and awareness, demographic changes and the improvement of social conditions which altogether contribute to an overall moderate cyclicality of the Swiss waste market. High barriers to entry the Swiss waste market and the company's established market position in Switzerland, driven by a well diversified Swiss-based customer portfolio, remain supportive factors in our business risk assessment.

The downgrade to B is mainly driven by a revised assessment of the company's financial risk profile, which was changed to "increased" from "slightly increased". The revision mainly incorporates the overall lagging development in operating performance post SRS acquisition (2017) which still remains below our expectations. The company's revenue model is highly depended on collected or treated waste volumes and recycling prices (e.g. cardboard / scrap metal). Helvetia Environnement was therefore heavily impacted by the coronavirus pandemic in 2020 as tourism and business travelling within Switzerland slowed down due to travel restrictions (confinement measures reaching into first half 2021), and (global) industrial production and trade of recycling materials slumped as economic activity and goods traffic rates went down too. Overall the group has a history of rather insufficient operating cashflows and negative free cashflow generation when adjusted for effects from growing lease liabilities or one-off disposals of non-core assets. Liquidity-wise Helvetia Environnement received continuous support through capital measures from its equity sponsors, which also helped to strengthen the company's capital structure at year end 2020 and beyond. Despite signs of improvement in operating activity, especially since June, we do not expect a strong uplift in the company's revenue or profitability levels for the current financial year 2021. **The negative outlook** reflects the increasing refinancing risk regarding the 2017/22 bond. The public green bond is the only long-term financial debt instrument in the company's capital structure.

Our assessments on operational risks and external influences remain unchanged with no further modification to the issuer credit rating (B / negative).

Company

Helvetia Environnement Groupe SA (HEG), founded in 2005 and headquartered in the Canton of Geneva, started its operations in the waste collection, waste sorting, waste-to-materials and waste-to-energy sector in the French-speaking part of Switzerland, Romandie. With the acquisition of Swiss Recycling Services SA (SRS) in February 2017, HEG became one of the leading market players in Switzerland. SRS is operating in the north of Romandie and used to belong to French Veolia Environnement Group in the past. In 2018 HEG acquired the family-owned recycling firm Constantin SA, which enabled HEG to expand its waste treatment capacities further. At the end of 2020, HEG employed a workforce of around 560 employees and had generated revenues totalling CHF 106 million.

Upgrade / Downgrade Factors

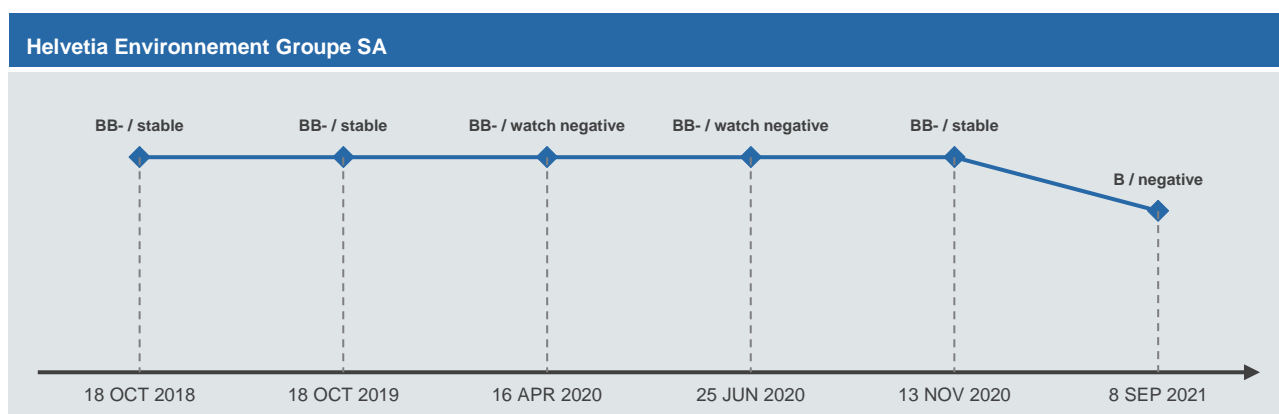
Factors that could lead to an Upgrade

- Announcement of the successful securing of a refinancing facility for the CHF 75m green bond maturing in July 2022, underpinned by a firm underwriting agreement or bank commitment letter
- Decrease of Scope Hamburg's adjusted net debt to EBITDA sustainably below 4.0x
- Increase of Scope Hamburg's adjusted EBITDA interest cover sustainably above 3.5x

Factors that could lead to a Downgrade

- By end of 2021: Absence of a firm underwriting agreement or bank commitment letter underpinning the successful securing of a refinancing facility for the CHF 75m green bond maturing in July 2022
- Increase of Scope Hamburg's adjusted net debt to EBITDA sustainably above 6.5x
- Decrease of Scope Hamburg's adjusted EBITDA interest cover sustainably below 1.5x
- Deterioration of the group's liquidity position through negative free cash flow generation

Rating History



Appendix 1: Execution

Analysts
<ul style="list-style-type: none">Matthias Peetz, Senior Analyst / Lead AnalystDörte Mählmann, Director
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Rating committee
<ul style="list-style-type: none">Kai Gerdes, DirectorJörg Walbaum, Senior Analyst

Rating, Solicitation, Principal Sources of Information
<ul style="list-style-type: none">This credit rating has been issued in accordance with the CRA Regulation. <input checked="" type="checkbox"/> Solicited Rating <input type="checkbox"/> Unsolicited Rating <input type="checkbox"/> No participation of the rated entity or related third party <input type="checkbox"/> With participation of the rated entity or related third party <input type="checkbox"/> Access to internal documents <input type="checkbox"/> Access to managementPrior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.Principal sources of information:<ul style="list-style-type: none">- Consolidated financial statements 2017–2020- Half year report Jan-Jun 2021- Liquidity status 31 Jul 2021- Corporate planning- Information from the management

Rating methodologies and definitions
<ul style="list-style-type: none">Methodology: Issuer Rating as of May 2016Basic Principles for Assigning Credit Ratings and Other Services as of July 2020Guidance Regarding the Consideration of ESG Factors in Scope Hamburg Credit Ratings as of March 2020
Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

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Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of Scope Hamburg, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of Scope Hamburg, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of Scope Hamburg, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of Scope Hamburg, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of Scope Hamburg, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of Scope Hamburg, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of Scope Hamburg, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of Scope Hamburg, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of Scope Hamburg, C rated entities demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
PLUS (+) MINUS (-)	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

* For more explanations and definitions please refer to:
[Basic Principles for Assigning Credit Ratings and Other Services as of July 2020](#)

Disclaimer

Helvetia Environnement Groupe SA (client and rated entity) engaged Scope Hamburg GmbH (at the time of signing: Euler Hermes Rating GmbH) to assign periodic credit ratings on 12 April 2017.

The rating committee of Scope Hamburg GmbH reviewed the rating action, affirmed the rating notation and approved the rating action release in its current form on 8 September 2021. The rating action release was provided to the client on 8 September 2021, thereby concluding the process.

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The rated entity is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The rated entity has reviewed the rating reports and certified that all the information considered in the rating reports is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Scope Hamburg GmbH. However, the rated entity cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Scope Hamburg GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

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Hamburg, 8 September 2021