MOODY'S
RATINGS

# Rating Action: Moody's Ratings downgrades Groupe Solmax Inc.'s CFR to B3, stable outlook

15 Jan 2025

Toronto, January 15, 2025 -- Moody's Ratings, (Moody's) downgraded Groupe Solmax Inc's (Solmax) corporate family rating (CFR) to B3 from B2 and probability of default rating (PDR) to B3-PD from B2-PD. We also downgraded Solmax's ratings on the senior secured first lien bank credit facilities, which includes the revolving credit facility and first lien term loan to B3 from B2. The outlook was changed to stable from negative.

"The downgrade reflects the company's weak operating performance in 2024 with our forecasted revenue and EBITDA to decrease by around 10% and 22%, respectively, leading to credit metrics that will be weak," said Will Gu, Analyst at Moody's Ratings.

RATINGS RATIONALE

The rating action reflects the company's high adjusted gross leverage of about 7.2x for the last 12 months ending September 2024 and our expectation that it would be difficult for this ratio to reduce to a level commensurate with the previous B2 rating over the next 12-18 months. This comes at a time when Solmax is facing increased competition across key regions which is adversely impacting volume sales. Furthermore, its operations in China and South East Asia are facing a deceleration in construction and infrastructure investment, along with a shift toward using local suppliers within the environmental infrastructure segment. While we expect stable operating margins for the near future, the above headwinds are likely to continue to put pressure on volumes and constrain Solmax's ability to deliver on its growth plans and deleverage to more comfortable levels in the near term. We note that Solmax has taken a number of steps to improve the situation including recently appointing a new CEO with extensive turnaround experience as well as engaging external consultants to help navigate through challenges, a process that will need time to implement and take effect.

Solmax's rating is constrained by its: (1) elevated debt to EBITDA at 7.2x and weak EBITA to interest expense at 0.7x as of last twelve months to September 30, 2024 (LTM Q3 2024) that we expect will remain around these levels in 2025; (2) product concentration in the niche geosynthetic market which is exposed to cyclical public and private infrastructure and construction spending; (3) relatively small scale with revenue of close to $900 million; and (4) a more difficult operating environment in their end markets of Asia and AMER due to heightened competition. While Solmax is exposed to variability in the prices of raw materials (resin), it is largely mitigated by pass-through pricing for its products.

The company's rating benefits from: (1) leading market position in a competitive and highly fragmented industry; (2) a diversified business model through multiple geosynthetic product types with good geographical diversification; (3) exposure to numerous end markets including infrastructure, waste management, mining and construction that helps offset their inherent cyclicality; and (4) a diverse customer base with the top 10 customers making up less than 25% of revenue.

Solmax has adequate liquidity through Dec 2025, with sources approximating $100 million against uses of about $7 million of mandatory payments payable under the amortizing term loan and our expectation of around $5 million free cash flow consumption for the next 12 months to Dec 2025. Solmax's liquidity is supported by cash of about $33 million as of September 2024 and $67 million available under its $100 million revolver expiring 2026. Solmax needs to comply with a first lien net leverage ratio of less than 7.5x when revolver drawings exceed 35%, we do not expect the covenant to be applicable in the next four quarters. Solmax has a moderate ability to generate liquidity from asset sales as most of its assets are encumbered. The company has no refinancing risk until 2026 when its revolving credit facility expires. We expect the revolver to be extended prior to coming current.

The first-lien pari passu term loan and revolving credit facility are rated B3, the same as the CFR, because they make up the preponderance of the debt in the capital structure.

The stable outlook reflects our expectation that Solmax maintains adequate liquidity and generates stable EBITDA maintaining leverage around 7x while the company works on improving operations.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The ratings could be upgraded if debt to EBITDA is sustained below 6x, free cash flow to debt is maintained above 3%, EBITA to interest expense improves to above 1.5x and Solmax maintains good liquidity.

The ratings could be downgraded if Solmax's liquidity weakens, FCF substantially declines further negative, debt to EBITDA is sustained above 8x, or if EBITA to interest expense falls below 0.5x.

Groupe Solmax Inc. is a manufacturer of geosynthetic products that are large sheets of plastics that provide containment solutions to the waste management, water management, mining, oil & gas, road infrastructure, pipeline, and construction industries. The company is privately owned by Fonds de Solidarité des Travailleurs Du Québec, CDP Investissements Inc. (wholly owned by Caisse de dépôt et placement du Québec), and indirectly the founder, with all three having equal ownership. The company's head office is in Varennes, Quebec, Canada.

The principal methodology used in these ratings was Manufacturing published in September 2021 and available at https://ratings.moodys.com/rmc-documents/74970. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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