SCOPE | Ratings

Opus Tigáz Zrt

Hungary, Utilities

Rating composition

Business risk profile		
Industry risk profile	AA	BBB+
Competitive position	BBB+	
Financial risk profile		
Credit metrics	BBB+	BBB+
Cash flow generation	Good	
Liquidity	+/-0 notches	
Standalone credit assessment		**BBB+**
Supplementary rating drivers		
Financial policy	+/-0 notches	-1 notch
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	-1 notch	
Issuer rating		**BBB**

Key metrics

			Scope estimates	
Scope credit ratios	**2023**	**2024P**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	Net cash interest	>20x	>20x	>20x
Scope-adjusted debt/EBITDA	2.4x	1.3x	2.2x	1.6x
Scope-adjusted funds from operations/debt	37%	56%	36%	53%
Scope-adjusted free operating cash flow/debt	12%	30%	-28%	18%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenario for the ratings and Outlook is:

- Ratings upside is remote given the full business exposure to Hungary

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

- Scope-adjusted debt/EBITDA sustained at around or above 3.0x
- Weaker sovereign rating of Hungary (remote scenario)

Issuer
BBB

Outlook
Stable

Senior unsecured debt
BBB

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Related methodologies

General Corporate Rating Methodology, Feb 2025
European Utilities Rating Methodology, June 2024

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Largest gas distributor in Hungary; exclusive licence to operate in regional territory • Stronger leverage through the recovery of incurred costs and the lower gas purchase costs to cover grid losses • Comfortable debt protection and liquidity following a bond issued in 2021 at a low fixed rate of 2.8% • Prudent financial policy as envisaged by gradual bond amortisation and bullet repayment reduced to 49% of the face value at maturity	• Market position weakened by regulatory framework that does not provide timely recovery of incurred costs, especially for grid losses, also leading to fluctuating operating performance • High share of operating expenses paid to shared service company under service level agreement • Allowed returns driven by weighted-average cost of capital (3.24%), which is lower than the central bank base rate (6.5%) • Low visibility for next regulatory period, especially on weighted-average cost of capital • Volatile cash flow cover due to negative working capital in 2025 • Negative one-notch adjustment for peer context, driven by the exposure to domestic economic vulnerabilities (high inflation and interest rates)

2. Rating Outlook

The **Stable Outlook** reflects our view that i) the improved credit metrics will be sustained, with Scope-adjusted debt/EBITDA staying well below 3.0x; and ii) operating performance will benefit from lower grid losses (following a normalisation of gas prices) and cash-funded bond amortisation.

3. Corporate profile

Opus Tigáz Zrt is the largest pipeline gas distributor in Hungary. Operating over 20 years, its main task is supplying gas to 1.28m customers (36% of all connected households) through its 34,800km pipeline network (40% of national network) spanning seven counties in north-eastern Hungary. Opus Tigáz is majority-owned by Opus Global Nyrt., a listed Hungarian investment holding company.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
24 Mar 2025	Upgrade	BBB/Stable
25 Mar 2024	Outlook change	BBB-/Positive
29 Mar 2023	New	BBB-/Stable

5. Financial overview (financial data in HUF m)

			Scope estimates		
Scope credit ratios	**2023**	**2024P**	**2025E**	**2026E**	**2027E**
Scope-adjusted EBITDA interest cover	net interest	476.9x	27.7x	24.6x	38.9x
Scope-adjusted debt/EBITDA	2.4x	1.3x	2.2x	1.6x	1.0x
Scope-adjusted funds from operations/debt	37%	56%	36%	53%	84%
Scope-adjusted free operating cash flow/debt	12%	30%	-28%	18%	32%
Liquidity	>200%	>200%	>200%	>200%	>200%
Scope-adjusted EBITDA					
EBITDA	15,520	19,553	16,449	18,801	20,530
add: operating lease payments	-	-	-	-	-
add: recurring associate dividends received	-	-	-	-	400
less: capitalised expenses	-	-	-	-	-
Other items[1]	1	1	1	(1,036)	1
Scope-adjusted EBITDA	**15,521**	**19,554**	**16,450**	**17,765**	**20,931**
Scope-adjusted funds from operations					
Scope-adjusted EBITDA	15,521	19,554	16,450	17,765	20,931
less: Scope-adjusted interest	912	(41)	(593)	(721)	(538)
less: cash tax paid	(2,572)	(4,775)	(3,129)	(2,009)	(2,457)
Other non-operating charges before FFO	-	-	-	-	-
Scope-adjusted funds from operations (FFO)	**13,861**	**14,738**	**12,728**	**15,035**	**17,936**
Scope-adjusted free operating cash flow					
Scope-adjusted funds from operations	13,861	14,738	12,728	15,035	17,936
Change in working capital	936	3,648	(10,875)	1,318	598
Non-operating cash flow	(2,316)	(24)	6	6	6
less: capital expenditures (net)	(7,981)	(10,494)	(11,993)	(11,153)	(11,805)
less: lease amortisation	-	-	-	-	-
Other items	-	-	-	-	-
Scope-adjusted free operating cash flow (FOCF)	**4,500**	**7,868**	**(10,134)**	**5,206**	**6,735**
Scope-adjusted interest					
Net cash interest per cash flow statement	(912)	41	593	721	538
add: interest component, operating leases	-	-	-	-	-
add: 50% of interest paid on hybrid debt	-	-	-	-	-
Change in other items	-	-	-	-	-
Scope-adjusted net cash interest paid	**(912)**	**41**	**593**	**721**	**538**
Scope-adjusted debt					
Reported financial (senior) debt	47,000	45,500	44,000	42,500	38,000
add: subordinated (hybrid) debt (net of equity credit)	-	-	-	-	-
add: shareholder loans (net of equity credit)	6,158	6,479	6,815	7,168	7,540
less: cash and cash equivalents	(17,096)	(25,872)	(15,254)	(21,461)	(24,285)
add: non-accessible cash	-	-	-	-	-
add: pension adjustment	-	-	-	-	-
add: operating lease obligations	-	-	-	-	-
add: other debt-like items[2]	1,900	-	-	-	-
Scope-adjusted debt (SaD)	**37,962**	**26,107**	**35,561**	**28,207**	**21,255**

[1] Includes gains on asset disposals and changes in provisions

[2] Off-balance sheet issued guarantee

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) — credit neutral
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) — credit neutral
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables) — credit neutral	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity) — credit neutral
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks — credit neutral	Stakeholder management (shareholder payouts and respect for creditor interests) — credit neutral

ESG factors: credit positive credit negative credit neutral

Relatively modern pipeline

Opus Tigáz' network of pipelines is relatively modern, which ensures moderate replacement costs and ultimately lower capex. More than 88% of the pipelines are less than 30 years old and have a typical estimated useful life of 45-50 years.

Growing challenges associated with energy transition

In Hungary, we see an increasing trend to replace the primary heat source of gas with renewable sources. This has been in response to geopolitical events, including the energy crisis, and is in line with the general trend of increasing the share of renewable sources in the energy mix.

In 2020, Hungary made a net-zero emissions target by 2050 a legal requirement. It is also aiming to make the existing natural gas infrastructure capable of blending up to 5% hydrogen, in line with EU efforts to reduce fossil fuel use. These initiatives will increase challenges for utilities in the context of the energy transition but are not enough to be a credit-negative ESG factor.

[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: BBB+

Regional monopoly

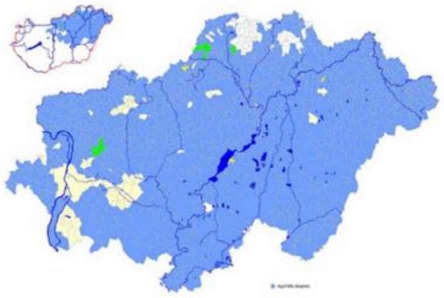
Opus Tigáz' business risk profile reflects our assessment of the industry in which the company operates and its competitive position within that industry. As the network owner and operator in parts of eastern Hungary, Opus Tigáz is protected by high entry barriers resulting from the high degree of regulation through its long-term concessions and ownership of the gas infrastructure.

Distribution system operators generally hold a national or regional monopoly, regardless of their size. This is also the case for Opus Tigáz, which has a monopoly over natural gas distribution in north-eastern Hungary. It also has Hungary's largest natural gas distribution network, accounting for 40% of domestic network and spanning a 34,800km pipeline. All residential, commercial and industrial gas consumers in this service area use Opus Tigáz' services.

Figure 1: Geographical outreach

Blue colour: area of activity
Source: Opus Tigáz

Figure 2: Network density in north-eastern Hungary



Dark blue colour: network density
Source: Opus Tigáz

Exclusive concession licence

The company's business model is regulated by an exclusive regional public gas distribution licence granted by the Hungarian Energy and Public Utility Regulatory Authority (MEKH). This is credit-positive as it raises market entry barriers and strengthens market position. Ten companies hold distribution licences that permit them to operate and maintain gas distribution in specific regions. Unauthorised operators are blocked from the market. The regulator also has to pre-approve mergers or acquisitions.

Tariff system does not support timely cost recovery

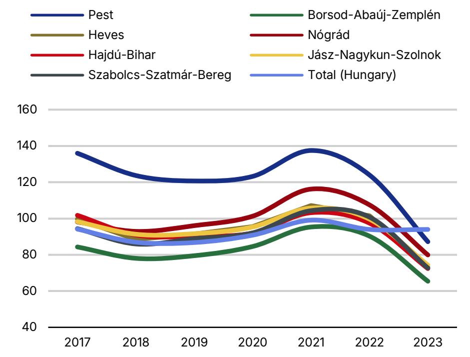
Opus Tigáz' market position is also influenced by MEKH's tariff system. Based on this framework, the company's remuneration consists of: i) a basic fee, identical for all licensees; and ii) a traffic and capacity fee that varies based on consumption and the distribution area. Tariffs are set in four-year cycles with annual adjustments. The system also includes the recovery of costs incurred and a WACC-based return on the regulated asset base. However, the significant delay (one regulatory period) in full cost recovery through tariffs weakens the company's market position and leads to fluctuations in its profitability margins.

Operating costs are reviewed by MEKH and benchmarked with those of other system operators. Opus Tigáz' actual costs are lower than the benchmark. One reason is that personnel costs are lower in eastern Hungary than in the west. On the other hand, the issuer's maintenance costs are higher since its service area is one of the largest and has a low population density, meaning gas has farther to travel. Overall, the lower costs provide an advantage as full cost recovery through tariffs is unlikely; operators with higher operating costs than the benchmark will not see full recovery.

Mitigated volume risk

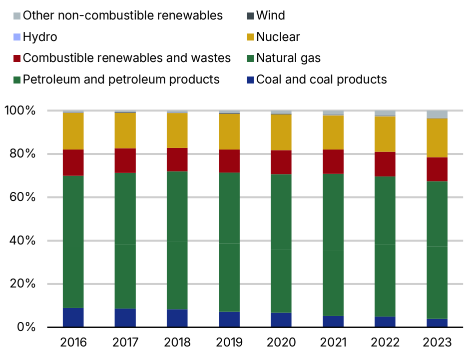
The limited volume risk is also credit-positive. Revenues from regulated tariffs are only received from gas traders, mainly the state-owned MVM, without the participation of network end-users. In a default of a provider, the counterparty risk of the traders is covered by a bank guarantee for larger traders and a financial deposit for smaller traders.

Figure 3: Monthly average gas consumption, per household, in m³, by county in Opus Tigáz territory



Source: MEKH, Scope

Figure 4: Energy production by source in Hungary



Source: MEKH, Scope

Structural weakness of service territory

Opus Tigáz' service territory is structurally weaker than that of Scope-rated international peers. The Hungarian economy is vulnerable to high inflation and interest rates, which is credit-negative for the market position assessment.

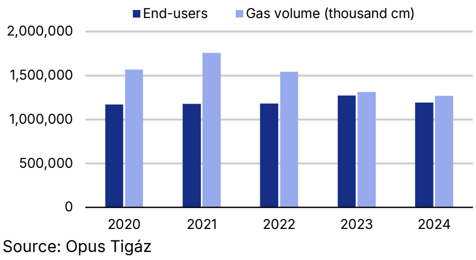
Geographical diversification limited but not essential for a regulated monopolist

Geographical diversification is limited as its operations are concentrated in eastern Hungary. However, this is not credit-negative given the benefit of the company's regulated monopoly. Its reach to 1.28m residential, commercial and industrial customers in 2024 (36% of all Hungarian customers) diversifies income streams.

Highly diversified customer base but less users and transferred volume overall

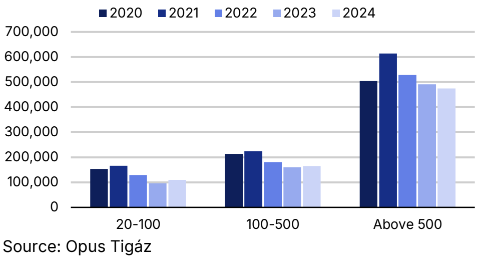
In 2022 and 2023, the issuer's volume of transferred gas fell (Figures 5 and 6) in both retail (below 20 m³/h) and industry segments (above20 m³/h). Two major factors were at play. The first was the rising popularity of independent power sources like heat pumps combined with PV installations, especially in the retail segment, which was boosted by Hungary's legal net-zero target by 2050. The second was weaker economic activity due to high energy prices and lower gas consumption resulting from the energy crisis in 2021-2022.

Figure 5: Gas volume and number of end users below 20 m³/h category



Source: Opus Tigáz

Figure 6: Gas volume above 20 m³/h category



Source: Opus Tigáz

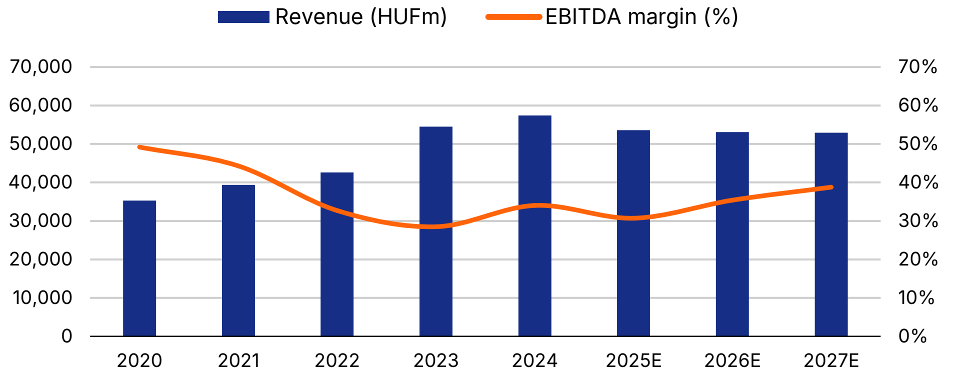
Cost recovery at end of regulatory period

However, the regulatory framework does have a credit-negative aspect as incurred costs through regulated tariffs are not recovered on a timely basis. Until 2021, Opus Tigáz' operating margins, as measured by the Scope-adjusted EBITDA margin, were 40%-50% between 2019 and 2021, with fluctuations due to weather effects and the volume of gas transferred. In 2022 and 2023, operating margins were hit by higher costs associated with gas distribution losses due to high energy prices as well as inflated operating costs. In 2024, on the other hand, operational performance benefited from recovery of costs incurred in 2023 and 2022, which increased revenue and lowered the cost of purchased natural gas to compensate for network losses. As a result, EBITDA margin increased to 34% from 29%.

Uncertainty over next regulatory period

For 2025-2027, we expect profitability margins to range between 31% and 39%. Operational performance will be driven by lower costs to cover grid losses following the normalisation of the gas prices. This will result in lower tariff indexation in 2025, though balanced out by lower costs. Nevertheless, this will lead to the EBITDA margin in 2025 reducing to 31% from 34% in 2024 and before tariffs increase in the following years. At the same time, we point out the strong impact on profitability from costs paid under the service level agreement to Optesz Opus, a company providing joint services and supporting functions in the group. We expect that the shared service centre will help to reduce costs on an arm's length basis and will not become a means to replace dividend payments to Opus Global. We also note the limited visibility into the next regulatory period (October 2025 to October 2028), particularly with regard to the weighted-average cost of capital, to be announced in September 2025, which is a key driver of future operating margins.

Figure 7: Revenue and profitability



Source: Opus Tigáz, Scope estimates

8. Financial risk profile: BBB+

Lower leverage through cash-funded bond amortisation and lower costs related to grid losses

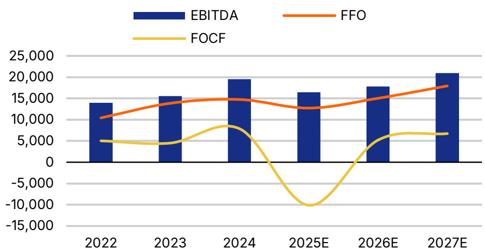
In 2024, leverage, as measured by Scope-adjusted debt/EBITDA, dropped to 1.3x from 2.4x in 2023 following tariff indexation and the recovery of network losses caused by high energy prices in previous years.

For 2025-2027 we expect leverage to improve thanks to the normalisation of costs related to contracted gas prices to cover grid losses. This will be in conjunction with lower net debt projected based on an envisaged bond amortisation of 3% a year of nominal value (HUF 7.5bn in 2022-2026) followed by 9% a year (HUF 18bn in 2027-2030) then the repayment of 49% (HUF 24.5bn) of face value at maturity in 2031. Cash is expected to cover amortisation. We forecast leverage to spike in 2025 to 2.2x on the back of lower EBITDA in the new regulatory period. This will result in lower tariffs due to subdued gas prices and before tariffs indexation in the following years. Afterwards, we expect leverage to reduce again to 1.6x -1.0x in 2026-2027.

Sound debt protection

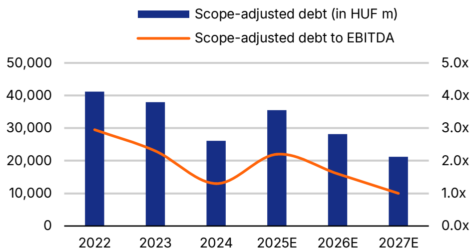
Debt protection, as measured by Scope-adjusted EBITDA interest cover, continues to support the financial risk profile. Through a 2021 bond issue, Opus Tigáz secured funding at a favourable fixed rate of 2.8%, much lower than the Hungarian base rate of 6.5% as of March 2025. Debt coverage should remain comfortable at well above 10.0x, supported by no new external debt combined with significant interest income from cash deposits.

Figure 8: Scope-adjusted cash flow (in HUF m)



Source: Opus Tigáz, Scope estimates

Figure 9: Scope-adjusted leverage

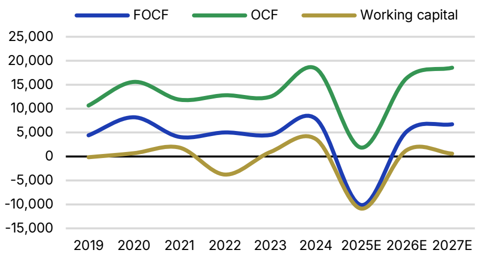


Source: Opus Tigáz, Scope estimates

Free operating cash flow under pressure in 2025

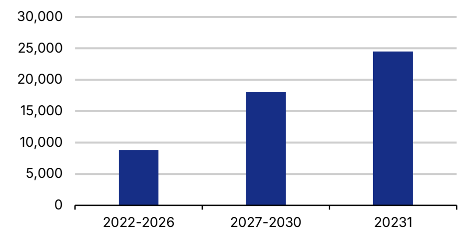
We estimate negative free operating cash flow in 2025, driven by lower profitability, HUF 11bn working capital outflows related to deferred payments from 2024, and higher capex of 15%. Capex in 2025 will be directed towards obligatory meter replacement in the grid. As a result, capex coverage, as measured by Scope-adjusted free operating cash flow (FOCF)/debt, is expected to fall to negative 28% in 2025 before rebounding strongly to 18%-32% in 2026-2027, due largely to scheduled bond repayments and no new material debt exposure.

Figure 10: Scope-adjusted FOCF, OCF and working capital (in HUF m)



Source: Opus Tigáz, Scope estimate

Figure 11: Debt maturity profile (in HUF m)



Source: Opus Tigáz, Scope estimates

Adequate liquidity

Liquidity is adequate. The debt maturity profile is manageable thanks to the gradual amortisation of bonds: 3% (HUF 1.5bn p.a.) in 2023-2026; 9% (HUF 4.5bn p.a.) in 2027-2030; and a 49% (HUF 24.5bn a year) bullet repayment in 2031. We expect cash to cover all short-term maturities.

We highlight that Opus Tigáz' senior unsecured bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 50bn) if the debt rating of the bond stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 90 days). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is five notches. We therefore see no significant risk of the rating-related covenant being triggered.

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

	2024P	2025E	2026E
Unrestricted cash (t-1)	17,096	25,872	15,254
Open committed credit lines (t-1)	0	0	0
Free operating cash flow (t)	7,868	(10,134)	5,206
Short-term debt (t-1)	1,500	1,500	1,500
Liquidity	**>200%**	**>200%**	**>200%**

Source: Scope estimates

9. Supplementary rating drivers: - 1 notch

Financial policy: neutral

Opus Tigáz is committed to reducing its debt in line with the repayment schedule on the bond. In addition, the company must maintain a debt rating of at least B+. If the rating falls below B+, the issuer is: i) not entitled to pay dividends; ii) prohibited from incurring additional debt; and iii) required to repurchase the bond at its pre-maturity price if the rating does not improve within two years.

Negative rating driver for peer context

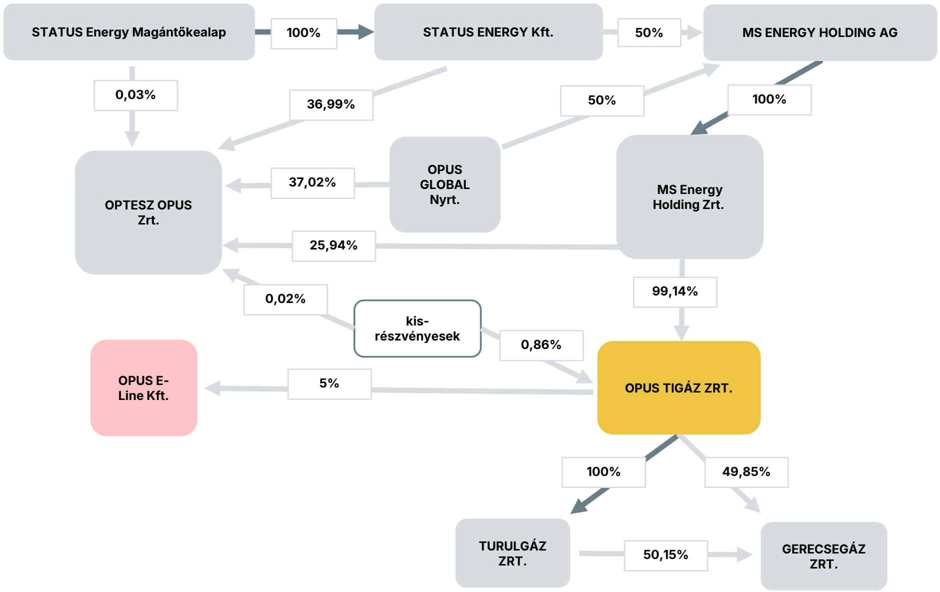
We have lowered the issuer rating by one notch in the context of Scope-rated international peers. This is mainly due to Opus Tigáz' exposure to the vulnerabilities of the Hungarian economy (rated BBB/Stable by Scope).

Parent support: neutral

Parent support is neutral for the rating. Opus Tigáz is jointly owned by Opus Global Nyrt, a listed investment holding company (rated BB/Stable by Scope), and Status Energy, a private equity fund. Status Energy was established and is managed by Opus Global Investment Fund Manager (a subsidiary of Opus Global Nyrt). Direct shareholdings in Opus Tigáz of less than 1% are held by private individuals and municipalities. Opus Global also owns companies in various sectors including construction, food processing and tourism.

We see no need to constrain Opus Tigáz' issuer rating at the level of its parent company. This is based on the issuer's high operational and financial independence from the parent and our view that Opus Global's creditworthiness will not affect that of the issuer.

Figure 12: Opus Tigáz' corporate structure



Source: Opus Tigáz

10. Long-term debt rating

Senior unsecured debt rating: BBB

We have upgraded the senior unsecured debt rating to BBB, the same level as the issuer rating. Opus Tigáz is the only issuer of public debt. Opus Tigáz issued a HUF 50bn bond in 2021 (HU0000360292) with a fixed coupon of 2.8%. The bond has a tenor of 10 years and matures in March 2031. The bond has a pari passu, cross default and negative pledge clause.

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