SCOPE | Ratings

Market Építő Zrt

Hungary, Construction

Rating composition

Business risk profile		
Industry risk profile	B	B+
Competitive position	B+	
Financial risk profile		
Credit metrics	BBB	BBB
Liquidity	+/-0 notches	
Standalone credit assessment		**BB-**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BB-**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	Net interest	Net interest	Net interest	13.5x
Scope-adjusted debt/EBITDA	0.8x	0.8x	1.3x	2.4x
Scope-adjusted funds from operations/debt	128%	112%	76%	33%
Scope-adjusted free operating cash flow/debt	-11%	44%	-20%	11%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenario for the ratings and Outlook:

- Significant improvement in business risk profile, e.g. improved segment or geographic diversification, while credit metrics remain in line with our expectations (unlikely in the short to medium term)

The downside scenario for the ratings and Outlook:

- Debt/EBITDA moving towards 4x, e.g. if investments under the business plan and in real estate projects weigh on leverage.

**All credit metrics refer to Scope-adjusted figures.*

Issuer
BB-

Outlook
Stable

Senior unsecured debt
BB-

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Related methodologies

General Corporate Rating Methodology, February 2025

Construction and Construction Materials Rating Methodology, January 2025

Table of content

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Leader market position in the Hungarian construction market, benefiting from market recognition and economies of scale. This enables the company to realise large-scale projects • Commitment to cost optimisation leading to improved profitability • Good credit metrics supported by low leverage, strong debt protection and liquidity • Capex plan to reduce supply/demand uncertainty, diversify revenue stream and improve supply chain integration	• Small size in a European context, with lack of geographic diversification limiting ability to mitigate economic downturns • Working capital swings than can lead to volatile free operating cash flow generation • Opportunistic investments in real estate weigh on total indebtedness

2. Rating Outlook

The Stable Outlook reflects our expectation that Market will keep leverage below 3x and retain its strong liquidity position. The Outlook is based on total capex of around HUF 41bn over the 2025-27 period and EBITDA of above HUF 20bn per annum, supported by an EBITDA margin of around 8%.

3. Corporate profile

Market leader position in Hungary

Market Építő Zrt. (Market), founded in 1996, is Hungary's leading construction company. With exclusively domestic operations, it employs about 1,500 people and generated HUF 318bn in turnover in 2024. The company's headquarters are in Budapest. Market is owned by Garhartt Invest Zrt. (51%), an investment holding company wholly owned by István Garancsi; and Sándor Scheer (49%), Market's CEO and founder. The company is involved in the construction of buildings, industrial facilities and sport facilities. Building projects encompass offices, public facilities, residential buildings and hotels. Market's industrial projects include logistics centres, auto and tyre production plants and electric battery factories.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
15 Jul 2025	Affirmation	BB-/Stable
19 Jul 2024	Affirmation	BB-/Stable
17 Jul 2023	Affirmation	BB-/Stable

5. Financial overview (financial data in HUF m)

			Scope estimates	
Scope credit ratios	**2023**	**2024**	**2025E**	**2026E**
EBITDA interest cover	Net interest	Net interest	Net interest	13.5x
Debt/EBITDA	0.8x	0.8x	1.3x	2.4x
Funds from operations/debt	128%	112%	76%	33%
Free operating cash flow/debt	-11%	44%	-20%	11%
Liquidity	>200%	>200%	>200%	>200%
EBITDA				
Reported EBITDA	25,257	30,350	34,648	21,821
Other items (incl. one-offs)[1]	-	-	(32)	(30)
EBITDA	**25,257**	**30,350**	**34,616**	**21,791**
Funds from operations (FFO)				
EBITDA	25,257	30,350	34,616	21,791
less: interest	5,475	2,668	1,395	(1,613)
less: cash tax paid	(4,081)	(4,478)	(3,151)	(2,741)
Funds from operations	**26,651**	**28,540**	**32,860**	**17,437**
Free operating cash flow (FOCF)				
Funds from operations	26,651	28,540	32,860	17,437
Change in working capital	(10,817)	6,389	(24,422)	7,631
Non-operating cash flow	(27)	-	-	-
less: capital expenditures (net)	(17,920)	(23,363)	(16,849)	(19,024)
less: lease amortisation	(239)	(239)	(277)	(277)
Free operating cash flow	**(2,352)**	**11,327**	**(8,688)**	**5,767**
Interest				
Net cash interest per cash flow statement	(5,475)	(2,668)	(1,395)	1,613
Interest	**(5,475)**	**(2,668)**	**(1,395)**	**1,613**
Debt				
Reported financial (senior) debt	61,543	75,558	73,481	88,625
less: cash and cash equivalents[2]	(66,469)	(83,482)	(50,021)	(59,023)
add: non-accessible cash	25,669	33,393	20,008	23,609
Debt	**20,743**	**25,469**	**43,469**	**53,211**

1 Change in provisions

2 We expect the cash balance to be high going forward. However, it might be used to cover cash needs related to the Market Asset Management division and fund additional growth (both organic and external), as the issuer has stated that it would be opportunistic in this regard. We therefore consider 40% of cash to be non-accessible.

6. Environmental, social and governance (ESG) profile[3]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

Reduction of CO2e emissions

The construction industry has a large impact on the environment. Environmental efforts are largely focused on reducing energy usage and associated emissions. Attempts are also being made to find innovative supply products and to internalise the production of materials to better manage supply chains and reduce the risk of disruptions. Market is the first construction company in Hungary to issue an ESG report, which demonstrates its commitment to ESG. Based on 2023 data, the company has managed to reduce aggregated Scope 1 &2 CO2e emissions to 11,085 t in 2023 from 13,200 t in 2021. As a result, Market is less exposed to potentially stricter regulation or reputational risks.

[3] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: B+

Industry risk profile: B

Market's activities remain focussed on the construction of buildings, industrial facilities and sport facilities. Building projects encompass office buildings, logistic premises, public facilities, residential buildings and hotels. However, based on our methodology, this wide range does not provide adequate diversification, as the projects belong to the same operating subsegment (the structures are built on a similar basis; only the end users differ). Despite Market's expansion into real estate projects, its industry risk profile remains unchanged and is related only to the construction sector. Overall, we consider the construction of buildings to be highly cyclical, with low barriers to entry and low substitution risk.

Small in European context but with established market leader position in Hungary

Market is a relatively small player in the European construction industry but the largest local construction company by turnover in Hungary. It has a strong footprint in central Hungary (including the Budapest region, which accounts for almost half of the country's construction sector), where it derives much of its revenue from a sizeable pool of large projects. The building subsegment is larger than the civil engineering subsegment in Hungary (60% versus 40%), and has also been more dynamic than the latter.

The construction sector in Hungary has faced heightened uncertainty in recent years due to a shrinking pool of public construction projects. This has increased competition for private sector projects and intensified pressure on the margins of companies in the sector. Despite unfavourable conditions in the Hungarian construction market, Market still benefits from its scale and has continued to win new projects, as various projects are often too large for other players in the market. The company has performed well in recent years. However, it remains small in terms of revenue and EBITDA and is limited by its core and only exposure to Hungary, a relatively small market. Market's strategy is to solely focus on large, visible projects. The company manages between 50 and 60 projects a year.

Limited diversification

Most activities relate to only one subsegment in one industry (building construction). While they serve different end markets, especially industrial, office, public and residential, these types of construction are similar – built on a similar basis with different end uses.

Geographical diversification remains limited, as the company's activities are concentrated in its domestic market. Market's activities are currently exposed to Hungary, where it has taken advantage of the construction sector's strong growth. This full exposure to the macroeconomy of one country is compounded by the focus on construction, a cyclical industry in which market downturns tend to seriously affect revenues and earnings.

Market's limited size results in high customer concentration, as only a few projects can be executed simultaneously. As a result, both profitability and operating cash flow can be greatly affected by the failure of single project. This lack of diversification is partially mitigated by strong relationships with local and international clients.

Development of real estate projects slightly improves diversification

In order to diversify its activities, Market has expanded its property development operations. The projects are developed by its subsidiary Market Asset Management and mainly comprise the BEM Palace and three luxury residential projects as part of Market's extended strategy launched in 2020. This major growth plan is financed through a mix of bonds issued under the Hungarian National Bank's programme and secured bank loans. These projects are developed in-house to support Market's contracting business.

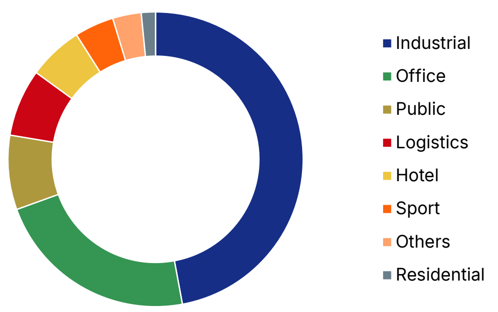
Real estate development exposes the company to different demand patterns. They are mainly focused on boutique real estate investments in prestigious locations. Projects include office & residential buildings, followed by premium hotels, as well as combination of hotel and office buildings. Real estate projects positioned at the upper end segment, developed in cooperation with international hospitality brands, are expected to generate higher returns in the long term. Nevertheless, we point out that such premium, niche projects are likely to have more selected investors compared to more commercial, middle-market projects.

While Market has reduced concentration risk by expanding into real estate development, we expect the construction segment to remain the largest contributor to the company's revenues in the coming years.

Strong but concentrated backlog mitigated by cooperation with high quality customers

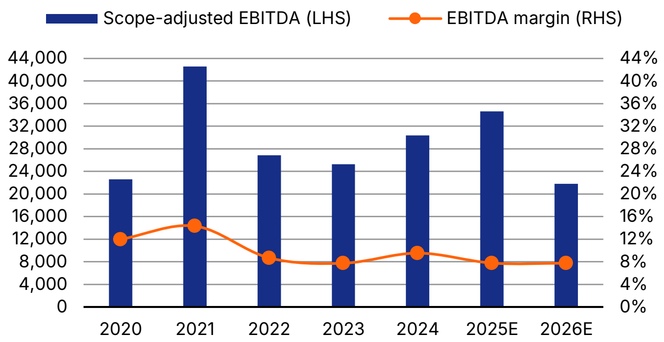
Market's backlog of projects totalled HUF 648bn as of June 2025 (HUF 590bn as of June 2024) representing 2.0x of its three-year average revenues to 2024 and providing top line visibility for the next two years. Market's backlog remains concentrated in terms of number of projects and across business segments, with a clear bias towards buildings projects. The three main projects account for 44% of the 2025 backlog, mainly pertaining to the Budapart project valued at HUF 258bn.

Figure 1: Revenue breakdown by property type, 2024



Sources: Market, Scope

Figure 2: Profitability (EBITDA in HUF m)



Sources: Market, Scope estimates

Cost optimisation has improved profitability

In 2024, the company used the economic slowdown in the construction industry to focus on various consolidation and efficiency measures. As a result, the EBITDA margin recovered to 9.7% in 2024 from 7.7% in 2023 driven by: i) cost optimisation; ii) more efficient procurement activities; iii) prudent cost management; iv) data-driven operations; and v) the introduction of a lean[4] approach. In addition, Market is continuing to explore alternative products and procurement sources in order to maintain and further improve its cost advantage and reduce the risk of supply chain disruptions. To ensure an adequate supply of raw materials, Market has started a strategic cooperation to build a mineral rockwool insulation through a joint venture with Masterplast. Similar to the ramp-up of the PreBeton concrete, the new factory enables Market to source part of its raw materials internally, providing additional control over its supply chain.

Market's large backlog and position in the Hungarian market as one of the largest and most visible contractors affords some bargaining power with its suppliers. We anticipate that the company's EBITDA margin will stabilise at around 8% in the next few years. This is based on a more predictable cost environment and Market's focus on larger projects so as to benefit from economies of scale and reduce the incidence of loss-making projects.

8. Financial risk profile: BBB

Leverage negatively impacted by development of real estate projects

Market's creditworthiness is supported by very low leverage with debt/EBITDA of 0.8x in 2024. This was driven by improved profitability as EBITDA increased to HUF 30bn in 2024 from HUF 25bn in 2023. We anticipate that leverage will increase to above 2x in 2026 driven by Market's intention to increase its bank debt by an additional HUF 18bn to support investments in three luxury office and residential real estate projects. The company's strategy focuses on real estate projects in which Market is the main contractor, allowing it to maximise its operating capacity. Delays or cost overruns in the development pipeline, as well as low pre-sale or pre-letting rates, could force the company to provide fresh funding for these investments or result in reputational damage.

Strong debt protection

EBITDA interest cover remains strong, with positive net interest income in 2024. This was supported by higher interest income and stable interest paid, as the HUF 42bn of bond debt has

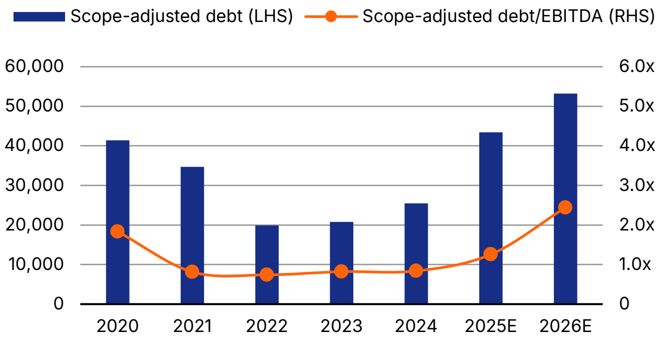
[4] Business strategy focused on streamlining processes, reducing delays and eliminating non-value-added activities.

fixed interest rates of 2.7% and 2.95%. We expect higher financial expenses in the coming years amid Market's partially debt-funded investment phase. As a result, EBITDA interest cover will drop to around 13x by the end of 2026.

Volatile free operating cash flow due to working capital swings

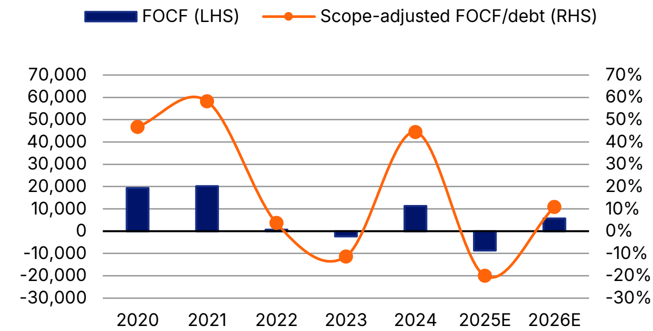
Historically, free operating cash flow has been very volatile, driven by working capital swings and the gradual rise in capex. This volatility is likely to persist due to high capex in the 2025-2027 period (totalling about HUF 41bn) including the expansion of real estate investments. Although a large part of the capex plan is discretionary, some projects are ongoing and will weigh on FOCF in 2025, turning it negative. Since Market remains opportunistic regarding real estate projects and could take on more projects in the near future, we believe that the company will use its available cash balance between 2025 and 2026 for new investments.

Figure 3: Expected debt and leverage (debt in HUF m)



Sources: Market, Scope estimates

Figure 4: Cash flow volatility (FOCF in HUF m)



Sources: Market, Scope estimates

Adequate liquidity supported by unrestricted cash headroom

We assess liquidity as adequate. The HUF 2bn and HUF 2.8bn of short-term debt maturing in 2025 and 2026 respectively is fully covered by the unrestricted cash balance of HUF 50bn as at YE 2024. We consider 40% of cash to be non-accessible. We also note Market's good relationship with financial institutions. The credit facilities are provided by five different banks, including large Hungarian banks such as MBH and OTP as well as international financial institutions including Raiffeisen Bank and Unicredit Group. In addition, the company has HUF 216bn of bank guarantee limits (HUF 102bn available at YE 2024), which can be used for future activities.

We highlight that Market's senior unsecured bonds issued under the Hungarian National Bank's Bond Funding for Growth Scheme have a covenant requiring the accelerated repayment of the outstanding nominal debt amount if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B-. If this does not happen the remaining outstanding amount must be split into equal amounts for the remaining duration and will be repaid at each coupon payment dates until maturity. Such a development could adversely affect the group's liquidity profile. The rating headroom to entering the grace period is one notch. We therefore see no significant risk of the rating-related covenant being triggered. In addition, if the rating deteriorates, then the group may not pay dividends or other pay-outs to shareholders, may not increase its debt amount.

Table 1. Liquidity sources and uses (in HUF m)

	2024	2025E	2026E
Unrestricted cash (t-1)	40,800	50,089	25,562
Open committed credit lines (t-1)[5]	0	0	0
FOCF (t)	11,327	(8,688)	5,767
Short-term debt (t-1)	1,860	2,077	2,876
Liquidity	**>200%**	**>200%**	**>200%**

Sources: Market, Scope estimates

[5] Only credit lines with maturity of more than 12 months are included in the calculation

9. Long-term debt rating

Senior unsecured debt rating: BB-

We have affirmed Market's senior unsecured debt rating at BB-. The rating is based on a going-concern scenario as of year-end 2026. The recovery rate is "above average" for senior unsecured debt. The rating is kept at the same level as the issuer rating, due to discretionary nature of the real estate projects, which can lead to introduction of the new secured debt, ultimately having a negative impact on the recovery expectations.

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