07 September 2026

HKFoods Oyj

Issuer profile

HKFoods is one of the largest meat producers in Finland, selling poultry, beef, pork and convenience food under well-known brands. Following the divestment of almost all operations outside of Finland, we believe the company is in its strongest operational shape in years and is more profitable and less leveraged than when the 2027s were issued. Credit strengths include its strong market position, stable food demand, improved earnings level, management's continued focus on profitability instead of growth, and meaningful asset backing for bondholders. Key constraints are fierce competition, limited pricing power, small scale versus rated peers, and narrow diversification. African swine fever is also a small near-term earnings headwind. HKFoods is now contemplating issuing a senior secured bond to refinance the EUR90m senior secured 2027s.

HKFoods generated EUR1,018m LTM revenue as of Q2 26, with an adjusted EBIT margin of 3.6%, up from 1.6% when the 2027s were issued in June 2024. Adjusted net debt/EBITDA, including the EUR20m hybrid fully as debt, has declined to 2.8x from 4.0x over the same period. This reflects the company's successful profitability turnaround, supported by divestments and efficiency improvements in the remaining business. While there is some near-term earnings pressure from oil-driven cost inflation and the African swine fever that limits pork exports, we forecast a broadly stable adjusted EBIT margin at 3.5-3.6% in 2026-28E, below the company's >5.0% long-term target, with adj. leverage around 2.6x-2.5x.

Key figures

EURm	2024	2025	2026E	2027E	2028E
Total sales	1,002	996	1,021	1,040	1,055
EBITDA (rep.)	56	63	65	67	69
EBITDA (adj.)	58	63	66	68	70
Net income	-2	14	18	20	21
FFO (rep.)	37	47	46	51	53
FFO (adj.)	33	43	45	49	51
Equity	215	194	195	197	179
Net debt	150	143	148	150	173
Net debt (adj.)	178	165	170	172	175
Ratios	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA-margin	5.6%	6.3%	6.3%	6.5%	6.6%
Net debt/EBITDA (x)	2.6	2.3	2.2	2.2	2.5
Adj. net debt/adj. EBITDA (x)	3.1	2.6	2.6	2.5	2.5
FFO/net debt	24%	33%	31%	34%	31%
Adj. FFO/adj. net debt	18%	26%	26%	29%	29%
Adj. total debt/total capital	55%	60%	63%	60%	55%
Net debt/total capital	37%	37%	37%	38%	47%

Source: Company data, Danske Bank Credit Research estimates

No recommendation

Consumer goods

Corporate ticker: HKSAV

Equity ticker: HKFOODS FH

Ratings:
S&P: NR / NR
Moody's: NR / NR
Fitch: NR / NR

ESG rating:
Sustainalytics ESG Risk Rating:

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Key credit issues

Strengths

- Strong market position with well-known brands
- Stable demand
- Successful profitability turnaround
- Large fixed-asset base

Challenges

- Fierce competition and limited pricing power
- Small size and narrow geographical diversification
- Inherently low margins
- Animal disease and biosecurity risk

Source: Company data, Danske Bank Credit Research

Important disclosures and certifications are contained from page 21 of this report.

Contents

Credit strengths and challenges

Credit strengths

- **Strong market position with well-known brands in Finland.** HKFoods is one of the largest meat producers in Finland, selling poultry, beef, pork and convenience food under well-known brands.
- **Stable demand.** Demand for food is relatively stable through cycles. Although demand for red meat (56% of HKFoods revenue) is declining, this is offset by growing demand for poultry (26%) and convenience food (18%).
- **Successful profitability turnaround.** Since 2024, HKFoods has improved its profitability and strengthened its balance sheet significantly following the divestment of almost all operations outside of Finland. The 3.6% LTM adjusted EBIT margin in Q2 26 is the strongest level in many years, and the 2.8x adjusted net debt/EBITDA (incl. EUR20m hybrid fully as debt) is a relatively healthy level in the company's historical context. Moreover, HKFoods raised its long-term EBIT margin target from 4% to 5% in 2025, signalling management's confidence in further margin improvement potential. On our relatively cautious 3.5%-3.6% EBIT margin estimates for 2026-28, we expect roughly flat adj. leverage at 2.6x-2.5x.
- **Large fixed-asset base.** At end-Q2 26, the company's EUR176m tangible assets excluding right-of-use assets, consisting mostly of manufacturing facilities in Finland, formed 36% of total assets. Similar to the 2027s were issued, EUR93m worth of facilities have been pledged as collateral for the new bond.

Credit challenges

- **Fierce competition and limited pricing power.** The food industry is highly competitive and HKFoods has limited ability to raise sales prices quickly. The company operates between raw material providers (livestock farmers) and customers, including retailers, foodservice and industrial buyers. Its main sales channel is the grocery market in Finland (63% of 2025 revenue), which is highly concentrated and where large customers have strong bargaining power. This means HKFoods typically has some delay in passing on higher raw material costs to sales prices.
- **Small size and narrow geographical diversification.** HKFoods is smaller than many of its rated peers. It also has high geographic concentration in Finland, forming 87% of revenue in 2025.
- **Inherently low margins.** Margins are inherently low in the food sector. Despite a successful profitability turnaround, adjusted LTM EBITDA and EBIT margins at 6.3% and 3.6%, respectively, in Q2 26 provide limited cushion in the event of adverse market or operational developments.
- **Animal disease and biosecurity risk**. Animal disease outbreaks can disrupt meat production, limit exports and weaken demand. The recent African swine fever outbreak in Finland is expected by management to have a small, EUR1m-1.5m negative adj. EBIT impact in H2 26 (2.7% of EUR36.4m LTM adj. EBIT; c.EUR3m or 8% if annualised) as the export ban to Japan and China is likely to persist for the time being.

Structural considerations and HKFoods now vs when the 2027s were issued

Structural considerations

HKFoods is planning to issue a EUR90m senior secured bond to refinance the EUR90m senior secured due in June 2027. The new bond ranks pari passu with other secured debt (including EUR50m undrawn RCF and EUR20m term loan), and shares a security package that is unchanged from the 2027s. The collateral includes:

- Five factory properties in Finland (Rauma, Forssa, Eura and Mikkeli as freeholds, Outokumpu as leasehold) with an aggregate value of EUR93m.
- All shares and related shareholder rights in HKFoods Finland Oy owned by the company.
- Intra-group receivables owed by HKFoods Finland Oy, business mortgage notes of HKFoods and HKFoods Finland Oy, certain HKFoods Finland Oy trademarks and receivables owed by LSO Osuuskunta under an existing bilateral credit facility.

Please refer to the official bond documents for the full terms and covenants of the contemplated senior secured bonds and permitted other debt.

Comparison with HKFoods' 2027s

HKFoods' financial position is clearly stronger than it was at the time of the previous senior secured bond issue. As discussed, the revenue base is higher, profitability has improved and leverage is lower (see the table below).

Table 1. Comparison with HKFoods 2027s

Consideration	Bond	Proposed new bond	2027s
Company	Size (EURm)	90	90
	Maturity	4y	3y
	Ranking	Senior secured	Senior secured
	Fixed/floating	Floating	Floating
	LTM revenue	EUR1,018m	EUR944m
	LTM adj. EBIT-%	3.6%	1.6%
	LTM adj. net debt/EBITDA	2.8x	4.0x
	Issue spread	[xxx]bps	750bps
Market pricing	Itraxx Xover	249bps	294bps
	3m Euribor	2.68%	3.74%
Covenant	Maintenance	-	Net gearing <120%
	Incurrence (new debt)	ND/EBITDA ≤ 3.25x	ND/EBITDA ≤3.5x until Q2 25, ≤3.0x thereafter
	Incurrence (distributions)	ND/EBITDA ≤ 3.25x	ND/EBITDA ≤3.5x until Q2 25, ≤3.0x thereafter

Note: HKFoods also has covenants in its bank loan and RCF agreements. Please refer to official bond documents for covenant levels and full terms
Source: Company data, Danske Bank Credit Research

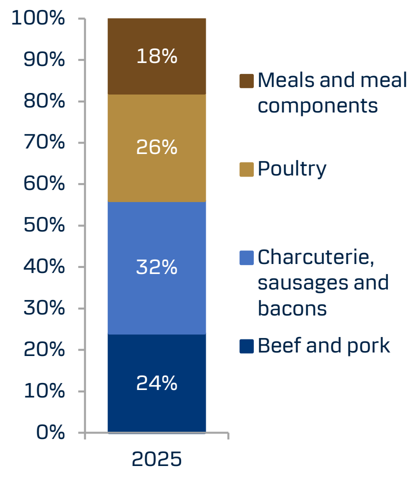
The most important change in the planned bond terms is the removal of the maintenance-based net gearing target. Moreover, the incurrence-based net debt/EBITDA covenant tested for new debt and distributions would become slightly looser at ≤3.25x, compared with ≤3.0x previously, giving HKFoods more financial flexibility.

Key credit considerations

One of the largest meat producers in Finland

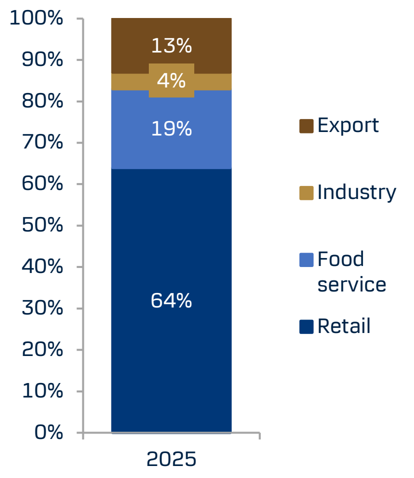
HKFoods is one of the largest meat producers in Finland, producing and selling pork, beef and poultry meat, meat products, ready meals and meal components under well-known brands such as HK, Kariniemen, and VIA. The company generated EUR1bn revenue, EUR36.4m adjusted EBIT and 3.6% adjusted EBIT margin as of Q2 26 LTM, with 87% of revenue from Finland and 13% from exports in 2025. It has six production facilities in Finland and one in Poland. The company is listed on Nasdaq Helsinki, and its main owner with 67% share of votes is LSO Osuuskunta, a cooperative of 500 Finnish meat farmers, most of whom are also suppliers of meat raw material to the company.

Chart 1. HKFoods' revenue split by product area (2025)



Source: Company data, Danske Bank Credit Research

Chart 2. HKFoods' revenue split by sales channel (2025)



Source: Company data, Danske Bank Credit Research

Table 2. Shareholders (31 August 2026)

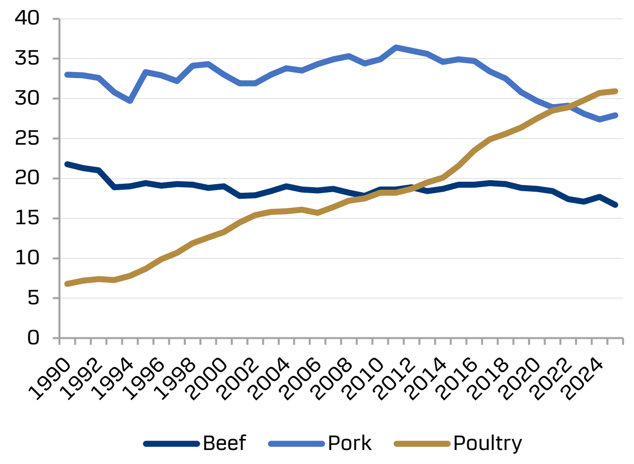
Shareholder	Capital	Votes
LSO Osuuskunta	33.2%	66.6%
Apteekkien Eläkekassa	4.0%	2.0%
Fourton Hannibal	3.6%	1.8%
MTK	3.0%	1.5%
Jyrki Suhonen	1.8%	0.9%
Varma	1.7%	0.9%
Etra Invest	1.7%	0.8%
Jocer Oy	1.3%	0.7%
Etola Group	1.1%	0.6%
Malviala Group	1.0%	0.5%
Top 10	52.3%	76.2%
Others	47.7%	23.8%
Total	100.0%	100.0%

Source: Company data, Danske Bank Credit Research

Saturated market, but non-cyclical demand – poultry and convenience food offer some pockets of growth

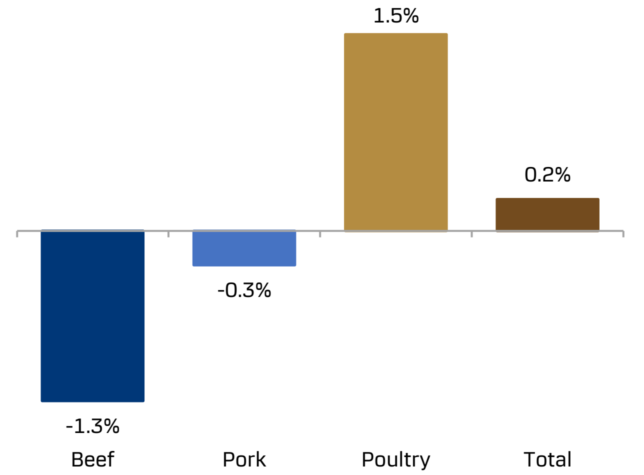
HKFoods enjoys a relatively stable demand environment as food consumption is largely non-cyclical. That said, changes in consumer confidence and purchasing power can impact product mix, particularly the balance between premium and lower-price products. In Finland, we expect overall meat consumption will remain broadly stable over the coming years, but trends vary between meat categories. The EU expects beef and pork consumption to continue their gradual decline, with expected CAGRs of -1.3% and -0.3%, respectively, through 2035. Poultry, on the other hand, is expected to grow at a 1.5% CAGR over the same period, supported by lower price levels and a superior nutritional profile compared with red meat. Besides poultry, HKFoods also has exposure to convenience food, where we expect demand to increase.

Chart 3. Meat consumption in Finland (kg/year/person)



Source: Natural Resources Institute Finland, Danske Bank Credit Research

Chart 4. Meat consumption 2025-32 CAGRs in Finland

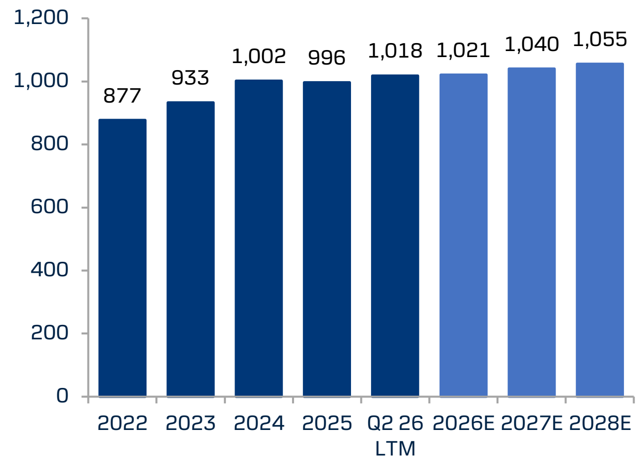


Source: EU Agricultural Outlook, HKFoods, Danske Bank Credit Research

Significant profitability improvement and balance sheet strengthening

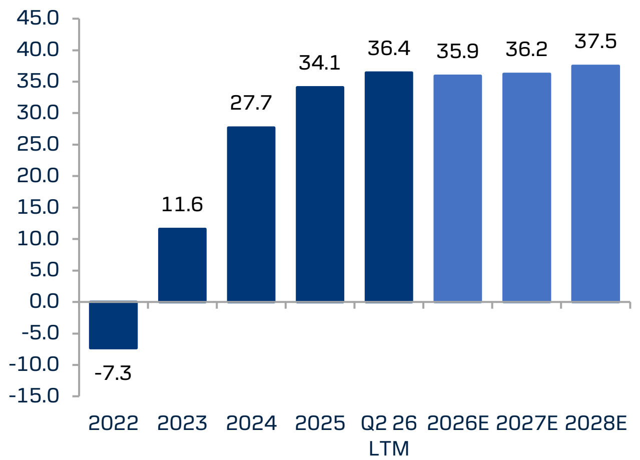
HKFoods has transformed the business in the last few years, divesting almost all of its operations outside of Finland and focusing on profitability improvement and deleveraging. The exit from other countries (Baltics in 2022; Sweden in 2023; Denmark in 2024) has allowed management to fully focus on the Finnish business and enabled larger investments in the production facilities located in Finland. In absolute terms, adjusted EBIT has improved from EUR-7.3m in 2022 to EUR36.4m in Q2 26 LTM, while adjusted EBIT margin has improved from -0.8% in 2022 to 3.6% in Q2 26 LTM, supported by cost savings under the company's efficiency improvement programme. This is the strongest margin level in many years. Meanwhile, adjusted leverage declined to 2.8x in Q2 26, from 4.0x in Q1 24 when the 2027s were issued, and 6.5x in 2023.

Chart 5. Revenue (EURm)



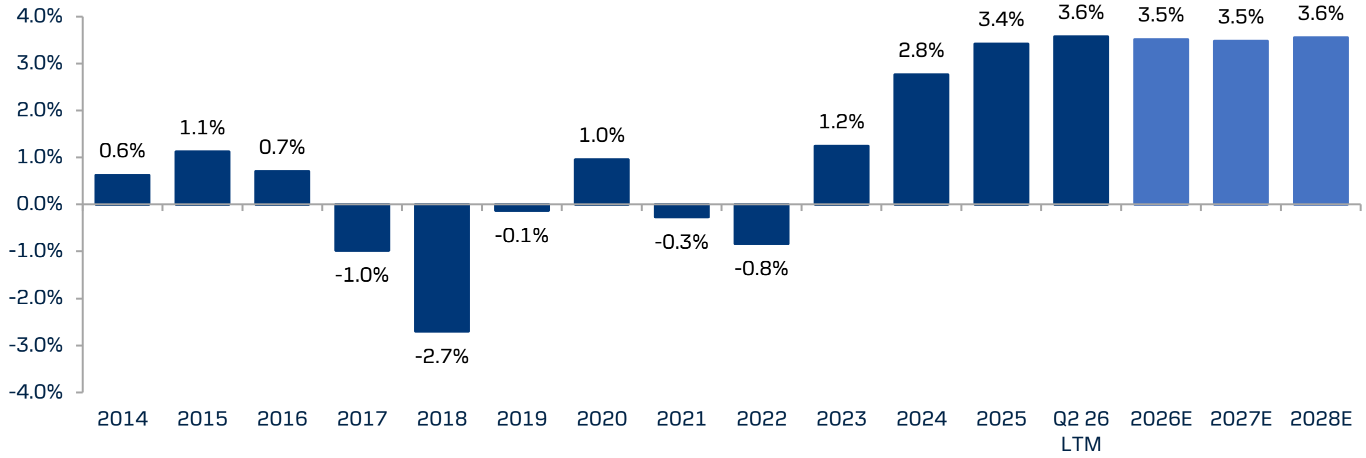
Note: Historical years based on continuing operations only
Source: Company data, Danske Bank Credit Research estimates

Chart 6. Adjusted EBIT (EURm)



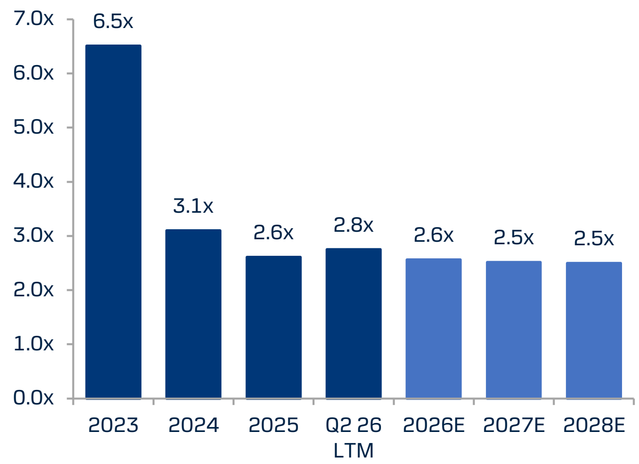
Note: Historical years based on continuing operations only
Source: Company data, Danske Bank Credit Research estimates

Chart 7. Adjusted EBIT margin



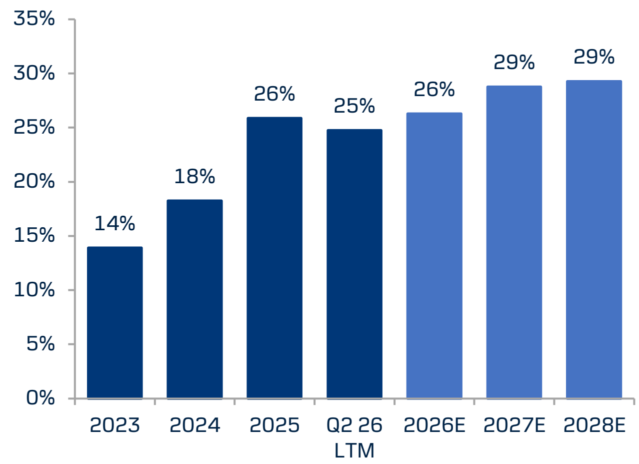
Note: 2014-20 including discontinued operations.
Source: Company data, Danske Bank Credit Research

Chart 8. Adjusted net debt/EBITDA



Source: Company data, Danske Bank Credit Research

Chart 9. Adjusted FFO/net debt

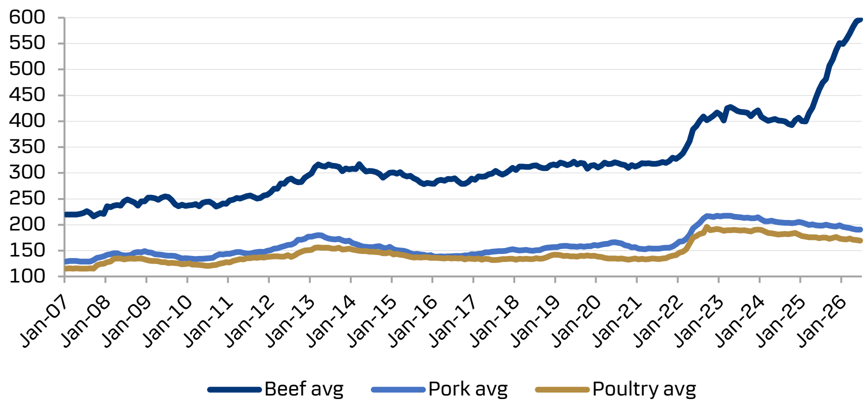


Source: Company data, Danske Bank Credit Research estimates

Beef raw material prices have increased significantly, pork and poultry on a downward trend

Meat is HKFoods' main raw material and forms the largest part of the company's total costs as the company lacks vertical integration and does not have its own farms and livestock, but purchases beef, pork, poultry and other meat raw materials mainly from contract producers that are typically members of the LSO Osuuskunta cooperative, the company's main shareholder.

Chart 10. Meat raw material prices (EUR/100kg)



Source: Natural Resources Institute Finland, Danske Bank Credit Research

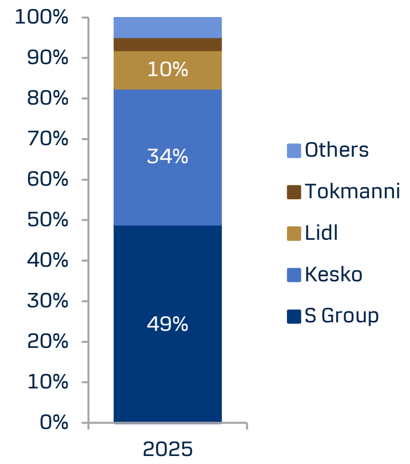
In 2022-23, meat raw material prices increased significantly due to cost inflation mainly in energy and grain after Russia's full-scale invasion of Ukraine. While pork and poultry raw material prices have been on a declining trend since 2023, beef raw material prices have increased dramatically since 2025, driven by raw material supply shortages. This has led to some negative impact on adjusted EBIT as initial price increases covered higher beef raw material costs only partly, but as of spring 2026, the company has been able to raise sales prices to fully cover higher beef costs.

Cost pass-through delays point to limited pricing power

The recent cost-pass through lag in beef raw material costs highlights HKFoods' relatively limited pricing power. In general, HKFoods does not hedge its meat raw material exposure. In addition, its main sales channel, the grocery retail market in Finland, is highly concentrated, with S Group and Kesko together controlling more than 80% of the market, giving the retailers significant bargaining power.

In simplified terms, HKFoods negotiates prices with S Group and Kesko three times a year, covering the periods from February to April, late April to late August, and September to the end of January. For example, prices for the autumn period are typically negotiated during the spring. As a result, unexpected and material increases in raw material costs can take several months to be reflected in customer pricing, leaving HKFoods exposed to temporary margin pressure. Moreover, in our understanding, price increases with retailers are not based on formulas or predefined mechanisms but are subject to negotiations, leaving HKFoods exposed to the retailer's large bargaining power.

Chart 11. Market shares in Finnish grocery trade (2025)

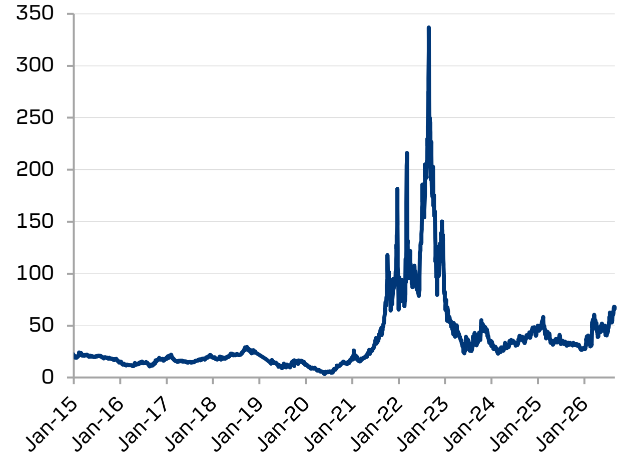


Source: Finnish Grocery Trade Association, Danske Bank Credit Research

Chart 12. Brent crude (USD/barrel)

Source: Bloomberg, Danske Bank Credit Research

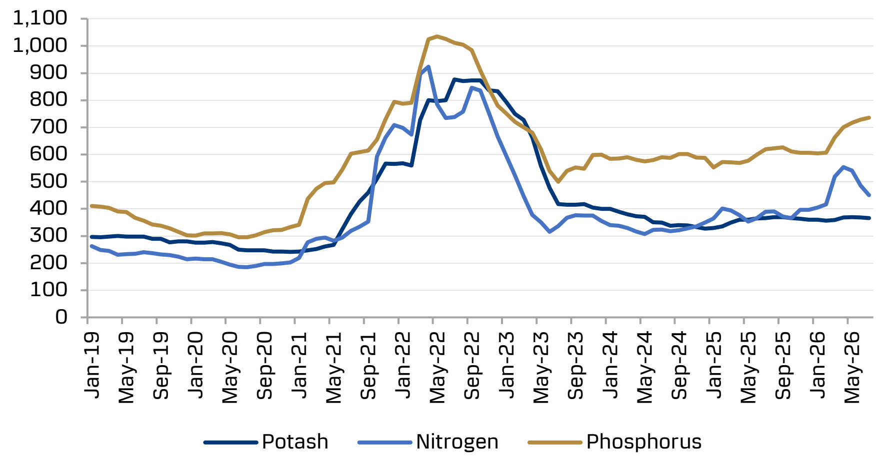
Chart 13. TTF natural gas prices (EUR/MWh)



Source: Bloomberg, Danske Bank Credit Research

There is some cost pressure looming for H2 26, mainly from higher oil and energy-related costs following the Iran conflict, which has driven up packaging and logistics costs in particular. HKFoods has said it expects oil-driven cost inflation to intensify in H2 26. Moreover, energy prices can also indirectly affect meat raw material prices, as higher energy prices could lead to higher fertiliser prices, and consequently higher animal feed costs and meat raw material prices. However, fertilizer prices have not increased materially since the start of the conflict, meaning that the indirect pressure on meat raw material costs has remained limited.

Chart 14. Most commonly used fertiliser product prices in the EU (EUR/tonne)



Source: European Commission, Danske Bank Credit Research

African swine fever is an earnings headwind, but credit impact is likely to be limited

African swine fever was detected in Finland for the first time, close to the Russian border, in late July 2026. ASF is not dangerous to humans but it is a serious disease for pigs and requires strict containment measures. The outbreak is currently limited to wild boars in southeast Finland, and HKFoods has no pork contract producers within the restricted area. The restricted area was expanded in late August, but according to the company it still does not include any of its contract producers. The outbreak has therefore not affected HKFoods' pork raw material supply or pork production.

While we estimate pork products form around 35-45% of HKFoods' total revenue, the main negative impact of ASF comes through exports, as pork product exports from Finland to several non-EU markets, including China and Japan, have been restricted for now. For clarity, the ASF detection has no impact on HKFoods' deliveries in Finland or the EU. Management believes export restrictions could be lifted for most non-EU countries in the near term, excluding China and Japan.

While exports accounted for 13% of HKFoods' total revenue in 2025, the company has not disclosed a detailed export split by geography or meat type. HKFoods expects to find new export markets for the affected volumes, but these markets may have lower price and margin levels than China and Japan, where export restrictions could last several years. In terms of financial impact, management expects that ASF will have around EUR1m-1.5m negative impact on adjusted EBIT in H2 26. This would correspond to 3-4% of EUR36.4m adj. EBIT in Q2 26 LTM. Annualised, the negative adj. EBIT impact would be roughly 5-8%, which would also be insignificant from a credit perspective.

Where there is an outbreak of ASF on a pig farm, the authorities order the pigs to be put down and the carcasses destroyed, after which the farm is cleaned and disinfected. If this happened in some of HKFoods' contract producers' farms, it could lead to supply chain disruption in the very short term. However, Finland has surplus pork raw material, meaning HKFoods would most likely be able to find new suppliers.

The worst-case risk for HKFoods is ASF spreading to a production facility, as seen in August 2025 when HKFoods reported ASF at Maag Grupp AS's largest pork production unit, a business HKFoods had previously divested, which led to a EUR6.9m earn-out write-down and was expected to have a "significant and long-term negative impact on the company's performance".

We also note that ASF spread to Sweden in 2023, but the country regained ASF-free status in 2024.

Free cash flow burdened by high shareholder distributions

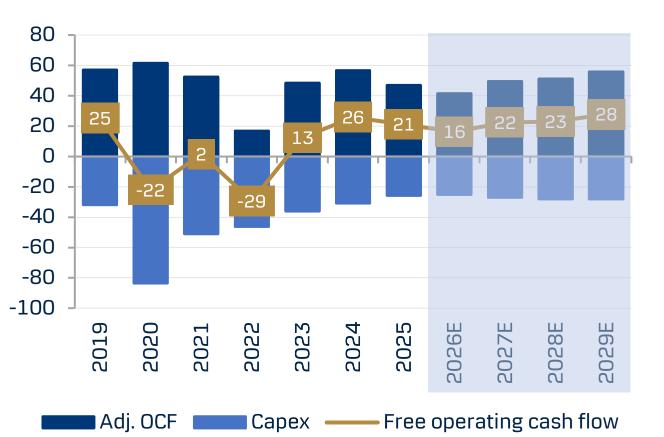
Following the profitability turnaround, HKFoods has a healthy cash flow profile given that operating cash flow has covered capex needs (2.5%-3.0% of revenue) in recent years, which we estimate will continue in the coming years. However, free cash flow (operating cash flow – capex +/- net M&A – dividends) has been burdened by high shareholder distributions since 2025, which has limited the scope for an organic decrease in net debt. For example, the company decided to distribute dividends in 2025 instead of using the capital to redeem the previous EUR26m hybrid bond with a 16% coupon. In our view, this is evidence of the company's relatively shareholder-friendly stance, and we expect this trend to continue. For example, we assume HKFoods distributes an extra EUR0.07 per share dividend (EUR6m in total) in H2 26 on top of the EUR0.08 per share dividend (EUR9m) that was paid in Q2.

Table 3. Cash flow metrics (EURm)

EURm	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2029E
Adjusted FFO	43.9	62.9	55.6	37.6	42.6	32.5	42.7	44.7	49.4	51.3	55.9
- Changes in NWC	13.2	-1.3	-3.1	-20.8	5.9	24.2	4.2	-3.2	0.0	-0.1	-0.1
= Adjusted OCF	**57.1**	**61.6**	**52.5**	**16.8**	**48.5**	**56.7**	**46.9**	**41.5**	**49.4**	**51.2**	**55.8**
- Capex	-31.8	-83.6	-51.0	-46.1	-36.0	-30.8	-25.7	-25.1	-27.0	-28.0	-28.0
= Free operating cash flow	**25.3**	**-22.0**	**1.5**	**-29.3**	**12.5**	**25.9**	**21.2**	**16.4**	**22.4**	**23.2**	**27.8**
+/- Net M&A	0.6	1.8	77.5	2.7	61.5	111.6	9.7	0.0	0.0	0.0	0.0
- Dividends	-5.3	-0.7	-4.4	-5.3	-1.9	-1.7	-13.9	-16.0	-16.0	-17.8	-19.6
= Free cash flow	**20.6**	**-20.9**	**74.6**	**-31.9**	**72.1**	**135.8**	**17.0**	**0.3**	**6.4**	**5.3**	**8.2**
- Lease payments	-11.6	-10.3	-11.3	-12.1	-12.4	-9.2	-7.2	-8.0	-8.4	-8.6	-8.7
= Adjusted free cash flow	**9.0**	**-31.2**	**63.3**	**-44.0**	**59.7**	**126.6**	**9.8**	**-7.7**	**-2.0**	**-3.2**	**-0.5**

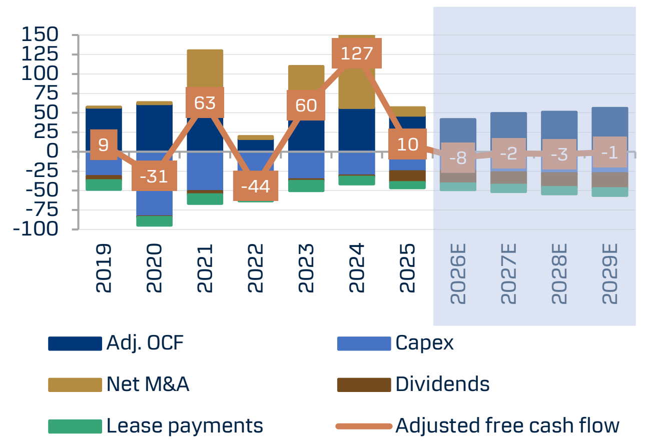
Note: We include hybrid coupons in our adjusted funds from operations and operating cash flow
Source: Company data, Danske Bank Credit Research estimates

Chart 15. Free operating cash flow (EURm)



Source: Company data, Danske Bank Credit Research estimates

Chart 16. Adjusted free cash flow (EURm)



Source: Company data, Danske Bank Credit Research estimates

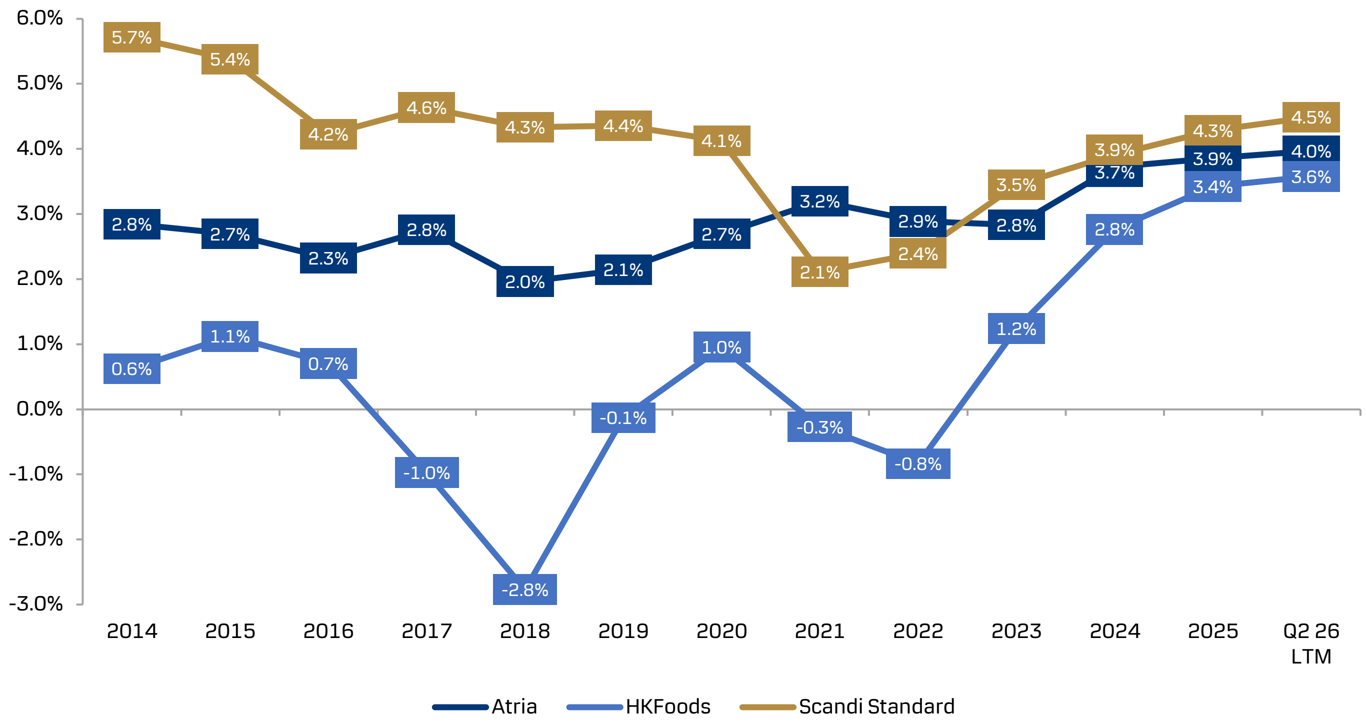
Long-term targets imply further margin uplift potential

HKFoods' long-term targets are:

- EBIT margin: >5% (Q2 26 LTM: 3.6%)
- ROCE: >12% (Q2 26 LTM: 8.0%)
- Net gearing: <80% (Q2 26: 83%)
- Dividend: >50% of net profit (FY2025: 100%, or 188% if the BoD decides to distribute the extra equity repayment)

From a credit perspective, we naturally regard the net gearing target positively, although we would prefer to see a net debt/EBITDA-based target. Moreover, the Q2 26 net gearing being close to the target suggests that HKFoods is unlikely to aim for a much lower debt burden. We also note that there is no revenue growth target, which should keep management focused on profitability, which is preferable for bondholders instead of a top line focus.

Chart 17. Key competitor adjusted EBIT margins



Note: 2014-2020 including discontinued operations
Source: Company data, Danske Bank Credit Research

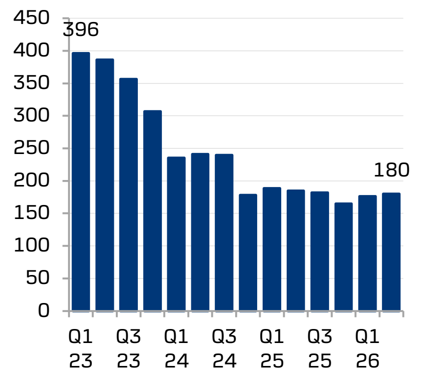
HKFoods raised its EBIT margin target to >5% from >4% in August 2025, signalling management's confidence in continued margin improvement potential. Reaching the margin target would be positive for the credit and support a lower net debt/EBITDA level. However, we find the target ambitious. Atria, a key peer that has historically had higher margins than HKFoods, has reached an EBIT margin of 4.0% at best in recent years. However, we also acknowledge that HKFoods has narrowed the margin gap to Atria after 2023 following its successful profitability turnaround.

Debt and maturity profile

HKFoods' adjusted net debt (where we include hybrids and pension liabilities in debt) in absolute terms has declined significantly in recent years, from EUR396m in Q1 23 to EUR180m in Q2 26, driven by divestment of the Baltics in 2023 (EV EUR90m), Sweden in 2023-24 (EV EUR110m) and Denmark in 2024 (EV EUR45m). The company's current debt stack is relatively simple, albeit front-loaded. The main instruments are the EUR90m 2027s (43% of total EUR208m adj. gross debt) and EUR81m lease liabilities (39%), followed by EUR20m hybrid (first call in 2028) and EUR13m commercial papers (6%) under a EUR200m programme. There are also small amounts of pension liabilities and other debt outstanding.

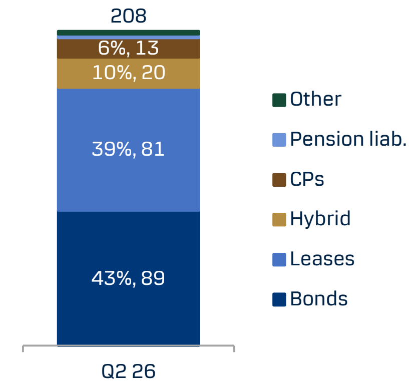
We note that HKFoods also has outstanding factoring arrangements, which we believe is a normal and continuous part of the company's business. However, factoring levels have not been disclosed publicly. S&P and Moody's typically add factoring to reported debt due to the factoring's debt-like financing characteristics.

Chart 18. Adj. net debt development (EURm)



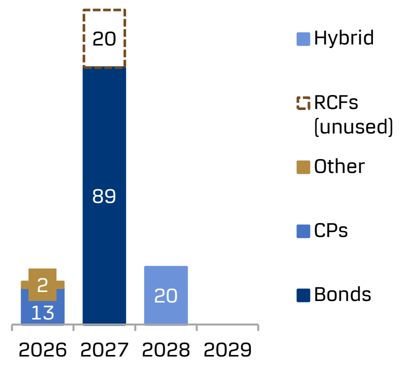
Source: Company data, Danske Bank Credit Research

Chart 19. Adjusted gross debt split (% of total and EURm)



Source: Company data, Danske Bank Credit Research

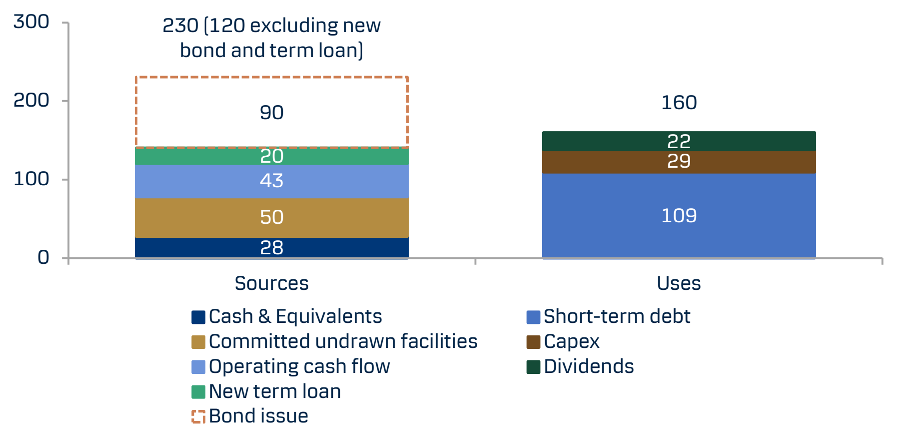
Chart 20. Maturity profile excl. leases and pension liabilities at end-Q2 26 (EURm)



Source: Company data, Danske Bank Credit Research

In terms of liquidity sources, HKFoods had EUR28m cash and unused EUR20m RCF due in 2027 at end-Q2 26. We understand the company will upsize the RCF to EUR50m, which would be due in 2029. The new bank package would also include a new EUR20m term loan, fully amortised over three years, and a EUR22m ancillary facility and uncommitted EUR20m accordion option. Moreover, we assume the EUR13m CPs are rolled over as needed. Therefore, assuming a successful bond refinancing, there would be no significant instruments due before the 8.75% coupon EUR20m hybrid comes to first call in 2028. On our estimates, we see HKFoods' liquidity position being sufficient to redeem the hybrid without a refinancing in 2028. Consequently, as our base case is a redemption at first call, we do not consider hybrid debt to be a permanent part of HKFoods' capital stack.

Chart 21. Liquidity assessment for the next 12 months



Source: Company data, Danske Bank Credit Research estimates

Estimates

We assume HKFoods continues to prioritise profitability over growth in the coming years, in line with its long-term financial targets. Our key estimates and assumptions for 2026-29 are as follows.

- **Profitability.** Management guides for adj. EBIT to increase in 2026. H1 26 supports the guidance, with adj. EBIT of EUR13.5m versus EUR11.1m in H1 25. For FY2026, we forecast adj. EBIT of EUR35.9m, slightly up from EUR34.1m in 2025, with the margin improving slightly to 3.5% from 3.4%. For H2 26, we assume 2% EBIT decline from oil-related cost inflation and African swine fever, partly offset by further efficiency gains. For 2027, we expect broadly stable earnings, with efficiency improvements offsetting ASF headwinds. There is upside risk in 2026-27 if the ASF impact is smaller than expected or cost pass-through is more successful. In 2028-2029, we model in small earnings and margin improvement, with adjusted EBIT margin remaining below the company's above-5% target at 3.6-3.7%.
- **Operating cash flow.** We expect operating cash flow to develop in line with earnings. We do not model in any significant net working capital changes.
- **Capex.** We expect the 2.5%-3.0% capex/sales level to prevail in 2026-29E.
- **Dividends.** We assume high payout ratios at 80-90% will continue to burden free cash flow.
- **Leverage.** We forecast adj. net debt/EBITDA to improve to 2.6x in 2026 from 2.8x in Q2 26, driven by seasonally stronger operating cash flow supported by inventory reductions in H2 26. For 2027-29, we estimate roughly flat leverage and FFO/net debt given the high expected shareholder distributions that offsets small EBITDA and FFO improvement.

Table 4. Danske Bank Credit Research 2026-29 forecast summary

EURm	2023	2024	2025	2026E	2027E	2028E	2029E
Revenue	**933.0**	**1,001.8**	**996.5**	**1,021.2**	**1,040.0**	**1,055.0**	**1,075.0**
Reported EBITDA	45.1	56.4	62.4	64.8	67.4	69.1	72.2
Adjusted EBITDA	**45.1**	**56.4**	**62.4**	**64.8**	**67.4**	**69.1**	**72.2**
Reported EBIT	14.2	22.4	32.9	35.1	36.2	37.5	40.0
Adjusted EBIT	**11.6**	**27.7**	**34.1**	**35.9**	**36.2**	**37.5**	**40.0**
Revenue growth	**n.m.**	**7.4%**	**-0.5%**	**2.5%**	**1.8%**	**1.4%**	**1.9%**
Reported EBITDA-%	4.8%	5.6%	6.3%	6.3%	6.5%	6.6%	6.7%
Adjusted EBITDA-%	**4.8%**	**5.6%**	**6.3%**	**6.3%**	**6.5%**	**6.6%**	**6.7%**
Reported EBIT-%	1.5%	2.2%	3.3%	3.4%	3.5%	3.6%	3.7%
Adjusted EBIT-%	**1.2%**	**2.8%**	**3.4%**	**3.5%**	**3.5%**	**3.6%**	**3.7%**
Adjusted FFO[1]	42.6	32.6	42.5	44.7	49.4	51.3	55.9
Change in NWC	6.0	24.1	4.2	-3.2	0.0	-0.1	-0.1
Adj. operating cash flow[1]	48.6	56.7	46.7	41.5	49.4	51.2	55.8
Capex	-36.0	-30.8	-25.7	-25.1	-27.0	-28.0	-28.0
Net M&A	61.5	111.6	9.7	0.0	0.0	0.0	0.0
Dividends	-1.9	-1.7	-13.9	-16.0	-16.0	-17.8	-19.6
Free cash flow	**72.2**	**135.8**	**16.8**	**0.3**	**6.4**	**5.3**	**8.2**
Lease payments	-12.4	-9.2	-7.2	-8.0	-8.4	-8.6	-8.7
Adjusted free cash flow	**59.8**	**126.6**	**9.6**	**-7.7**	**-2.0**	**-3.2**	**-0.5**
Adjusted net debt	306.6	178.2	164.9	170.0	171.9	175.2	175.7
Adj. net debt/EBITDA[2]	**6.5x**	**3.1x**	**2.6x**	**2.6x**	**2.5x**	**2.5x**	**2.4x**
Adj. FFO/net debt	**14%**	**18%**	**26%**	**26%**	**29%**	**29%**	**32%**
Adj. ICR[3]	**1.6x**	**2.4x**	**3.3x**	**4.1x**	**4.9x**	**5.2x**	**6.4x**

Note: 1) We include hybrid coupons in our adjusted funds from operations and operating cash flow; 2) we calculate adjusted net debt as adjusted net debt / (adjusted EBITDA + share of profit/loss in associates and joint ventures); 3) adjusted ICR calculated as (adjusted EBITDA + share of profit/loss in associates and joint ventures) / (net financial expenses + hybrid coupons)

Source: Company data, Danske Bank Credit Research estimates

Sensitivity analysis

To test our base case, we run sensitivities for 2026-28E by changing revenue growth and adjusted EBIT margin, and show the impact on adjusted net debt/EBITDA and FFO/net debt. We keep capex, shareholder distribution and other estimates unchanged, unless otherwise stated.

- **Bull case**. HKFoods maintains its 5% revenue growth rate seen in H1 26 throughout 2026-28E on successful commercial measures. ASF impact is limited and more than offset by further operational efficiency improvements and successful cost pass-through. The company is able to release working capital in H2 26 more than in our base case. Adjusted EBIT margin improves from 3.6% in Q2 26 LTM to 3.8% in 2026E, 4.2% in 2027E and 4.6% in 2028E, approaching the company's >5.0% long-term target. Adj. leverage drops to 2.2x, 1.9x and 1.6x over the same period.
- **Bear case**. Revenue declines by 5% y/y in H2 26E and continues to fall by 5% p.a. in 2027-28E, driven by weaker consumer demand, adverse sales mix and challenges for finding new export markets. ASF impact on adj. EBIT is bigger than expected, and oil price-driven cost inflation is only partly passed on. Efficiency gains do not offset volume pressure and higher input costs, while NWC release in H2 26E is lower than in our base case. Hybrid is not redeemed at first call, but extended. Dividends are lowered due to earnings pressure. Adj. EBIT-% declines to 3.2% in 2026E, 2.1% in 2027E and 2.2% in 2028E. Adj. leverage rises to 3.0x, 4.0x and 4.4x in 2026-28E.

Table 5. Sensitivity scenarios

Case	Actual	Base case			Bull case			Bear case		
EURm	Q2 26 LTM	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Revenue	1,018	1,021	1,040	1,055	1,045	1,097	1,152	993	944	896
Revenue growth	2.0%	2.5%	1.8%	1.4%	4.9%	5.0%	5.0%	-0.3%	-5.0%	-5.0%
Adjusted EBITDA	65	65	67	69	69	79	88	59	48	46
Adjusted EBITDA-%	6.3%	6.3%	6.5%	6.6%	6.6%	7.2%	7.6%	6.0%	5.1%	5.2%
Adjusted EBIT	36	36	36	38	39	46	53	31	19	19
Adjusted EBIT-%	3.6%	3.5%	3.5%	3.6%	3.8%	4.2%	4.6%	3.2%	2.1%	2.2%
Adj. net debt/EBITDA	2.8x	2.6x	2.5x	2.5x	2.2x	1.9x	1.6x	3.0x	4.0x	4.4x
Adj. FFO/net debt	25%	26%	29%	29%	30%	39%	48%	22%	17%	15%

Source: Company data, Danske Bank Credit Research estimates

Recovery rate

We estimate around a 55% recovery rate for senior secured bondholders. In our recovery rate assessment that we base on a restructured-as-a-going-concern scenario, we assume a 60% haircut to LTM adjusted EBITDA and a 4.0x EV/EBITDA multiple that compares with the current 5.3x and five-year historical average 5.9x multiples, based on Bloomberg NTM consensus estimates. Moreover, we assume that the EUR50m RCF would be fully drawn in a distressed event and that RCF ranks pari passu with the senior secured bond, EUR20m term loan and EUR11m secured lease liabilities. We do not take other IFRS 16 lease liabilities into account in our recovery rate scenario, as we would assume the leases mainly related to the Vantaa production facility that was sold-and-leased back in 2021 would transfer to the buyer in a distressed sale scenario. According to the S&P methodology, the 55% recovery rate would not imply any positive notches from the issuer rating.

Table 6. Waterfall calculation

Q2 26 LTM	EURm
Adjusted EBITDA	65
EBITDA haircut	60%
Distressed EBITDA	26
EV/EBITDA multiple	4.0x
Distressed EV	103
Admin fee (5%)	5
Net distressed EV	98

Claims assumptions	EURm
Prior ranking debt and pension liabilities	2
Senior secured bond	90
Term loan	20
RCF (assumed fully drawn)	50
Secured lease liabilities	11
Total senior secured debt	171
Recovery value remaining for secured debt, incl. bonds	96
Total senior secured debt	171
Recovery rate	56%

Source: Company data, Danske Bank Credit Research estimates

Table 7. S&P recovery rate notching adjustments

Recovery rating	Recovery description	Nominal recovery	Notching adjustment
1+	Highest expectation, full recovery	100%	+3 notches
1	Very high recovery	90-100%	+2 notches
2	Substantial recovery	70-90%	+1 notch
3	Meaningful recovery	50-70%	0 notches
4	Average recovery	30-50%	0 notches
5	Modest recovery	10-30%	-1 notch
6	Negligible recovery	0-10%	-2 notches

Source: S&P, Danske Bank Credit Research

Rated peer comparison

HKFoods is unrated, and its direct competitors in Finland are also unrated. Moreover, there are a limited number of meat producers in Europe with a credit rating in the high-yield space. We have therefore broadened the peer group to include selected food companies outside the meat sector. Consequently, we compare HKFoods' financials against Deoleo (unrated, but was rated at 'B-' until April 2026; focus on olive oil), Froneri ('BB-'/'B1', ice cream), Group of Butchers ('B'/'B2', meat), Nomad Foods ('BB-'/'B1', frozen food) and Premier Foods ('BB+'/'Ba3', various product areas).

Table 8. Peer comparison

Company	HKFoods	Deoleo	Froneri	Group of Butchers	Nomad Foods	Premier Foods
Sector (S&P)	-	Packaged Foods and Meat Producers	Packaged Foods and Meat Producers	Packaged Foods and Meat Producers	Packaged Foods and Meat Producers	Packaged Foods and Meat Producers
Year	Q2 26 LTM	2025E	2025	2025E	2025	2025
Credit rating						
Country	Finland	Spain	UK	Netherlands	UK	UK
Bus. risk (S&P)	-	*Vulnerable*	*Satisfactory*	*Weak*	*Satisfactory*	*Fair*
Fin. risk (S&P)	-	*Highly Leveraged*	*Highly Leveraged*	*Highly Leveraged*	*Aggressive*	*Modest*
S&P rating	-	B-[1]	BB-	B	BB-	BB+
Moody's rating	-	-	B1	B2	B1	Ba3
Key metrics						
Sales (EURm)	1,018	780	5,558	1,157	3,033	1,360
Adj. EBITDA-%	**6%**	**5%**	**21%**	**12%**	**15%**	**19%**
Capex/sales	2%	n/a	5%	n/a	3%	4%
Adj. FFO/ND	**25%**	**8%**	**9%**	**8%**	**11%**	**75%**
Adj. leverage	**2.8x**	**5.5x**	**7.1x**	**6.6x**	**4.7x**	**1.1x**

Note: 1) Rating was withdrawn in April 2026.
Source: S&P, Moody's, Danske Bank Credit Research

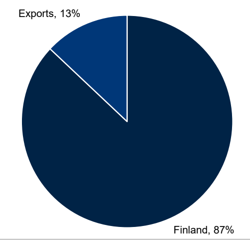
The rated peer analysis has some limitations as the selected companies differ in product focus. Nevertheless, we think HKFoods' credit quality is closer to the peers with ratings in the BB-category than in the B-category. Although HKFoods has lower margins and smaller scale than most peers, key metrics, net debt/EBITDA and FFO/net debt, are stronger compared with all peers except the 'BB+'/'Ba3' rated Premier Foods.

Company summary

Company description

HKFoods is a Finnish food company. It produces pork, beef, poultry and lamb products, processed meats and convenience foods. After the divestment of Baltic, Swedish and Danish operations, the company has operations only in Finland and Poland. In Finland, where its key sales channels are retail and food service, HKFoods has well-known brands. The company is listed on Nasdaq Helsinki since 1997, and its main owner with 67% share of votes is LSO Osuuskunta, a cooperative of over 500 Finnish meat producers.

Revenue breakdown by geography



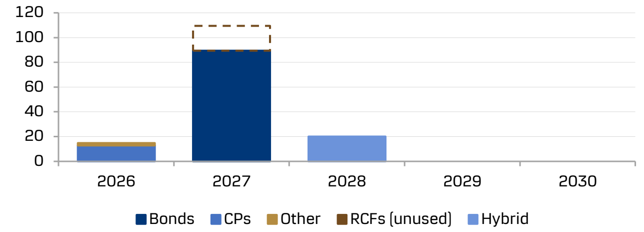
Key credit strengths

- Strong market position with well-known brands
- Stable demand
- Successful profitability turnaround
- Large fixed asset base

Key credit challenges

- Fierce competition and limited pricing power
- Small size and narrow geographical diversification
- Inherently low margins
- Animal disease and biosecurity risk

Debt maturity profile (EURm)



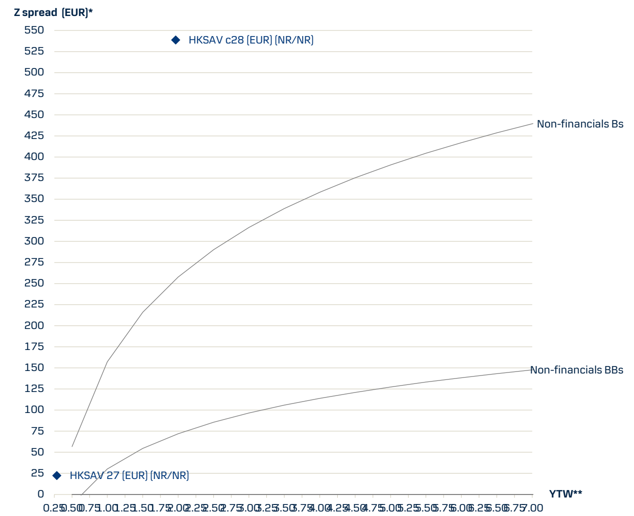
Main shareholders

Name	Votes (%)	Capital (%)
LSO Cooperative	66.6%	33.2%
Apteekkien Eläkekassa	2.0%	4.0%
Fourton Hannibal	1.8%	3.6%
The Central Union of Agricultural Produc	1.5%	3.0%
Jyrki Suhonen	0.9%	1.8%

Selected outstanding bonds (EURm)

Isin	Coupon	Currency	Maturity /Call	Seniority	Rating
FI4000571708	FRN	EUR	17/12/2026	Secured	NR/NR
FI4000591912	8.75%	EUR	21/08/2028	Subordinated	NR/NR

Relative valuation



* Swapped to indicated currency. ** Years-to-worst.
Note: Fair value curve(s) based on Danske Bank Credit Research's index group of EUR bonds.

Rating migration

n/a

Source: Company data, Bloomberg, Danske Bank Credit Research (all charts and tables)

Summary table

Income statement (EURm)	2024	2025	2026E	2027E	2028E
Total sales	1,002	996	1,021	1,040	1,055
Operating expenses	-924	-909	-986	-1,004	-1,018
EBITDA	56	63	65	67	69
EBITDA adjusted	58	63	66	68	70
Non-recurring items	0	0	0	0	0
Depreciation and amortisation	-34	-30	-30	-31	-32
EBIT	22	33	35	36	38
EBIT adjusted	28	34	36	36	38
Net interest	-20	-15	-14	-12	-12
Other financial items (net)	0	0	0	0	0
Pre-tax profit	4	19	22	25	27
Tax	-6	-5	-4	-5	-5
Net income	-2	14	18	20	21
Balance sheet (EURm)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Fixed assets	252	252	252	256	261
Goodwill	28	28	44	44	44
Associates	22	21	23	23	23
Other non-current assets	50	39	23	23	23
Working capital assets	115	114	127	127	129
Cash and cash equivalents	37	51	58	49	19
of which restricted cash	0	0	0	0	0
Other current assets	25	8	0	0	0
Total assets	528	513	526	522	499
Total assets (adj.)	528	513	526	522	499
Total interest-bearing debt	186	194	206	199	192
Total interest-bearing debt adjusted	215	216	228	221	195
Net interest-bearing debt	150	143	148	150	173
Net interest-bearing debt adjusted	178	165	170	172	175
Working capital liabilities	118	118	122	122	124
Other current liabilities	3	3	0	0	0
Other non-current liabilities	3	3	2	2	2
Total equity	215	194	195	197	179
Total equity and liabilities	528	513	526	522	499
Total equity and liabilities (adj.)	556	535	549	544	502
Cash flow statement (EURm)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	56	63	65	67	69
Tax paid	-4	-3	-3	-5	-5
Other cash flow from operations	-16	-13	-15	-11	-11
Funds from operations (FFO)	37	47	46	51	53
FFO (adjusted)	33	43	45	49	51
Change in working capital	24	4	-3	0	-0
Operating cashflow (CFO)	61	51	43	51	53
CFO (adjusted)	57	47	41	49	51
Capex	-31	-26	-25	-27	-28
Divestments /acquisitions of businesses	112	10	0	0	0
Free operating cashflow (FOCF)	142	35	18	24	25
FOCF (adjusted)	138	31	16	22	23
Dividend paid	-2	-14	-16	-16	-18
Share buyback	0	0	-0	0	-20
Free cashflow (FCF)	140	22	-6	-0	-21
Other investing activities	0	1	-8	-8	-9
Debt repayment	-218	-11	0	-7	-7
Funding shortfall	-78	13	-14	-15	-37
New debt	90	14	20	0	0
New equity	0	0	-0	0	-20
Other financing activities	-4	-12	6	7	27
Change in cash	8	14	12	-9	-30

Source: Company data, Danske Bank Credit Research estimates

Summary table

EURm	2024	2025	2026E	2027E	2028E
Sales growth	7%	-1%	2%	2%	1%
EBITDA margin	5.6%	6.3%	6.3%	6.5%	6.6%
Adj. EBITDA margin	5.7%	6.3%	6.5%	6.6%	6.6%
EBIT margin	2.2%	3.3%	3.4%	3.5%	3.6%
Adj. EBIT margin	2.8%	3.4%	3.5%	3.5%	3.6%
EBITDA interest coverage (x)	2.5	3.8	8.7	5.5	5.9
Adj. EBITDA Interest coverage (x)	2.6	3.8	8.9	5.6	6.0
EBIT Interest coverage (x)	1.1	2.1	4.7	3.0	3.2
Adj. EBIT interest coverage (x)	1.1	2.1	4.7	3.0	3.2
FFO interest coverage (x)	1.7	2.9	6.2	4.2	4.5
Adj. FFO interest coverage (x)	1.5	2.7	6.0	4.1	4.4
CFO interest coverage (x)	2.7	3.1	5.8	4.2	4.5
Adj. CFO interest coverage (x)	2.6	2.9	5.5	4.1	4.3
Net debt/EBITDA (reported) (x)	2.7	2.3	2.3	2.2	2.5
Net debt/EBITDA (x)	2.6	2.3	2.2	2.2	2.5
Adj. net debt/adj. EBITDA (x)	3.1	2.6	2.6	2.5	2.5
Debt/EBITDA (x)	3.3	3.1	3.2	3.0	2.8
Adj. debt/adj. EBITDA (x)	3.7	3.4	3.4	3.2	2.8
Debt/EBITDA (reported) (x)	3.3	3.1	3.2	3.0	2.8
FFO/net debt	24.4%	32.8%	31.5%	34.2%	30.7%
Adj. FFO/adj. debt	15.1%	19.8%	19.6%	22.4%	26.3%
Adj. FFO/adj. net debt	18.2%	25.9%	26.3%	28.8%	29.3%
FFO/debt	19.6%	24.2%	22.6%	25.7%	27.6%
Adj. total debt/total capital	54.6%	60.2%	62.5%	60.0%	55.0%
Net debt/total capital	37.3%	36.8%	36.9%	37.8%	46.6%
Yearly overview (EURm)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Net sales	1,002	996	1,021	1,040	1,055
EBITDA	56	63	65	67	69
Adj. EBITDA	58	63	66	68	70
EBIT	22	33	35	36	38
Net Income	-2	14	18	20	21
Capex	-31	-26	-25	-27	-28
FFO	37	47	46	51	53
Total debt	186	194	206	199	192
Net debt	150	143	148	150	173
Adjusted net debt	178	165	170	172	175
Equity (incl. minorities)	215	194	195	197	179

Source: Company data, Danske Bank Credit Research estimates

Danske Bank – Credit research platform

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