D.V.M. Group Kft

Hungary, Construction & Materials

Issuer
B

Outlook
Negative

Senior unsecured debt
B+

Rating composition

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

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024P****	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	Net interest income		14.6x	4.9x
Scope-adjusted debt/EBITDA	15.1x	7.3x	6.1x	8.7x
Scope-adjusted funds from operations/debt	10%	16%	14%	8%
Scope-adjusted free operating cash flow/debt	-57%	16%	11%	10%
Liquidity	168%	>200%	>200%	126%

Rating sensitivities

The upside scenarios for the ratings and Outlook are (individually):

- Debt/EBITDA improving to below 6x
- Significant recovery in the company's cash position, reaching a level comparable to the company's gross indebtedness

The downside scenarios for the ratings and Outlook are (collectively):

- Debt/EBITDA ratio exceeding 6x beyond 2025, indicating sustained high leverage
- Lack of significant recovery in the company's cash position, failing to reach a level comparable to the company's gross indebtedness

**All credit metrics refer to Scope-adjusted figures*
***All 2024 figures based on preliminary results*

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Related methodologies

General Corporate Rating Methodology, February 2025

Construction and Construction Materials Rating Methodology, January 2025

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• DVM's integrated turnkey offering provides operational advantages in project execution (e.g., faster delivery, bundled services) • Moderate interest cover that benefited from low cost of debt • Weakening, but supportive backlog-to-sales ratio (1.7x as of December 2024), still concentrated in a limited number of projects (top three projects account for 72% of backlog) • Adequate liquidity, with cash and cash equivalents of HUF 2.7bn as at December 2024	• Small-scale construction company in the European context, with a lack of geographic diversification exposing it to its domestic construction industry, leaving cash flows vulnerable • Heightened leverage with debt/EBITDA ratio above 6x amid pressure on the company's profitability • Low profitability, as measured by the EBITDA margin, which remained below 5% due to increasing material costs and high personal costs

2. Rating Outlook

The Negative Outlook reflects the risk that leverage (debt/EBITDA) remains above 6x beyond 2025 due to ongoing pressure on the company's profitability. Additionally, the Outlook considers the company's weakening cash reserves, which could necessitate external financing if individual projects from its concentrated backlog experience delays, leading to increased cash absorption from net working capital.

3. Corporate profile

DVM Group Kft. (DVM), headquartered in Budapest, is a general contracting group that has been providing design-and-construction services in Hungary since 1995. DVM's services include base building and fit-out construction, site supervision and organisation, and coordination of subcontractors, among others. The company's activities are spread across various commercial real estate segments, in particular office, retail, hotel and residential projects. In recent years, DVM has expanded into new business areas through joint ventures to enter the industrial and logistics sectors, as well as the construction of renewable energy projects.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
30 Apr 2025	Outlook change	B/Negative
2 May 2024	Affirmation	B/Stable
4 May 2023	Affirmation	B/Stable

5. Financial overview (financial data in HUF m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024P**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	Net interest income			14.6x	4.9x	5.4x
Debt/EBITDA	6.3x	15.1x	7.3x	6.1x	8.7x	10.5x
Funds from operations/debt	15%	10%	16%	14%	8%	7%
Free operating cash flow/debt	-41%	-57%	16%	11%	10%	17%
Liquidity	133%	168%	>200%	>200%	126%	No ST Debt
EBITDA						
Reported EBITDA	1,398	811	1,130	1,628	1,027	682
add: operating lease payments	-	-	-	-	-	-
add: recurring dividends from associates	-	-	158	266	256	382
less: capitalised expenses	-	-	-	-	-	-
Other items (incl. one-offs)	-	(232)	-	-	-	-
EBITDA	**1,398**	**579**	**1,288**	**1,894**	**1,283**	**1,064**
Funds from operations (FFO)						
EBITDA	1,398	579	1,288	1,894	1,283	1,064
less: interest	49	290	374	(130)	(263)	(197)
less: cash tax paid	(152)	(18)	(197)	(153)	(95)	(81)
Other non-operating charges before FFO	-	-	-	-	-	-
Funds from operations	**1,295**	**851**	**1,465**	**1,611**	**925**	**786**
Free operating cash flow (FOCF)						
Funds from operations	1,295	851	1,465	1,611	925	786
Change in working capital	(4,870)	3,187	206	(195)	(816)	1,286
Non-operating cash flow	2,722	(14)	44	-	-	-
less: capital expenditures (net)	(94)	(2,930)	(177)	(113)	1,037	(120)
less: lease amortisation	-	-	-	-	-	-
Other items	(2,628)	(6,044)	-	-	-	-
Free operating cash flow	**(3,575)**	**(4,950)**	**1,538**	**1,303**	**1,145**	**1,952**
Interest						
Net cash interest per cash flow statement	(49)	(290)	(374)	130	263	197
add: interest component, operating leases	-	-	-	-	-	-
add: 50% of interest paid on hybrid debt	-	-	-	-	-	-
add: other items	-	-	-	-	-	-
Interest	**(49)**	**(290)**	**(374)**	**130**	**263**	**197**
Debt						
Reported financial (senior) debt	8,755	8,730	8,791	11,591	11,182	11,182
add: subordinated (hybrid) debt (net of equity credit)	-	-	-	-	-	-
add: shareholder loans (net of equity credit)	-	-	650	-	-	-
less: cash and cash equivalents[1]	(8,375)	(7,297)	(2,724)	(2,778)	(3,144)	(6,563)
add: non-accessible cash	8,375	7,297	2,724	2,778	3,144	6,563
Debt	**8,755**	**8,730**	**9,441**	**11,591**	**11,182**	**11,182**

[1] Netting of cash: generally, this is only applicable to issuer ratings in the BB category or higher, and only if the cash is permanent and accessible.

6. Environmental, social and governance (ESG) profile[2]

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

ESG profile: credit-neutral

We did not identify any ESG-related rating drivers that would have a relevant impact (positive or negative) on our overall assessment of credit risk. DVM considers it important to educate the real estate profession and their participants and developers on environmental awareness. It plays an active role in this education via roundtable discussions and presentations. Through environmentally conscious services such as BREEAM, LEED, WELL certification and energy modelling, DVM supports real estate developers and partners in efforts to become environmentally aware. In addition, DVM is a member of professional NGOs (BCSDH, Hungarian GREEN building council, World Green Building Council) that promote environmental awareness and ESG approaches.

[2] 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: B

DVM primarily focuses on design, base building, and fit-out, while also engaging in building refurbishment. Despite being at different stages, all business activities are directly linked to the construction industry. The company's portfolio spans various commercial real estate segments, including office, retail, hotel, residential, and logistics projects.

In 2023, DVM introduced DVM Greenfield, a joint venture specializing in industrial general construction services and consultancy, generating approximately HUF 7.3bn in revenue and HUF 0.7bn in EBITDA. Additionally, DVM has diversified its activities with the HSZ and Szakoly Solar Projects (Renewable Energy Business Line), both delivered in December 2024. However, as DVM plans to sell these projects, they are excluded from the industry risk profile assessment.

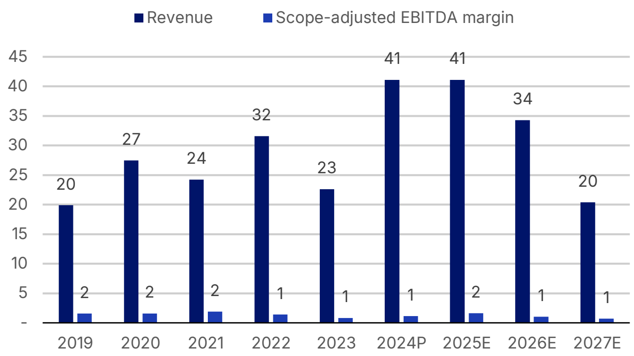
We consider the construction industry to be highly cyclical overall, with medium barriers to entry and low/medium substitution risk.

Small market player, both in a European context and domestically

Despite challenges from COVID-19, the Russian-Ukrainian war, and the energy crisis, DVM's revenues grew to HUF 31.6bn in 2022 from HUF 19.9bn in 2019, with some volatility. In 2023, Hungary faced the highest inflation rates in the EU for two consecutive years, leading to increased investor caution and project delays. In addition, the release of EU funds has been delayed, undermining the fiscal stimulus through public procurement and increasing competition. Despite this, DVM generated HUF 22.6bn in revenues in 2023. In 2024, DVM achieved a record-high HUF 41.1bn in revenues, partly due to solar projects acquired in 2023, which contributed HUF 12.8bn. However, DVM remains a small player in both European and domestic markets, limiting its ability to leverage economies of scale and mitigate economic cycles.

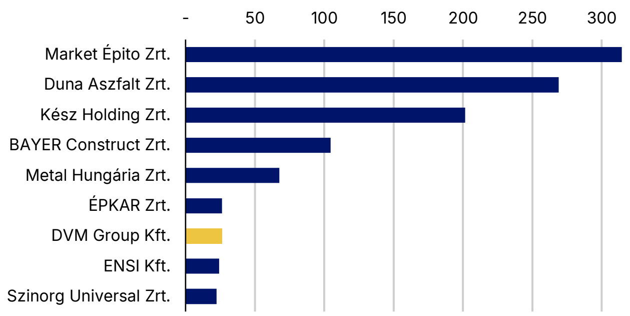
DVM's order book benefited significantly from a major residential project signed in December 2023. The project involves the construction of more than 600 apartments with a total value of HUF 34.3bn and will support the company's cash flow generation in the coming years. The project backlog reached HUF 54.5bn as of April 2025, which is 1.7x the average sales of the last three years. Although positive, the order book is subject to high cluster risk, as 43% of the company's current order book is dependent on a single project and client, and the top three account for 72%.

Figure 1: Revenues and EBITDA (in HUF bn)



Sources: DVM, Scope estimates

Figure 2: DVM and HU peers (2021-23 avg. revenues in HUF bn)



Sources: Public information, Scope

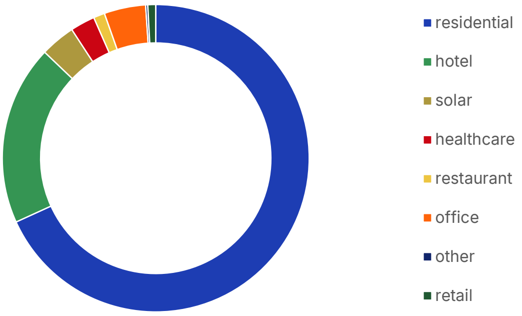
Limited diversification – geographic, segment and customer

Geographical diversification remains limited. Whilst some of DVM's business lines enable it to offer services in international markets – through ArchViz, for example – the company's activities are concentrated in its domestic market, i.e., Hungary. This results in full exposure to the macroeconomy of one country, compounded by the company's focus on construction (circa 95% of 2024 preliminary revenues), a cyclical industry in which market downturns tend to affect revenues and earnings.

All activities relate to just one subsegment in one industry (building construction), but they serve different end markets, especially office, hospitality and residential, so they benefit from different underlying demand patterns.

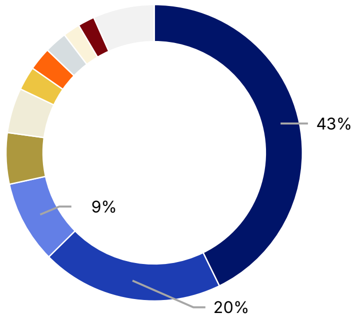
DVM's limited size results in high customer concentration, however coupled with many projects can be executed simultaneously (33 in 2025). High concentration means both profitability and cash flow from operations can be greatly affected by the failure of one project. This lack of diversification is partially mitigated by strong relationships with local and international clients. While no long-term contracts are in place, these partnerships have provided DVM with recurring mandates.

Figure 3: Backlog breakdown by assets class (as at April 2024)



Sources: DVM, Scope

Figure 4: Backlog breakdown by project (as at April 2024)



Sources: DVM, Scope

Backlog highly concentrated on a limited number of projects

While DVM's backlog has been solid in recent years (April 2025: HUF 54bn; April 2024: HUF 88bn; April 2023: HUF 52bn), it is highly concentrated, with the top three projects accounting for 72% of future contracted revenues. This concentration poses a risk of significant cash flow volatility if these projects are delayed or cancelled.

Diversification through co-developments

2024 marked a major achievement with the successful completion and grid connection of two utility-scale solar projects (43 MW / 54 MWp total capacity). Both plants are now in commercial operation since December 2024 and backed by fixed-price Power Purchase Agreements. DVM secured long-term, low-cost project financing and is targeting to reduce its equity exposure by EUR 2m (circa HUF 800m) in 2025. The company is actively preparing for the sale of both projects and expects to close at least one transaction in 2025.

The logistics project – Szigetszentmiklós, initially planned as an 18,000 sq m logistics facility, experienced minor delays due to complex land registry and utility registration processes. The land, comprising 10 separate plots acquired from four different owners, was successfully consolidated in 2021. Given current market conditions, DVM has decided to sell the land rather than pursue full development. Management expects the transaction to be closed in 2025.

Further, Project Andor, a residential development project (140 units in Budapest's Újbuda district) has progressed well: demolition works are complete, architectural plans are finalized, and 20% of the apartments have been pre-sold even before construction began. The project is expected to be delivered by 2027.

High input costs and competitive pricing have impacted the company's profitability

Despite the record-high revenues in 2024, EBITDA margin has not recovered as expected by us due to: (i) a persistently challenging market environment, (ii) rising input costs, (iii) competitive pricing, (iv) and high concentration of base building projects. EBITDA margin stood at 2.8% (up 20bp YoY) as per preliminary figures for 2024, below our forecast of 3.5%.

We expect DVM to continue to generate revenues at least at historical averages of around HUF 30bn annually, supported by its adequate backlog. In addition, DVM's management has adjusted the organization to provide some flexibility on variable and fixed personnel costs, and it also expects higher margins on some residential projects due to strong demand, which will partially help to protect revenues and profitability in the next few years. However, we expect that high raw material prices and continued competitive pressure will continue to weigh on profitability. As a result, we are cautious on future profitability development, with the EBITDA margin likely to remain between 3-4% with potential upside from higher margin fit-out projects.

Backlog providing some visibility on future cash flows

DVM's backlog of projects has weakened to HUF 54bn as of April 2025 (vs HUF 88bn as of April 2024), equating to 1.7x the average revenue of the last three years. This provides some cash flow visibility on revenues in the next 12 to 18 months. However, limited diversification exposes the company to significant cash flow volatility risk should any projects be delayed or cancelled.

8. Financial risk profile: B+

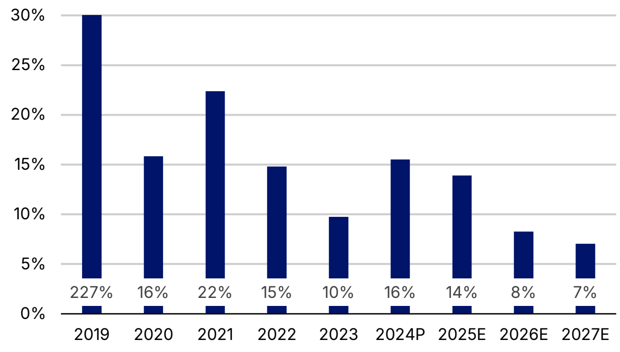
Improved FOCF due to limited capex

After years of significant investments in co-development projects, including two solar projects and a residential development, which led to substantial cash absorption, FOCF is expected to turn positive in 2025 due to limited capital expenditure needs and improved visibility of operating cash flow. However, the residential development project Andor requires additional financing, including a HUF 3.7bn shareholder loan, making the company reliant on external financing or the successful execution of planned disposals of the solar projects and logistics sites. These disposals are not considered in our rating case as sales and purchase agreements have not been signed yet. Consequently, we expect debt to increase to above HUF 10bn in 2025 (end-2024: HUF 9.4bn).

Risk of leverage remaining above 6x debt/EBITDA

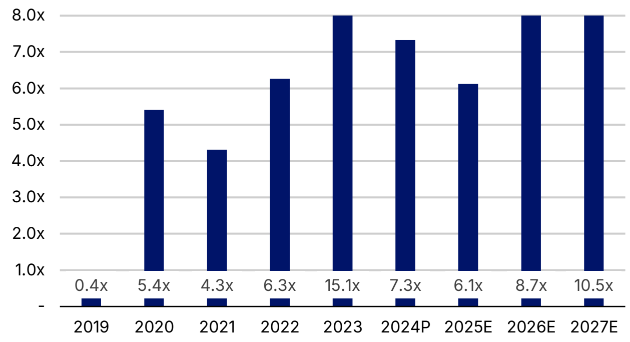
Leverage, as measured by the debt/EBITDA, stood at 7.3x as of December 2024 (down by 7.8x YoY). The improvement was driven by a strong increase of EBITDA balancing the HUF 0.7bn increase in debt. We see the risk that leverage remains at or above 6x going forward as the company's debt is expected to increase and there is limited visibility on margin recovery beyond 2025, both not mitigated by increased dividend income from DVM's joint ventures. We note that the previously existing rating support from a significant available cash buffer has diminished as cash declined to HUF 2.7bn at end-2024 (from HUF 7.3bn at end-2023), mainly due to solar project financing and working capital needs. We acknowledge the company's targeted asset sales to release capital. However, we highlight the risk associated with the use of related exit proceeds, which are likely to be spent on further residential developments.

Figure 5: FFO/debt (%)



Sources: DVM, Scope estimates

Figure 6: Debt/EBITDA (x)

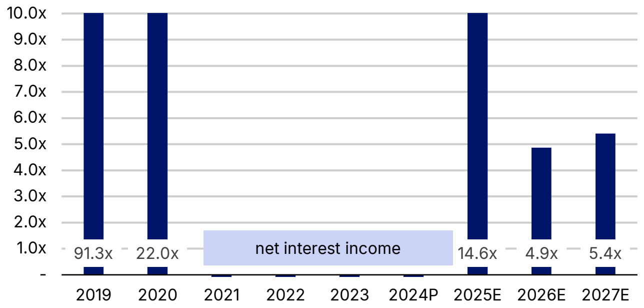


Sources: DVM, Scope estimates

Good debt protection metrics despite expected debt increase

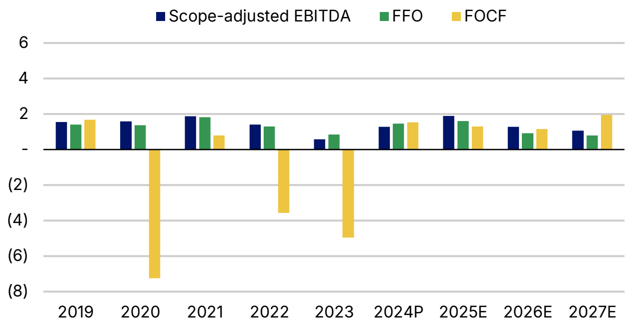
Debt protection was strong in 2024 with a positive net interest income in 2024, supported by interest income and low debt expense as the HUF 8bn bond (85% of debt as at end-2024) carries a fixed interest rate of 3%. We anticipate that the EBITDA interest cover to weaken in 2025-2026, due to the planned increase in bank borrowings to finance the Andor residential development and the use of excess cash to commence similar projects.

Figure 7: EBITDA interest cover (x)



Sources: DVM, Scope estimates

Figure 8: Cash flow (HUF bn)



Sources: DVM, Scope estimates

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

	2024P	2025E	2026E
Unrestricted cash (t-1)	7,297	2,724	2,778
Open committed credit lines (t-1)	0	0	0
FOCF (t)	1,538	1,303	1,145
Short-term debt (t-1)	25	650	3,108
Liquidity	**>200%**	**>200%**	**126%**

Source: DVM, Scope estimates

Adequate liquidity

Liquidity is adequate as cash sources (HUF 2.7bn in available cash as at end-2024 and HUF 1.5bn in forecasted FOCF for 2025) cover uses (repayment of HUF 0.7bn in shareholder loans). The refinancing profile includes a HUF 8.0bn bond maturing in 2030, with the first instalment of HUF 2.4bn due in 2026.

9. Supplementary rating drivers: +/- 0 notches

Supplementary rating drivers remain credit neutral with no impact on the overall rating. The company's financial policy, including the planned dividend payout of 20% of profit after tax, has no effect on the rating.

10. Debt ratings

Senior unsecured debt rating: B+

In July 2020, DVM issued a HUF 8.0bn senior unsecured bond (ISIN: HU0000359781) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond has a tenor of 10 years and a fixed coupon of 3%. Bond repayment is in three tranches starting from 2026, with HUF 2.4bn of the face value payable in 2026 and 2028 and the remaining portion payable as a balloon payment at maturity. Bond covenants include no dividend payments before 2022, plus change of control and LTV clauses regarding co-development financing (LTV greater than 50% for single co-development projects and greater than 30% for overall co-developed projects).

Our recovery analysis is based on a hypothetical default scenario occurring at year-end 2026. It assumed outstanding senior unsecured debt of HUF 8.0bn, additional secured bank debt of HUF 6.2bn to partially finance DVM's co-development projects as well as HUF 5.3bn in payables we classify to rank senior to the bond and resulted in an 'above average recovery' for the company's unsecured debt. We therefore affirmed the B+ rating for this debt category (one notch above the issuer rating).

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