FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Apollo Swedish Bidco AB at 'B'; Outlook Stable

Thu 13 Jul, 2023 - 12:47 ET

Fitch Ratings - Warsaw - 13 Jul 2023: Fitch Ratings has assigned Apollo Swedish Bidco AB (Apollo; trading as Assemblin) a Long-Term Issuer Default Rating (IDR) of 'B' with a Stable Outlook. Fitch has also assigned its EUR480 million senior secured floating-rate notes (FRNs) a rating of 'B' with a Recovery Rating of 'RR4'.

Fitch has also affirmed its 100% subsidiary Assemblin Group AB's IDR at 'B' with a Stable Outlook and withdrawn its rating.

The ratings of Apollo reflect its new capital structure under ownership by Triton IV Continuation Fund. Apollo redeemed its shareholder bridge loan of EUR125million and the EUR350 million senior secured noted (SSNs) issued by Assemblin Group AB with the new FRNs.

The ratings reflect higher leverage following the FRNs issue, albeit remaining within our rating sensitivities. We view the company's performance as resilient despite high inflation and temporary supply chain disruptions.

We believe continued organic and acquisition growth and tight cost control will result in strong performance in the medium term. This is balanced against the company's high leverage and significant geographic concentration in Sweden.

Fitch has withdrawn the IDR of Assemblin Group AB as the company's SSNs were redeemed together with a reorganization of the rated entity following the creation of the new debt issuing and consolidating entity Apollo.

KEY RATING DRIVERS

High Leverage Following Refinancing: Fitch forecasts EBITDA gross leverage will rise to 5.2x and 4.8x in 2023 and 2024, respectively, after having deleveraged to 3.9x in 2022. With the addition of SEK1.7 billion of debt at refinancing, leverage metrics remain high, albeit in line with the current rating. We expect deleveraging to 4.5x in 2025 on profitability improvement and EBITDA-accretive bolt-on acquisitions.

Improving Margins: Assemblin reported solid EBITDA growth in 2022 on acquisitions and price increases. The company kept its margin fairly stable compared with 2021 despite material underperformance at its Finnish operations. Fitch sees scope for improvement in the Finnish segment given its lowest EBITA margin relative to the group's (as reported by Assemblin) and a turnaround plan for the Finland region. Fitch views tight cost control, the restructuring of unprofitable branches and EBITDA-accretive acquisitions will further lift margin by around 20bp annually in the next two to three years.

Free Cash Flow Allocation: Fitch forecasts free cash flow (FCF) margins of 2.1%-3.4% in the medium term, which are lower than previously expected, largely due to higher interest payments. However, we believe it is strong enough to continue funding ongoing bolt-on acquisitions. Fitch does not assume any dividend distributions or debt repayment. We believe any large acquisitions are likely to be funded through own cash and additional debt.

Sponsor's Longer Investment Horizon: The private equity sponsor Triton has extended its investment in Assemblin with the acquisition of Assemblin by Triton IV Continuation Fund in May 2023. This transaction does not entail any change in the business strategy and financial policy, growth prospects or the management team. However, the associated refinancing has resulted in higher leverage. With continued strong profitability, leverage metrics have remained commensurate with the current rating.

Sound Business Profile: Assemblin's solid business profile is supported by good service offering and end-market diversification, a brand that is appreciated for its strong technical expertise and committed skilled employees. The Nordic installation market enjoys sound demand from energy efficiency projects, smart buildings and urbanisation trends. The regulatory environment targeting a low emission economy also drives demand for Assemblin's services. Their business profile is further supported by a fairly high share of contracted revenue with a good mix of project and service revenue that support visibility, leading to resilience against end-market cyclicality.

Limited Geographical Diversification: Assemblin has diversified its geographic exposure with acquisitions in Norway and Finland. However, it remains highly concentrated in Sweden with 71% of revenue in 2022 compared with 77% in 2021. Offsetting this are benefits from a diversified end-market exposure across public infrastructure, hospitals, schools, as well as local smaller customers and projects.

Acquisitive Growth Strategy: We believe Assemblin will continue with bolt-on acquisitions to grow its revenue and EBITDA. The integration of acquisitions has mostly been successful and we assess its strategy and execution risk as moderate rather than meaningful. This is supported by a focus on smaller acquisitions operating in its core technical services and with a good cultural fit with existing operations. We believe a prudent acquisition strategy prioritising sustainable growth with sound margins over market share support both its business and financial profiles.

New FRNs Rating Equalised: The senior secured debt rating of 'B' is equalised with Apollos's IDR to reflect Fitch's expectations of average recoveries for the senior secured notes in a default. In its recovery assessment, Fitch expects that Apollo will achieve better recoveries on a going-concern basis and conservatively values Apollo at a 5.5x distressed multiple of an estimated post-restructuring EBITDA of SEK700 million. The output from Fitch's recovery waterfall suggests average recovery prospects of 31%-50%, resulting in a 'RR4' Recovery Rating.

DERIVATION SUMMARY

Assemblin compares favourably with major Nordic industrial competitors, with strong market positions in its prioritised local markets and margins that are in line with or better than competitors'. Within Fitch's rated universe, Assemblin has a strong business profile with a well-diversified service offering, customer and end-user base that is fairly in line with that of Polygon Group AB (Polygon, B/Negative), albeit with a limited presence outside of Sweden. Similarly to Polygon, Assemblin is small in size compared with Nordic building products distributors Quimper AB (B/Positive) and Winterfell Financing S.a.r.l. (B/Positive).

Assemblin's EBITDA margins of around 7% are similar to Polygon's, weaker than Quimper's 10%-11% and stronger than Winterfell's around 5%.

Assemblin's financial profile is weaker than Quimper's and Winterfell's, but stronger than Polygon's, which reflects the peers' Positive and Negative Outlook, respectively. We forecast EBITDA gross leverage at 5.2x-4.5x in 2023-2025 for Assemblin compared with around 4x-5x for Quimper and Winterfell and above 7x for Polygon. A higher-rated peer Irel Bidco S.a.r.l. (IFCO, B+/Stable), German-based logistics services provider, generates stronger margins with a similar leverage profile as Assemblin's.

KEY ASSUMPTIONS

Key Rating Assumptions Within Our Rating Case for the Issuer:

-Revenue growth of 8.6% in 2023 and on average 5% in 2024-2026, supported by organic and inorganic growth

-EBITDA margin improving to 7.1% in 2023, followed by steady growth to 7.4% in 2026

-Capex at 0.3% of sales to 2026

-M&A spend of SEK441 million in 2023, and additional SEK221 million of bolt-ons annually in 2024-2026

RECOVERY ASSUMPTIONS

- The recovery analysis assumes that Assemblin would be reorganised as a going-concern (GC) in bankruptcy rather than liquidated

- We have assumed a 10% administrative claim

- The GC EBITDA estimate of SEK700 million reflects Fitch's view of a sustainable, post-reorganisation EBITDA level on which we base the enterprise valuation, and the acquisitive acquisition strategy of Assemblin

- An enterprise value multiple of 5.5x is used to calculate a post-reorganisation valuation. It reflects low operating margins, but good growth prospects relative to peers'. The company benefits from a dominant market share and high barriers to entry due to the nature of the market it is operating in

- Assemblin's super senior SEK1.1 billion revolving credit facility (RCF) is fully drawn in post-restructuring according to Fitch's criteria and ranks ahead of senior secured debt. We do not view its pension guarantee facility of SEK325 million (outstanding amount as at December 2022) provided by banks as a debt obligation for the purpose of computing leverage metrics under our criteria. However, in a recovery this guarantee facility is treated as a super senior facility as the pension administrator can make a cash claim under a guarantee issued to cover pension payments

- The waterfall analysis output for the senior secured FRNs of EUR480 million (SEK5.4 billion equivalent) generated a ranked recovery in the 'RR4' band, indicating an instrument rating of 'B', which is in line with the IDR. The waterfall analysis output percentage on current metrics and assumptions was 38%

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- EBITDA gross leverage below 4.0x on a sustained basis

-Increase in EBITDA margin towards 7.5%

-FCF margin above 2% on a sustained basis

-Successful M&A improving scale and/or market position without negatively affecting credit metrics

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

-EBITDA dilution due to unsuccessful M&A resulting in an EBITDA margin of less than 5% on a sustained basis

-EBITDA gross leverage above 6.0x on a sustained basis

-EBITDA interest coverage below 2x on a sustained basis

-Lack of consistently positive FCF generation

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Comfortable Liquidity: Assemblin had around SEK421million of cash adjusted by Fitch for intra-year working capital changes at 1% of sales. Under the new capital structure liquidity will be supported by a SEK1.1 billion RCF. We expect FCF margins of 2.1%-3.4% in the next two to three years as sound working capital management and low capex requirements offset high interest payments. Cash generation is adequate to fund ongoing bolt-on acquisitions.

Reasonable Debt Structure: Assemblin's new capital structure consists of a 5.75-year RCF of SEK1.1 billion and the six-year FRNs of EUR480 million.

ISSUER PROFILE

With revenue of SEK13.5 billion (EUR1.1 billion) and close to 6,900 employees, Assemblin is a leading provider of installation and service solutions in electrical engineering, heating and sanitation, ventilation and automation across the Nordic region.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Apollo Swedish Bidco AB	LT IDR	B Rating Outlook Stable	New Rating		B(EXP) Ratin Outlook Stable
senior secured	LT	B	New Rating	RR4	B(EXP)
Assemblin Group AB	LT IDR	B Rating Outlook Stable	Affirmed		B Rating Outlook Stable

LT IDR	WD	Withdrawn	B Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria - Effective from 9 April 2021 to 13 October 2023 (pub. 09 Apr 2021) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub. 12 May 2023)

Exposure Draft: Climate Vulnerability in Corporate Ratings Criteria - Effective from 9 June 2023 to 21 July 2023 (pub. 09 Jun 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Apollo Swedish Bidco AB	EU Issued, UK Endorsed
Assemblin Group AB	EU Issued, UK Endorsed

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