AVRIL SCA

799403050

CORPORATE

BBB
ISSUER RATING
Long term

OUTLOOK
Negative

BBB
INSTRUMENT RATING
Neu MTN

EF1
ISSUER RATING
Short-term

EF1
INSTRUMENT RATING
Neu CP

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Rating action and rationale

- EthiFinance Ratings affirms Avril SCA's long-term rating, as well as the rating for the NEU MTN programme of up to €75m, at BBB, but changes the outlook from Stable to Negative. In addition, EthiFinance Ratings affirms the short-term rating and the rating for the NEU CP programme of up to €500m, at EF1.
- The change in the outlook derives from the normalization of Avril's interest coverage ratio over our assessment period, due to combined higher interest rates on average and normalized EBITDA.
- These ratings remain supported by Avril's satisfactory company competitive positioning as a leader in its markets through its various brands, which makes the group an essential player in France, and the 5th agribusiness group in France. Avril also enjoys good market shares and excellent product diversification: it is notably present in the oleochemicals, edible oils, biodiesel, vegetable proteins, green chemistry, and agricultural services sectors. Moreover, Avril benefits from a strong governance profile, with high-quality management and a stable shareholder base. Their prudent and long-term approach (within an industry with strong temporal inertia: today's harvests are in part the result of decisions taken years ago) has helped the group more than withstand recent political and economic headwinds. In addition, the group has a solid financial profile, despite the current normalization of credit metrics following the exceptional results of FY22 (both in terms of revenues and EBITDA). The EthiFinance Ratings- adjusted net leverage ratio has deteriorated from 1.3x in FY22 to 2.4x in FY23, but remains satisfactory. We expect this ratio to remain around 2.5x over our forecast period (until 2026).
- However, our ratings are slightly constrained by our assessment of the agribusiness industry, which generally has rather low and volatile profitability (measured by EBIT margins) and only moderate growth prospects.
- The agribusiness industry has medium-to-high ESG risks under our methodology (sector heatmap score between 3.5 and 4.0). This results in a sector rating downgraded one notch by industry-related ESG considerations. Regarding environmental factors, the agribusiness has a high impact on resources as a major user of land and water but also on pollution with the contamination of soils and water basins through intensive use of fertilizers. The sector also has an impact on climate through the use of carbon-intensive processes, and it significantly impacts biodiversity. Moreover, consumers are highly concerned by issues linked to food safety and quality. The sector has a medium impact on communities as access to good food is an essential part of social stability and contributes to a population's health.
- Our assessment of the company's ESG policy is advanced (company ESG score of between 0 and 1), which weighs positively on our financial assessment and therefore more than offsets the impact resulting from our industry assessment. Avril stands out in terms of governance with the separation of the roles of chairman and CEO, and the prioritization of ESG issues. Regarding environmental considerations, it also stands out with a reduction of greenhouse gas emissions (scopes 1 and 2) and of water consumption. However, social factors slightly deteriorated in 2023 compared to 2022 mainly linked to an increase in the accident frequency-rate.

Issuer description

Avril Group is a large French private group specializing in the industrial processing and transformation of oilseed grains into oils and proteins (crushing, refining, etc) for various applications such as biodiesel, edible oils, and oleochemicals. The group also has a financial branch, Sofiproteol, rated by EthiFinance Ratings, through which it invests in the agribusiness and food industries, especially companies in the edible oils and protein sectors. For FY23, Avril reported revenues of €7.9bn along with an EthiFinance Ratings-adjusted EBITDA of €391m, equivalent to a 5.0% margin, and a net adjusted leverage ratio of 2.4x. The group is active in 19 countries through 69 industrial facilities and had 7,245 employees at end-2023.

Fundamentals

Business risk profile

Industry risk assessment

- **Moderate growth prospects, driven by growing sustainability practices but limited by the current economic environment**

Avril is well positioned to benefit from the ongoing pro-sustainability trends. Its renewable energies business (mainly through its biodiesel product) plays a significant role in the transition to cleaner energy. Meanwhile, other divisions enjoy resilient demand as their products are either central to or connected closely to people's habits, such as edible oils (Lesieur, Puget). 2023 was a rather difficult year, marked by high inflation and economic slowdown impacting volumes and increasing price sensitivity among customers. We expect the market environment to remain subdued due to economic and geopolitical tensions combined with some local environmental issues (drought in Spain, heavy rainfalls in France ...).

- **Technical know-how and capital required constitute high barriers to entry in our view**

Entering the industrial processing and refining sector can be challenging because of the technical know-how and capital required to do so. This, in our view, establishes quite solid barriers to entry. However, the group may face some threats from newcomers in its consumer goods business (c. 22% of its revenues in FY23), which has lower investment requirements. The group could also suffer from competition from Asian suppliers offering recycled oils such as used cooking oil (UCO) for biodiesel production or directly used cooking oil methyl ester (UCOME/biodiesel), although the European authorities are currently monitoring the situation for possible fraud.

- **Moderate-to-high volatility since results depend largely on commodity prices, but EGALIM negotiations partly mitigate the impacts for edible oils**

The moderate-to-high volatility of the market for Avril's products constrains our ratings as the group's performance depends on commodity prices, which follow market trends. On the bright side, under the new EGALIM law, French agricultural production companies engage in price negotiations on a regular basis with large French retailers. These talks play an essential role in the players' profitability as they can mitigate the impacts of commodity price swings.

In addition, the levels of profitability of the agribusiness sector are quite low, as a result of high production costs and the correlation between selling prices and the volatile commodity markets. On a more positive note, the food industry enjoys better levels of profitability.

Company's competitive positioning

- **Strong business positions with good business diversification and significant market share, but only moderate geographic diversification**

Our ratings are supported by the group's size (in terms of revenues and EBITDA), in particular through its biodiesel division. Avril also enjoys rather strong business positions (notably in the edible oils segment, where the main companies Lesieur and Lesieur Cristal, both Avril subsidiaries, enjoy very good market share respectively in France and in North Africa).

Avril has good product diversification, with many applications for oils and proteins through the different steps of the refining process, especially through the oleochemicals division. However, geographic diversification is moderate - with c. 58% of revenues realized in France in FY23 – and is a slightly constraining factor.

Governance

- **Stable, private shareholding with strong ties to Avril's main business**

Avril SCA, the group's holding company, has been a limited partnership with share capital ('Société en Commandite par Actions, or 'SCA') since 2015. The specific shareholding and governance structures aim to prevent a buyout of Avril Group while allowing shareholders to have their voice heard. Avril Gestion is the 'associé commandité' and controls the group. The Fonds de Développement Interprofessionnel de la Filière des Oléagineux et des Protéagineux (FIDOP), Fondation Avril, FCPE Avril, and the Fédération française des producteurs d'oléagineux et de protéagineux (FOP) are the 'associés commanditaires'. As per the by-laws, Jean-Philippe Puig represents Avril Gestion, the associé commandité, and is the 'gérant' (equivalent to the CEO of the group).

- **Good management quality with proven track record**

Management has a solid track record for delivering growth and improvement in margins, with notably the group showing strong resilience through the pandemic and more recently strong improvement in its financial profile despite a deteriorating economic environment (rising commodities prices and interest rates, very high inflation). We assess Avril's financial policy as prudent. It is characterized by currently no dividends (apart from the insignificant mandatory dividend to the foundation). In addition, as per the by-laws, any dividend payment would be limited to a maximum of 30% of net income.

- **ESG Policy: Avril's purpose, "Serving the Earth" and its related commitments pave the way for more sustainable practices**

The group is committted to helping transitioning to a more sustainable world. While biodiesel - an ingredient blended with diesel - may be at risk over the very long term, it is nevertheless a significant part of the transition towards cleaner mobility in road transport and offers reliable alternative solutions to crude oil-sourced energy. Avril is also very active on the R&D front to develop and provide clean, fossil-free alternative solutions for different industries through its oleochemicals business. In 2023, Avril made concrete commitments regarding its GHG emissions. In particular, the SBTi incorporated Avril's commitment to reduce its scope 1 and 2 GHG emissions by 30% by 2030 (compared to 2019) to comply with a well-below 2°C global heating scenario.

Financial risk profile

Results and profitability

- **Normalisation of revenues and stabilization of profitability**

Avril reported sales of €7.9bn for FY23, representing a decrease of 12.7% versus FY22. The decrease was mainly the result of normalization of commodity prices, especially energy prices, which benefited Avril's biodiesel business and green chemistry in FY22.

Consolidated EthiFinance Ratings-adjusted EBITDA in FY23 amounted to €391m (vs €625m in FY22). In addition to the normalization of commodity prices for oilseed processing activities and the impact on revenues, the green chemistry and consumer goods businesses suffered from the poor market environment (low economic growth and strong competition). Going forward, we expect limited growth of revenues while margins will probably stabilize around current levels. Despite its weaker performance in FY23, Avril's adjusted free cash flow after dividends improved to €113m (vs -€122m in FY22) due to a lower working capital requirement while capex remained high. We have forecast a decline of FCF over our forecast period, on the back of significant capex.

Cashflow and leverage

- **Financial profile remains solid**

Our rating is strongly supported by Avril's solid financial profile. The EthiFinance Ratings-adjusted net leverage ratio - adjusted for operating leases, employee benefits, and readily marketable inventories (RMI) – deteriorated to 2.4x at end-2023 (vs 1.3x at end-2022). We expect this ratio to remain stable over our forecast period. The interest coverage ratio also deteriorated in FY23 (5.2x vs 14.4x in FY22) as a consequence of the sharp rise in interest rates. It is likely to remain at this level over our forecast period, which may weigh significantly on Avril's long-term rating in the years ahead.

Capitalisation

- **Sound financial profile bolstered by the extension of maturities**

As of end-2023, Avril's consolidated gross debt amounted to €1.4bn, including €0.3bn for Sofiproteol and €1.1bn for industrial divisions. The latter is mainly held by Avril SCA, especially through its Club Deal facilities, an ESG-linked Schuldschein, its NEU CP and NEU MTN programs, and bank loans.

Adjusted for 50% of RMI, deconsolidated factoring, employee benefits, operating leases, and debt on fixed assets, EthiFinance Ratings-adjusted net debt stood at €952m, resulting in an adjusted net leverage ratio of 2.4x (1.2x as per Avril's calculation with €437m for the covenant net debt, which is notably adjusted for 75% of RMI as per its revised debt contracts).

In 2023, the group extended the maturity of its two RCFs of €500m and €300m of its Club Deal facilities, respectively to 2025 and 2028. Both RCFs also include an option to further extend their maturity by an additional year (ie until 2026 and 2029, respectively). The package also comprised a €100m term loan amortized until 2027. Avril had an ESG-linked Schuldschein totaling €90.0m, divided into several tranches: €47.0m due in December 2027, €6.5m in December 2028, and the remaining amount in December 2029.

The majority of this debt carries a variable interest rate with partial interest hedging implemented by the group. The Club Deal facilities outlined a financial covenant (leverage ratio below 3.5x tested semi-annually), one which is expected to be complied with during the projected period.

Liquidity

- **Strong liquidity**

As of end-2023, Avril's liquidity score was 'Superior' as per our methodology. This results from the well spread maturity of its debts strengthen by the extension of its Club Deal facilities in 2023, and the undrawn credit lines (€991m at end-2023 as per the group). Avril also has a receivables securitization program to enhance liquidity.

Modifiers

- **Controversies**

Over the course of our review, we found no significant controversies regarding the group.

- **Country risk**

With 70% of its facilities located in France and revenues evenly split between France and other low-risk countries, Avril does not have any specific country risk.

Credit metrics expected evolution (CMEE)

- **Stable CMEE**

Our Stable CMEE reflects our view that credit metrics will remain strong and broadly unchanged over the next twelve months. In absolute terms we expect credit metrics to be maintained roughly at 2023 levels.

Main financial figures

Main financial figures. millons of EUR	FY21	FY22	FY23	23vs22
Turnover	6 854	9 031	7 888	-12,7%
EBITDA	396	625	391	-37,5%
EBITDA Margin	5,8%	6,9%	5,0%	-2,0pp
EBIT	207	440	187	-57,6%
EBIT Margin	3,0%	4,9%	2,4%	-2,5pp
EBT	247	364	120	-67,0%
Total Assets	5 032	5 577	5 143	-7,8%
Equity	1 872	2 131	2 161	1,4%
Total Financial Debt	2 064	2 129	1 973	-7,3%
Net Financial Debt	723	831	952	14,6%
Equity/TFD	90,7%	100,1%	109,5%	9,5pp
NFD/EBITDA	1,8x	1,3x	2,4x	1,1x
Adj Funds From Operations	266	445	249	-44,1%
Adj FFO/NFD	36,7%	53,6%	26,2%	-27,4pp
EBITDA/Interest	11,9x	14,4x	5,2x	-9,2x

(1) Consolidated magnitudes

Please note that the company presents its accounts under French GAAP, so we have made adjustments in line with IFRS rules when analyzing financial ratios.

The only adjustment made to EBITDA were the exclusion of €61m of operating lease payments for FY23, according to the company, and the inclusion of capitalized R&D as an expense (€12m for FY23).

Regarding adjustments to total financial debt at YE23, we have added factoring (€221m) as well as a portion of RMIs (€173m), since we apply a larger discount (50% versus 25% for the company) on the value of this specific inventory category. We have also included the capitalization lease payments (€184m), pensions (€71m), and debt on fixed assets (€42m).

Instrument rating

- **BBB rating reaffirmed for the existing NEU MTN programme, and EF1 for the existing NEU CP programme**

In order to diversify funding sources, the company has implemented both NEU MTN and NEU CP programmes - €75m for the former and €500m for the latter. According to our instrument rating methodology, with the NEU MTN instrument being unsecured and unsubordinated, the rating is similar to the long-term corporate rating, which results in a BBB rating for the existing NEU MTN programme.

The NEU CP rating derives from our short-term methodology and is similar to the corporate short-term rating at EF1.

Rating sensitivity

- **List of ratings:**
  - LT issuer rating: BBB
  - NEU MTN rating: BBB
  - ST issuer rating: EF1
  - NEU CP rating: EF1

- **Factors which could influence positively the long-term and short-term ratings (↑)**

An upgrade to our long-term ratings could result from an improvement in margins and cash generation, which would result in improved credit metrics. For instance, an EthiFinance Ratings-adjusted net leverage ratio below 1.0x on a sustainable basis could entail an upgrade of the long-term ratings. Better geographic diversification would also help to improve the group's credit profile.

With respect to the short-term ratings, an upgrade is improbable at present and would result from a significant unforeseen change in credit metrics and financial policy.

- **Factors which could influence negatively the long-term and short-term ratings (↓)**

A downgrade of the long-term ratings would derive from the normalization of the interest coverage ratio around 5.0x, should the interest rates remain at current levels.

A downgrade of the long-term ratings would mechanically result in a downgrade of the short-term ratings.

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
  - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA190 V3 Corporate%20Methodology 2023-10-06.pdf
  - Corporate Rating Methodology - Instruments : https://files.qivalio.net/documents/methodologies/CRA127 V2.Corporate Rating Methodology Instruments.pdf
  - Corporate Rating Methodology - Short Term : https://files.qivalio.net/documents/methodologies/CRA191.Corporate Rating Methodology Short Term-202303.pdf
  - Corporate Rating Methodology - Short Term : https://files.qivalio.net/documents/methodologies/CRA191.Corporate Rating Methodology Short Term-202303.pdf
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.