Lexholding Zrt.

Hungary, Investment Holdings

Rating composition

Business risk profile		
Competitive position	B	B
Financial risk profile		
Credit metrics	BB+	BB+
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**
Total cost coverage	1.3x	1.4x	1.2x	1.1x
Scope-adjusted loan-to-value (LTV)	36%	38%	38%	38%
Liquidity	No short-term debt			

Rating sensitivities

The upside scenario for the ratings and Outlook:

- An improved business risk profile through either better portfolio liquidity or portfolio sustainability (remote)

The downside scenario for the ratings and Outlook:

- Total cost coverage sustained below 1.0x

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

Issuer
B+

Outlook
Stable

Senior unsecured debt
B+

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Related methodologies

General Corporate Rating Methodology, February 2025

Investment Holding Companies Rating Methodology, May 2025

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Coverage of mandatory holding costs at above 1.0x, expected to be maintained in the medium term • Recurring cash inflows from management fees with further support for cash inflows from investments of undertakings • Majority shareholder position providing influence over dividend policies	• High concentration of investments and income streams • Low liquidity of undertakings • Complex corporate structure and intercompany transactions (credit-negative ESG factor) • Opportunistic nature of investments with limited visibility on medium-term investment philosophy

2. Rating Outlook

The Stable Outlook reflects the expectation that Lexholding's credit metrics develop in line with Scope's forecast with gradually improving cash inflows from portfolio companies translating into a total cost cover of above 1.0x and an LTV of around 38% into the medium term.

3. Corporate profile

Hungarian investment holding with undertakings in the real estate, pledge loan and taxi segments

Lexholding Zrt. is a Hungary-based investment holding company. The company mainly invests in three areas: i) business services (pawnshops and art trading); ii) real estate; and iii) ground transport (taxi operators).

The company has a long-term investment approach. This is reflected in the active role it plays on all its investees' boards and the financial support it provides to them. However, this commitment does not rule out opportunistic disposals as Lexholding is mainly focused on recurring dividend streams from its undertakings.

Lexholding generates significant revenue through service and management fees associated with its provision of various services to its core holdings. The services offered by Lexholding Zrt. are HR, controlling, marketing, IT and internal auditing.

Lexholding's business model exhibits characteristics of both an investment holding company and a corporate group. The combination of minority and majority stakes in holdings as well as the receipt of dividend and management fees are characteristics of an investment holding company. On the other hand, the provision of shared services such as IT and HR indicates a corporate group structure.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
6 June 2025	Affirmation	B+/Stable
5 June 2024	Affirmation	B+/Stable
9 June 2023	Affirmation	B+/Stable

5. Financial overview (financial data in HUF m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024P**	**2025E**	**2026E**	**2027E**
Total cost cover	1.3x	1.3x	1.4x	1.2x	1.1x	1.1x
Loan/value ratio	41%	36%	38%	38%		
Liquidity	No short-term debt			No short-term debt		146%
Recurring cash income						
Dividends from holdings	1,331	1,358	1,601	1,645	1,378	1,392
Interest received from shareholder loans	459	692	571	511	504	475
Management and service fees	2,310	2,691	3,180	2,775	2,791	2,822
Recurring cash income	**4,100**	**4,741**	**5,352**	**4,931**	**4,673**	**4,690**
Total costs						
Operating expenses	2,095	2,738	2,994	3,155	3,327	3,443
Taxes paid	0	0	24	92	62	55
Interest paid	465	465	465	465	465	465
Dividends paid	500	500	350	500	500	500
Total costs	**3,060**	**3,703**	**3,833**	**4,212**	**4,353**	**4,463**
Gross asset value						
Investments (as per balance sheet)	25,593	30,711	37,826	41,104	43,007	43,007
Short-term investments	10,648	8,102	7,423	4,423	2,520	2,520
Gross asset value	**36,241**	**38,813**	**45,249**	**45,527**	**45,527**	**45,527**
Debt						
Reported financial (senior) debt	15,000	15,000	15,001	15,002	15,000	13,547
less: cash and cash equivalents	-594	-1,437	-628	-1,569	-1,388	-661
add: other debt-like items (guarantees)	410	410	410	410	410	410
Debt	**14,816**	**13,973**	**14,783**	**13,843**	**14,022**	**13,296**

6. Environmental, social and governance (ESG) profile[1]

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

Corporate structure: credit-negative

The corporate structure is an ESG credit-negative factor. There is a lack of transparency driven by intra-company transactions, cross-ownerships and a complex organisational structure. While this has not led to any supplementary rating driver adjustment, it is reflected in our conservative assessment of the company's financial risk profile.

[1] 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

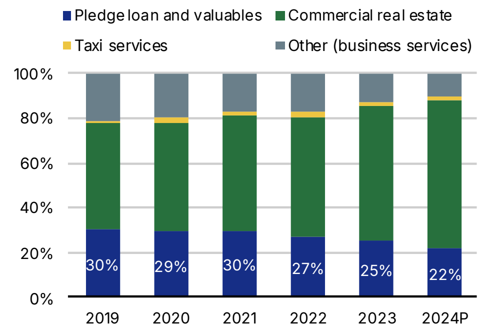
Portfolio risk mainly from business services and real estate

Lexholding's weighted average industry portfolio risk mostly arises through its exposure to business services (asset-light balance sheet and highly specialised workforce) and real estate. We note that two subsidiaries of BÁV Zrt. are classified as financial enterprises. However, we classify BÁV Zrt. as operating in business services because it offers additional services (e.g. art trading and safe deposit box services) and operates under the same umbrella as five other corporates. As financial enterprises, these subsidiaries are required to regularly provide data to the supervisory authority, the National Bank of Hungary.

The weighted average industry risk based on gross asset value mainly reflects the industry risk of commercial real estate, contributing more than 60% to the gross asset value as of YE 2024 and assessed at BB. This results in a high-to-medium cyclicality, medium entry barriers and high-to-medium substitution risk. This sector primarily consists of businesses that are either directly or indirectly connected with tenant industries.

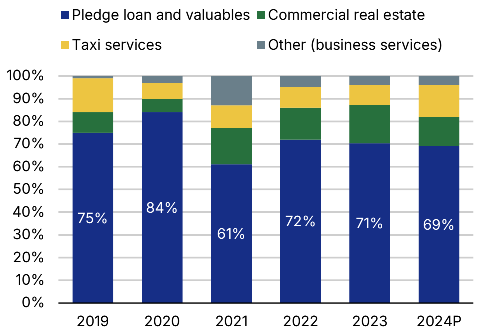
The weighted average industry risk based on income reflects the characteristics of business services (at about 69% of total cash inflows as of FY 2024, mainly coming from BÁV; assessed BBB) with an asset-light balance sheet and highly specialised workforce, defined by medium cyclicality, medium entry barriers and medium substitution risk.

Figure 1: Weighted average industry risk based on gross asset value



Source: Lexholding, Scope estimates

Figure 2: Weighted average industry risk based on income



Source: Lexholding, Scope estimates

Highly concentrated portfolio

Lexholding's portfolio remains significantly concentrated on core holding BÁV, which represents 67% of total income as of FY 2024. Our assessment of the portfolio's sustainability has focused on dividend-paying entities in order to capture the maturity of core holdings and their cash flow generation potential. Overall, the top three core holdings (BÁV, Inforg and Fötaxi) contributed 95% of cash income in 2024, leading to high concentration, as in 2023.

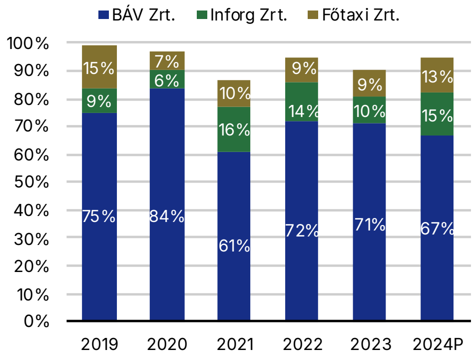
Lexholding's portfolio will remain dependent on BÁV-related ordinary dividends (above 80%) in the next few years. This limits Lexholding's ability to offset the impact of unpaid dividends by any of the undertakings and hence poses the risk of volatile total cost cover.

Furthermore, the assessment of portfolio sustainability is weakened by the non-cash generating assets, composed primarily of commercial real estate development projects. These assets have limited visibility on cash generation potential as their pipelines have long time horizons and their execution in the current market is challenging.

Weak geographical diversification

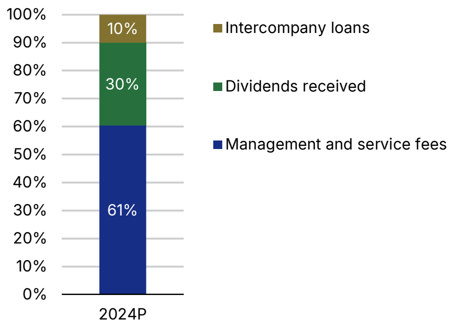
Portfolio diversification is constrained by Lexholding's geographical reach. The sole exposure is to Hungary as the dividend-paying undertakings generate 100% of their revenues in Hungary. This exposes these companies to the economic cycle of Hungary, which limits their ability to offset the negative impact from a downturn in this region. Thus, the sole exposure to the Hungarian market makes dividend streams more volatile.

Figure 3: Recurring cash income by division



Source: Lexholding, Scope estimates

Figure 4: Income breakdown



Source: Lexholding, Scope estimates

In 2024, management fees and services constituted around 61% of Lexholding's cash income (2023: 55%). The payment of management fees by the undertakings is mandatory and depends on their top-line profits rather than the bottom line. This provides some stability and predictability for Lexholding's cash flow. These fees are expected to further increase in the projected period as Lexholding intends to expand its provision of corporate functions to its undertakings.

Modest sector concentration

Sector diversification is limited, mainly focused on real estate (around 65% of gross asset value). The second largest exposure is the pledge loan and financial services segment (22% of gross asset value). Net investment volume is expected to increase by around HUF 4.9bn until 2026. Of this, HUF 2.6bn is to be invested in real estate, which would increase the sector's share within the portfolio but not enough to lead to significant concentration.

The portfolio's risk rating is expected to remain in the low BB category, indicating a moderate level of risk. The diversification of investments across different sectors and asset classes helps to mitigate concentration risk and ensures a balanced risk profile for the portfolio.

Portfolio liquidity constrains the business risk profile

As the company owns just unlisted shareholdings, asset fungibility is Lexholding's main weakness. Further, the complete allocation of bond proceeds is not expected to improve asset fungibility as the company does not intend to invest in listed assets. The high share of unlisted shareholdings constrains the ability to extract divestiture proceeds if needed. Furthermore, we believe the commitment to a long-term investment approach is valid for the portfolio, confirmed by the limited disposals in the past.

8. Financial risk profile: BB+

Total cost cover consistently above 1.0x

Total cost coverage* increased to 1.4x in 2024 from 1.3x in 2023 due to rising recurring cash income from the pledge loan and valuables division (BÁV and its subsidiaries). We estimate that total cost cover will remain above 1.0x over the next few years, supported by the relative stability of management fees paid by core holdings. Further factors supporting cost cover are: i) the broadly stable net interest on shareholder loans; ii) the gradually increasing dividend payments from core portfolio companies (i.e. pledged loans, ground transport); and iii) no significant expected increase in dividend payouts, as bond covenants set the maximum interest at 50% of profit before tax.

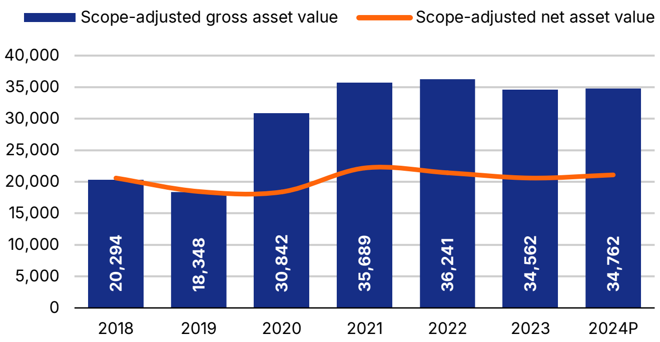
We have applied a haircut to management's anticipated dividend payments and received management fees going forward. This is based on the limited visibility on the undertakings' individual performance, which determines their ability to contribute to recurring cash income. In 2025 we have used management dividend projections and applied a 10% haircut to management fees. In 2026 and 2027 we have applied a flat -15% and -20% haircut to management projections respectively, both for dividend and management fee contributions.

Holding costs (operating costs and dividends payments to shareholders) are expected to increase as Lexholding intends to take over more of its undertakings' functions (compensated via a higher management fee).

The loan/value ratio remains comfortable at around 38% as of FY 2024. The metric slightly increased from previous year (36%) due to continuous investment into long-term financial assets without drawing on additional debt. Almost one-third of cash proceeds from bonds is not expected to be allocated until 2026. Based on a gradual use of the bond proceeds, we expect the loan/value ratio to remain at around 40% within the next two years, though we flag the limited visibility on the use of the proceeds and the exact timing of the investments.

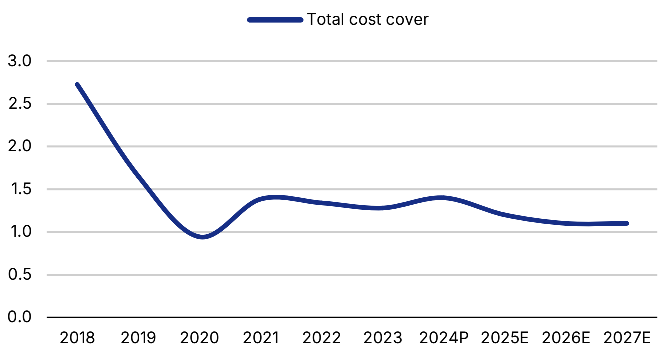
Loan/value expected to remain at around 38% in the medium term

Figure 5: Asset value development in HUF m



Source: Lexholding, Scope estimates

Figure 6: Development of total cost cover



Source: Lexholding, Scope estimates

Due to the absence of short-term debt, with free operating cash flow of HUF 0.9bn forecasted for 2025 and a cash buffer of around HUF 0.6bn as of YE 2024, there are no refinancing risks that would necessitate the sale of any shareholdings.

Adequate liquidity

We highlight that Lexholding's 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 15.0bn) 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 zero notches. Given the limited rating headroom, the company must at least maintain its current credit profile to avoid triggering the rating-related covenant.

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

	2024P	2025E	2026E
Unrestricted cash (t-1)	1,437	628	1,569
Open committed credit lines (t-1)	0	0	0
Free operating cash flow (t)	-604	941	-180
Short-term debt (t-1)	0	0	0
Liquidity	**No ST debt**	**No ST debt**	**No ST debt**

Source: Scope estimates

9. Supplementary rating drivers: +/- 0 notches

There are no explicit adjustments for supplementary rating drivers. We highlight the lack of transparency and governance issues driven by cross-ownerships in the organisational structure.

Credit-neutral supplementary rating drivers

In 2023, an intermediary trust fund was established between Lexholding and its shareholder. The primary purpose of creating the XLEK Alapitvany is to ensure the continuous operation of the holding company, particularly in the event of the owner's incapacity or during a potential generational transition.

10. Debt ratings

Senior unsecured debt rating: B+

We have affirmed the senior unsecured debt rating at B+ including the HUF 15.0bn bond (ISIN HU0000359955). This reflects our expectation of an 'excellent' recovery for senior unsecured debt in the hypothetical event of a company default. The recovery analysis is based on a hypothetical default scenario in 2026, which assumes outstanding senior unsecured debt of HUF 15.0bn with no senior secured loans.

We highlight the limited visibility on the net asset value of core holdings. This is because current Hungarian accounting standards incorporate the cost of investments but do not capture the market value of these investments. This constrains our recovery assessment and therefore the debt rating.

Moreover, we limit the debt category rating to match the issuer rating due to the potential risk that Lexholding might issue higher-ranked debt, which could reduce the recovery prospects for senior unsecured debt holders.

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