KÉSZ Holding Zrt.
Hungary, Construction

BB- NEGATIVE

Key metrics

		Scope estimates		
Scope credit ratios	**2022**	**2023P**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	24.0x	5.9x	5.2x	4.1x
Scope-adjusted debt/EBITDA	2.9x	2.9x	3.5x	4.3x
Scope-adjusted FFO/debt	18%	23%	19%	15%
Scope-adjusted FOCF/debt	-9%	-68%	-38%	-35%

Rating rationale

The rating is supported by KÉSZ's position as the third-largest construction company in Hungary. KÉSZ's subsidiaries operate in designing, manufacturing, and implementing new construction projects. The group's vertical integration makes it a one-stop shop for companies looking to implement new construction projects. While KÉSZ's main activity is construction, accounting for 67% of revenue in FY 2023, the group has a number of other business lines providing segment diversification and revenue streams that are not dependent on the construction cycle. The spread of activities partially limits cash flow volatility and supports profitability.

The main constraint on the rating is the group's exposure to the high cyclicality of the construction sector, combined with limited geographic diversification, which weakens their ability to mitigate economic cycles. The Negative Outlook reflects the risk of persistent deterioration in the operating performance with weaker than expected Scope-adjusted EBITDA and EBITDA margin which could ultimately lead to a weaker financial risk profile.

Outlook and rating-change drivers

The Negative Outlook is driven by the risk of an increase in leverage, caused by the potential deterioration in future revenues, given the lower order backlog in 2024 compared to 2023. The order backlog faces potential pressures, with visibility on the top line for 2024 but limited visibility for 2025. The Negative Outlook also reflects the risk of persistent deterioration in the operating performance – weaker than expected Scope-adjusted EBITDA and EBITDA margin - which could ultimately lead to a weaker financial risk profile. The Negative Outlook also considers the possible reputational damage to KÉSZ's standing in the Hungarian construction industry, however, we view this as limited for the time being. The Outlook considers the group's commitment to a cautious financial approach, particularly regarding the distribution of dividends and investments for expansion, and continued access to performance guarantees.

A positive rating action, such as a revision of the Outlook back to Stable, may be warranted if the company can enhance visibility on sales beyond 2024 through successful tenders for new mandates, ensuring the backlog consistently remains above 1x. Furthermore, this is contingent upon the non-materialisation of our concerns regarding KÉSZ's weak credit metrics, with leverage as measured by the company's Scope-adjusted debt/EBITDA (incl. netting of cash seen permanent) staying below 4.0x on a sustained basis.

A downgrade could be required if KÉSZ's leverage significantly deteriorated to above 4.0x on a sustained basis or if KÉSZ's order backlog dropped below 1x. Such a scenario could be caused by a deterioration in market conditions, leading to fewer projects being added to the backlog, or if the company is impacted by the ongoing dispute, Duna Terasz Grande, which would affect its ability to secure new projects.

Ratings & Outlook

Issuer	BB-/Negative
Senior unsecured guaranteed bonds	
ISIN: HU0000360466	BB
ISIN: HU0000360870	BB

Analysts

Rigel Patricia Scheller
+49 30 27891 319
r.scheller@scoperatings.com

Patrick Murphy
+49 69 667738 903
p.murphy@scoperatings.com

Related Methodologies/ Research

General Corporate Rating Methodology; October 2023

Construction and Construction Materials Rating Methodology; January 2024

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

in

Bloomberg: RESP SCOP

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
04 Apr 2024	Outlook change	BB-/Negative
30 Mar 2023	New	BB-/Stable

Positive rating drivers

- Long-established market position in domestic markets, ranking in the top three construction companies in Hungary
- Vertical integration strategy that benefits the group during tenders, due to the group's independence from external subcontractors, with a high degree of their own resources covering the construction and civil engineering supply chain
- High portion of fixed-rate debt issued (70% as of December 2023)

Negative rating drivers

- Relatively small-scale construction company in the European context exposing it to the cyclical and competitive construction industry, somewhat mitigated by the groups' exposure to other business segments
- Limited geographic diversification with over 90% of revenue generated in Hungary and higher-risk Central Eastern European countries, leaving cash flow vulnerable to an industry cooldown
- Concentration among domestic customers in view of the contracted volumes in the construction segment
- High costs for building materials and labour likely to continue to stress profit margins
- Weaker contracted backlog (1.3x of average 2021-2023 revenues as at March 2024) compared to previous years

Positive rating-change drivers

- Scope-adjusted debt/EBITDA of below 4.0x on a sustained basis
- Contracted backlog to remain above 1x on a sustained basis.

Negative rating-change drivers

- Scope-adjusted debt/EBITDA moving above 4.0x
- Backlog to fall below 1x

Corporate profile

KÉSZ was established in 1982 as a family-run business and is now one of the largest construction companies in Hungary. As an independent group of companies, KÉSZ aims to become one of the leading construction companies in Central and Eastern Europe through investments and project development in domestic and international markets. One of the leading domestic players in construction, KÉSZ has built numerous prominent industrial facilities, office buildings, shopping and logistics centres, sports venues, hotels and housing facilities (e.g. Kossuth Lajos Square, Mercedes-Benz factory, LEGO factory, Budapest Airport Sky Court, Sheraton Hotel, Duna Arena Swimming Complex).

KÉSZ Holding Zrt., the group's holding company, was formed in 2007 to provide a clearer company structure and to professionalise the investment and asset management activities in Hungary and abroad. To date, KÉSZ has implemented more than 3,100 projects and has developed over 5 million sq m in more than 12 countries. The group employs over 2,000 people and a revenue of HUF 232bn for 2023P (2022: HUF 218bn).

Financial overview

			Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023P**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	16.2x	24.0x	5.9x	5.2x	4.1x
Scope-adjusted debt/EBITDA	2.8x	2.9x	2.9x	3.5x	4.3x
Scope-adjusted FFO/debt	26%	18%	23%	19%	15%
Scope-adjusted FOCF/debt	-8%	-9%	-68%	-38%	-35%
Scope-adjusted EBITDA in					
EBITDA	16,716	13,137	12,884	12,447	11,309
Other items[1]	-2,573	0	0	0	0
Scope-adjusted EBITDA	**14,143**	**13,137**	**12,884**	**12,447**	**11,309**
Funds from operations in					
Scope-adjusted EBITDA	14,143	13,137	12,884	12,447	11,309
less: (net) cash interest paid	-872	-547	-2,188	-2,390	-2,759
less: cash tax paid per cash flow statement	-1,967	-2,447	642	-413	-126
less: profit for minority shareholdings	-971	-3,145	-2,707	-1,132	-1,033
Change in provisions	0	0	0	0	0
FFO	**10,333**	**6,997**	**8,631**	**8,512**	**7,391**
Free operating cash flow in HUF m					
Funds from operations	10,333	6,997	8,631	8,512	7,391
Change in working capital	-11,620	6,198	-8,045	-6,051	-11,705
Capital expenditure	-1,769	-16,701	-25,758	-19,299	-13,105
Divestments	0	0	0	0	0
FOCF	**-3,056**	**-3,506**	**-25,171**	**-16,838**	**-17,418**
Net cash interest paid in HUF m					
Net cash interest per cash flow statement	-872	-547	-2,188	-2,390	-2,759
Change in other items	0	0	0	0	0
Net cash interest paid	**-872**	**-547**	**-2,188**	**-2,390**	**-2,759**
Scope-adjusted debt in HUF m					
Reported gross financial debt	52,834	49,076	57,533	55,827	60,787
add: derivatives	0	0	0	0	0
less: cash	-45,680	-25,848	-38,470	-24,963	-15,190
add: restricted cash[2]	32,541	15,000	18,000	13,000	3,500
Scope-adjusted debt	**39,695**	**38,228**	**37,064**	**43,863**	**49,097**

[1] Relates to an exception gain in 2021 from the sale of properties and loss attributed to the Russia-Ukraine war.
[2] While the cash balance will remain high, part of it is earmarked for financing the group's investment plan.

Table of Content

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)	

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

ESG neutral

We did not identify any ESG-related rating driver that would have a relevant impact on our overall assessment of credit risk.

Given the extensive environmental impact of the construction industry, medium-to-large companies, including KÉSZ Group, increasingly seek to reduce the use of energy and non-renewable materials as well as limit the environmental footprint of construction projects throughout the supply chain. This aligns with efforts to mitigate climate-related risks in line with the Paris Climate Agreement. The social aspect is also relevant, especially regarding practices that could severely impair the group's reputation and financial performance (e.g. corruption, stakeholder management). The KÉSZ Group published its first concise ESG report in 2023.

The following ESG risks are the most relevant for companies in the segment: i) waste and sustainable building materials; ii) efficient technology; iii) employee health and safety; and iv) litigation, bribery and regulatory risk.[4]

[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.
[4] ESG consideration for construction companies, Scope Ratings December 2022.

Business risk profile: B+

Industry risk profile: B+

KÉSZ's activities are primarily exposed to construction activities that contributed around 70% of revenues in previous years. Additionally, KÉSZ has extended their capabilities in the last two decades into the fields of steel structure manufacturing, design, value engineering, energy performance certificate contracting, ship-building, hydraulic engineering, and renewable energy projects. The group has also launched a new, smaller division in business solutions (IT services, facility management, business and marketing consulting, fleet management, factoring, hotel operation, innovation HUB etc).

Given that KÉSZ is active in various segments within the construction sector and focuses on large to medium sized projects subject to high entry barriers, together with the generally high cyclicality and low substitution risk of the construction industry, this leads to a blended industry risk assessment of B+.

Small in a European context but with stablished market position, ranked top 3 in Hungary

KÉSZ is a relatively small player in the construction industry in a European context but is the third largest local construction company by turnover in Hungary. The group achieved a milestone in 2023, marking it as a record year with revenues climbing to HUF 232bn (based on preliminary figures), thereby exceeding the previously forecasted HUF 220bn. Although it has performed well in recent years, the group expects relative lower revenues in the next few years, due to the general pressure on the general contracting segment that faces increased competition. Being small on a European scale restricts the group's capacity to leverage economies of scale or to mitigate the effects of economic cycles, given its substantial exposure to the domestic market.

The reported EBITDA for KÉSZ was HUF 10bn in 2023 (based on preliminary figures), marking a decline from the previous year's HUF 13.2bn. This decrease can be attributed in part to a HUF 2.8bn provision made for one of KÉSZ's projects, the residential development Duna Terasz Grande, in which KÉSZ served as the general contractor.

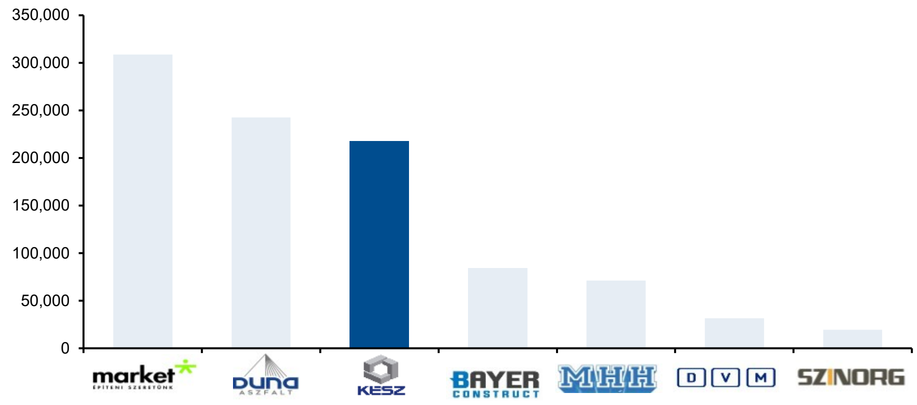
This provision, which represents 10% of the total contract value, has been allocated for a dispute with the client that is currently ongoing. KÉSZ has assured us that this provision fully encompasses the associated financial risk. However, the current dispute could potentially impact KÉSZ's reputation in the Hungarian construction market, underlining the importance of a prompt and positive resolution. We will closely monitor the development of the ongoing dispute and will assess any potential impact to KÉSZ's standing in the construction industry. However, we view this risk as limited for the time being, as the group's market position is supported by their strong position in Hungary as it is a domestic leader in building construction, with a highly reputable project portfolio and an international presence in Central and Eastern Europe.

As at March 2024, 5% of the order backlog corresponds to projects related to residential developments.

Vertical integration as a differentiating factor from their peers

This long-pursued vertical integration strategy affords KÉSZ competitive advantages over other market players, offering strategic benefits in accessing raw materials, new markets, and large tenders. In addition, their dedicated growth strategy, underpinned by the issuance of two bonds, has allowed the group to grow significantly in the past three years, aided by the successful tendering of larger projects. We believe this integration will continue to support KÉSZ's business, however, we note some downside risk of being a conglomerate, as this could result in limited room for maneuver their cost structure, which could lead to a prolonged period of deprived profitability. To mitigate this, KÉSZ intends to enhance profitability by focusing on more specialised construction works – which offer higher profit margins – and optimising the group's organisation.

Figure 1: Hungarian peers by Revenues, 2022 (HUF m)



Sources: public information, Scope

Limited diversification, but expected to improve over next years

Geographic diversification is weak, as about 90% of revenue was generated in KÉSZ's domestic market in 2023. The group has focused on increasing projects in other geographies. As such, diversification is set to improve in the next few years as KÉSZ expands its operations in Romania and Ukraine (35% of the order backlog as at March 2024), marking a strategic shift from its previously Hungary-centric focus.

The Romanian and Ukrainian projects, include a significant contract with STIHL, the German manufacturer of chainsaws and other handheld equipment, and two projects in Ukraine amidst challenging conditions. Alongside this, the group has also begun to expand its footprint in the US, with some minor projects, which underscore a deliberate effort towards geographical and operational diversification. This strategic shift is critical, especially as Hungarian sales volumes are expected to decline in 2024. In Ukraine, the most immediate risks include project delays or cancellations, due to the ongoing war with Russia, highlighting the need for robust contingency planning. Moreover, venturing into the US market carries its own set of execution challenges, including navigating new regulatory landscapes and logistical hurdles. However, we assess these risks as manageable, especially when considering the small scale of the US project relative to the total order backlog.

Business profile driven by construction activities

The flagship of the KÉSZ Group is KÉSZ Építő PLC, which is expected to account for 66% of total revenue in 2024. KÉSZ undertakes over 70+ projects every year of different sizes, and they currently have 12 projects each valued at EUR 10m or more for 2024, similar level to 2023. The group has completed many large construction projects in the past, and its clients include LEGO, SK Innovation, Samsung, Toray, BMW, Mercedes, STIHL and SMR.

Segment diversification remains supportive for the rating

KÉSZ operates across various business segments, offering diversified income streams that partially mitigate its exposure to the construction industry. The group boasts a broad portfolio of business units whose activities overlap and complement each other. Specialising not only in general construction, KÉSZ also delivers complex and integrated solutions. From design through implementation to operation, the group is capable of executing all related tasks and services required by their customers.

Energy segment vulnerable to price volatility

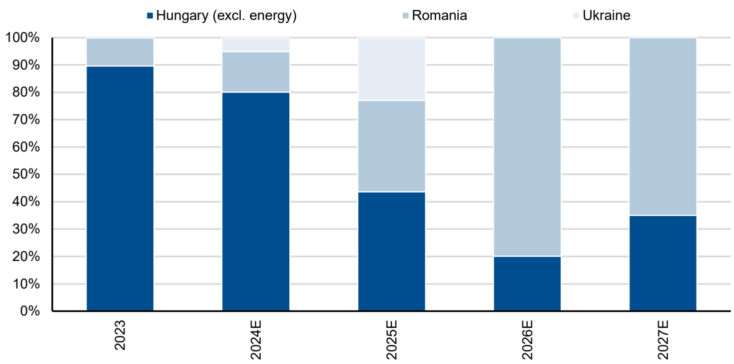
KÉSZ's acquisition of Greenergy in 2020 marked its entry into the energy market. Greenergy is a very small utility operator in Hungary. While the segment demonstrates strong performance in volume, the contracts are influenced by variable prices, which significantly decreased in 2023. As such revenue contributions from this segment are expected to be lower than originally forecasted.

Real estate own developments to support diversification

The group aims to expand activities in the real estate segment with upcoming residential developments in Serbia and Romania, and the construction of the Tilia Office building in Szeged, Hungary. Although the residential projects have faced delays due to the prevailing interest rate environment, the construction of the Tilia Office building commenced in Q4 2023. Structural works are currently in progress, and KÉSZ has already secured an international anchor tenant for the building. For the residential developments, the land has been acquired, with construction set to begin as soon as the necessary permits are obtained.

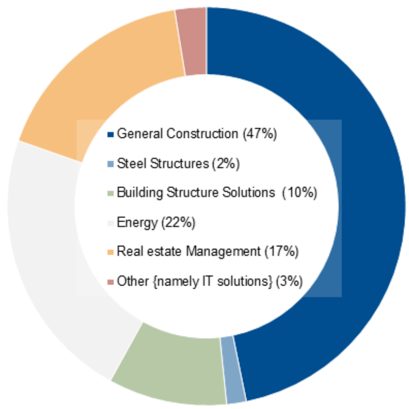
While we acknowledge KÉSZ achievements in reducing existing concentration risk, we expect the construction segment to continue to contribute to the largest portion of them groups revenues over the next number of years.

Figure 2: Geographical diversification of revenue



Sources: KÉSZ, Scope

Figure 3: Backlog breakdown as of March 2024



Sources: KÉSZ, Scope

Low profitability but expected to stabilize due to focus on higher-margin segments

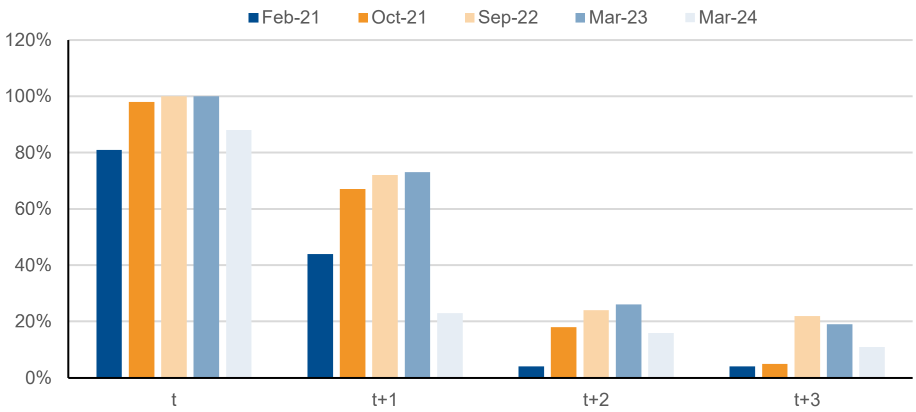
Profitability, as measured by the Scope-adjusted EBITDA margin, declined to 5.5% (6% in 2022), impacted by inflation and high raw material costs. However, with raw material prices stabilising and inflation in Hungary showing signs of abating, profitability is expected to stabilise around 6% for 2024 and 2025. This improvement is anticipated due to a more predictable cost environment, which is likely to reduce the incidence of loss-making projects. Additionally, there is a focus on higher-margin segments, such as steel structures manufacturing, technological and electrical implementation, and building structure solutions, which represented 16% of the backlog in 2024, up from 12% in 2023.

Lower visibility on future revenues compared to 2023

After years of fiscal stimulus – linked to EU funding priorities – boosted the Hungarian construction market, tenders have become scarcer, and the competition has intensified. Local construction companies have also benefited from foreign direct investment in the industry, but contracted volumes are expected to slow down.

KÉSZ's backlog of projects, which excludes energy revenues, has weakened, equating to 1.3x the average revenue of the last three years (1.7x in 2023), evidencing a reduction in the volume of projects commencing in 2024. There is good visibility on the top line for 2024, but the group could face potential pressure on revenue and cash flow generation in 2025, due to the lower order backlog. Despite a notable reduction in the order intake and energy revenue (reflecting a downward adjustment in energy prices) the group remains buoyed by its ability to win new projects currently out for tender, based on its existing relationship with certain clients and its strong foothold in its domestic market. In addition, the current backlog is now more evenly distributed among the top 10 projects (represented 52% of the backlog as of March 2024), which ensures a healthier diversification of risk and opportunity. The composition of KÉSZ's order backlog has evolved, becoming more diversified as larger projects like BMW, LEGO, and Mercedes-Benz approach completion.

Figure 4: Revenue visibility according to contracted backlog (2021 – 2024)



Sources: KÉSZ, Scope

The anticipated recovery in the macroeconomic conditions in Hungary in the second half of 2024 could herald new business opportunities. This expected upturn, if realised, may stabilise the group, enhancing revenue and pipeline visibility. The group is aided by around HUF 300bn in projects currently out for tender that could improve the revenue visibility for the coming years.

Financial risk profile: BB-

Weaker financial risk profile due to lower visibility of future cash generation

The revision of the financial risk profile to BB- from BB reflects the expected weaker credit metrics, primarily leverage, caused by the potential deterioration in future revenues and EBITDA much lower than originally forecasted due to a drop-off in demand for construction.

KÉSZ’s main drivers of indebtedness are the corporate bonds issued under the Hungarian Central Bank’s Bond Funding for Growth Scheme to partially finance their significant capex programme. Interest-bearing debt increased from HUF 22bn in 2020 to HUF 48bn in 2022, due to the issuance of two bond facilities (HUF 22bn in June 2021 and HUF 11bn in November 2021) and one issued by the 51% KÉSZ’s subsidiary, Greenergy[5] (HUF 5.7bn bond issued in September 2021).

Debt protection expected to decrease but to remain adequate for the rating category

Scope-adjusted EBITDA interest cover stood at 5.9x in 2023, a decrease from the previous year's 24x in 2022. Debt protection metrics were impacted by lower-than-expected EBITDA and higher net interest expenses in 2023. We expect debt protection will remain at this level in 2024 but could begin to deteriorate in 2025 if there the is not an improvement in the order backlog.

The group benefited from the low-interest rate environment prior to the Ukraine/Russia war. As such, for YE 2023, the group had HUF 38.7bn in bonds, fixed at an average rate of 3.2%, and an average maturity of 7.6 years. The group has HUF 18.8bn in bank debt, 90% from it subject to variable interest rates, introducing interest variation risk. KÉSZ intends to increase the share of contracted fixed-rate debt in the short-to-medium term. The bank debt includes HUF 10.9bn denominated in euros, adding FX risk and further interest rate variability. However, we believe it is unlikely that interest rates will rise further in 2024, with

[5] There is no guarantee by KÉSZ group for debt issued by Greenergy Holding and there’s also no recourse of creditors for Greenergy to the final parent, i.e. the KÉSZ Group.

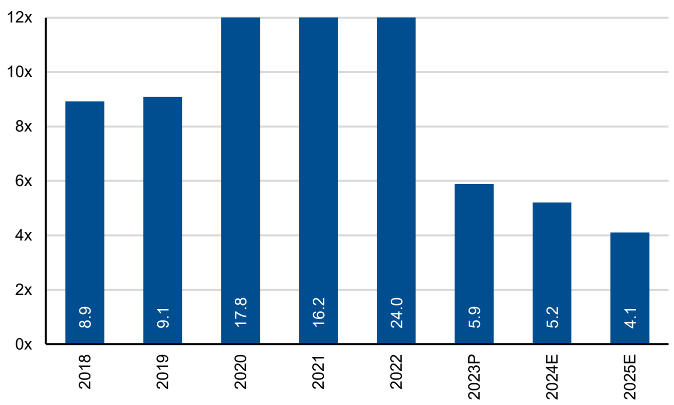
indications that central banks are expected to begin cutting rates in 2024. Additionally, the FX risk is partially offset, as 77.2% of the order backlog is in euros.

Further investments dependent on external financing

Over the last few years, KÉSZ has increased their capital expenditure significantly at the cost of FOCF. As at March 2024, KÉSZ plans to spend around HUF 19bn in capex in 2024, a further HUF 13bn in 2025. Their capex strategy places emphasis on increasing diversification and includes their own real estate development projects, with the aim of renting or selling upon completion.

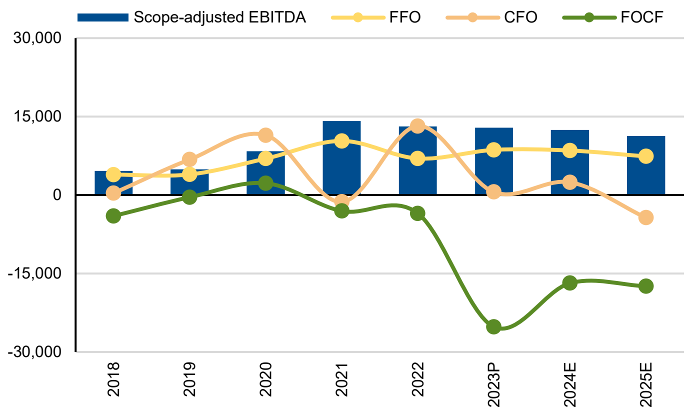
KÉSZ faces limited financing needs, with the exception of working capital, but changes in the tendering model in Hungary have seen larger clients provide 'advance payments' (interest-free) in the region of 10 – 20% of the contract value, in order to ensure the contractors are fully resourced and to prevent project delays. Furthermore, KÉSZ has HUF 3.8bn in unused credit facilities committed for more than 1 year (YE 2023), spread across a number of banks. FOCF will remain negative throughout 2024 and 2025, due to capex in KÉSZ's Real Estate and Energy divisions, before recovering to a more normalised level in 2026 with the release of cash from the sale of the ambitious developments in Romania. Consequently, we forecast cash flow cover to remain negative in the medium term.

Figure 5: Scope-adjusted EBITDA interest cover (x)



Sources: KÉSZ, Scope estimates

Figure 6: Cash flow (HUF m)

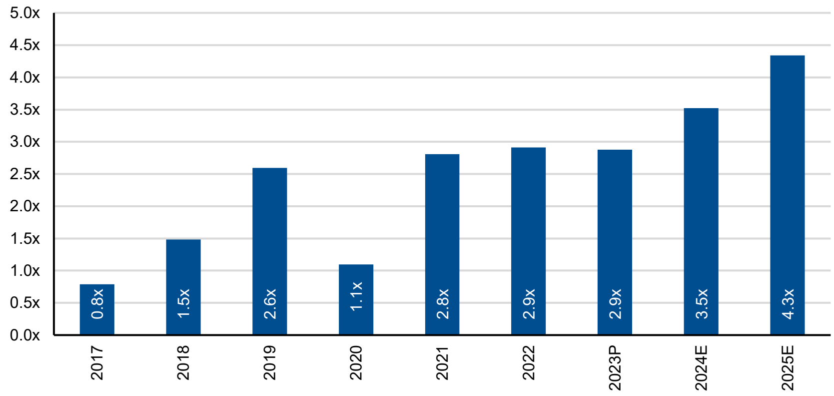


Sources: KÉSZ, Scope estimates

Increasing leverage

Scope-adjusted debt/EBITDA stood at 2.9x as at YE 2023, based on preliminary figures. Interest-bearing debt increased to HUF 57.5bn as at YE 2023 (up HUF 8.5bn YoY), lower than the HUF 67bn originally forecasted. Debt levels are expected to remain stable in the short to medium term, as the group has limited financing needs. The first bond repayments do not start until 2026. However, while the backlog offers good visibility on the 2024 revenue stream, we have limited visibility for 2025, with only 25% of the issuer's planned revenue for 2025 contracted to date. The issuer was in a much stronger position in March 2023, with almost 73% contracted. As such, the Scope-adjusted debt/EBITDA could deteriorate significantly in the next 12 to 18 months, to above 4x, if the issuer is not able to convert its project pipeline into contracted projects.

Figure 7: Leverage (Scope-adjusted debt/EBITDA)



Sources: KÉSZ, Scope estimates

Adequate liquidity

Liquidity is adequate, as sources (HUF 38.5bn of cash and HUF 3.8bn in undrawn credit lines available as at YE 2023) cover uses (HUF 7.6bn in short-term debt as at YE 2023 and negative FOCF of HUF 15.9bn forecasted for 2024). Aside from the repayment of short-term debt, we anticipate positive FOCF from 2026 onward, once investment projects have been completed and sold, and a number of larger ticket projects have also been completed, primarily the developments in Romania, which will further support liquidity.

Balance HUF m	2023P	2024E	2025E
Unrestricted cash (t-1)	25,848	38,470	24,963
Open committed credit lines (t-1)[6]	3,500	3,800	3,800
Free operating cash flow (t)	-25,171	-16,838	-17,418
Short-term debt (t-1)	5,581	7,621	3,515
Coverage	**75%**	**>200%**	**>200%**

Long-term debt ratings

Senior unsecured guaranteed bonds rated at BB

In June 2021, KÉSZ issued a HUF 22bn senior unsecured bond (ISIN: HU0000360466) through the Hungarian Central Bank's Bond Funding for Growth Scheme. This was followed by a second issuance of HUF 11bn senior unsecured bond (ISIN: HU0000360870) in November 2021 under the same scheme. Both are guaranteed by KÉSZ Építő Zrt., KÉSZ Ipari Gyártó Kft. and Matech Magyar Technológiai Kft., all subsidiaries of the issuer. The proceeds of the bonds were used to support the group's working capital financing needs and to secure long-term funding for group-wide expansion plans. Both instruments have a tenor of 10 years, with the HUF 22bn bond having a fixed coupon of 2.8% and the HUF 11bn bond having a fixed coupon of 4.1%. The repayments of both instruments are structured in five tranches starting from 2026, with 10% of the face value payable yearly, and 50% balloon payment at maturity.

We highlight that Kész's guaranteed senior unsecured bonds issued under the Hungarian National Bank's Bond Funding for Growth Scheme, include a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 33bn) if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 30 days). Such a development could adversely affect the group's liquidity profile. The rating headroom before entering the grace period is two notches. We therefore see no significant risk of the rating-related covenant being triggered.

[6] Considers only available credit lines committed for over one year.

In addition to the rating deterioration covenant, other covenants include (i) change of control, (ii) maximum dividend of 50% of the profit before taxes, and (iii) a consolidated net debt/EBITDA above 4x in the last three years of the bond tenor.

Our recovery analysis is based on a hypothetical default in 2025, which assumes outstanding senior unsecured debt of HUF 33bn in addition to HUF 22bn in bank loans, payables of HUF 29bn and other financial obligations of HUF 6.9bn, assuming the group draws on available overdrafts. The recovery assessment results in an 'above-average' recovery for senior unsecured guaranteed bonds (ISIN: HU0000360466, ISIN: HU0000360870), which translate into a BB rating one notch above the underlying issuer rating. However, any potential additional uplift is limited by the risks associated with an increase in senior secured debt on the path to default.

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer