Appeninn Holding Nyrt.

Hungary, Real Estate

Issuer
B+

Outlook
Stable

Senior unsecured debt
B+

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Related methodologies

General Corporate Rating Methodology, Feb 2025

European Real Estate Rating Methodology, Mar 2024

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Rating composition

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

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	Net interest	6.2x	4.3x	4.7x
Scope-adjusted debt/EBITDA	8.2x	6.8x	6.9x	5.9x
Scope-adjusted loan/value ratio	48%	56%	47%	45%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenarios for the rating and Outlook (collectively):

- Reducing interdependencies with the owners' other holdings and significant improvement of the business risk profile (remote for the time being)
- Loan/value ratio maintained below 50% and EBITDA interest cover above 2.2x

The downside scenarios for the rating and Outlook (collectively):

- Loan/value ratio rising above 55% on a sustained basis
- EBITDA interest cover declining below 1.7x on a sustained basis

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

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Good diversification across asset classes • Favourable financing structure with long-dated and fixed-rate debt • Adequate debt protection and moderate leverage, providing some headroom against potential volatility in earnings or residual yield pressure • Solid profitability and cash flow generation, but still subject to volatility • Large pool of unencumbered assets	• Small property company compared to European peers, resulting in higher vulnerability to unforeseen shocks and cash flow volatility • Despite recent diversification efforts, concentration remains in Hungary • Relatively short weighted average unexpired lease term (WAULT) of about 4.0 years • High concentration of the tenant portfolio posing risk for the top-line

2. Rating Outlook

The Stable Outlook reflects our expectation that the company will continue to deliver solid operating performance and keep credit metrics within our rating guidance. The Stable Outlook also captures that liquidity will remain adequate and that the company will maintain a conservative financial policy. We expect the loan/value ratio to return below 55% after peaking in 2024 and EBITDA interest cover to remain above 2.2x.

3. Corporate profile

Appeninn Holding Nyrt ("Appeninn") is a publicly listed Hungarian real estate company, traded on the Budapest Stock Exchange since 2010, with a market capitalisation of EUR 105m as of end-March 2025. The company has historically focused on office and retail properties under a buy-and-hold strategy, with some logistics exposure, primarily concentrated in Budapest. In 2020, Appeninn shifted its strategic focus toward developing a tourism and leisure portfolio alongside its core investment property holdings. However, in 2022, the company refocused exclusively on commercial real estate, divesting its entire tourism portfolio and initiating plans to build up its portfolio in Hungary and Poland. As of end-2024, Appeninn's portfolio was valued at EUR 178m, comprising a total gross lettable area (GLA) of 157,900 sqm.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
02 Apr 2025	Affirmation	B+/Stable
05 Apr 2024	Affirmation	B+/Stable
05 Apr 2023	Upgrade	B+/Stable

5. Financial overview (financial data in EUR '000s)

				Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**
EBITDA interest cover	Net cash	Net cash	6.2x	4.3x	4.7x
Debt/EBITDA	16.6x	8.2x	6.8x	6.9x	5.9x
Loan/value ratio	57%	48%	56%	47%	45%
Liquidity	>200%	>200%	>200%	>200%	>200%
EBITDA					
Reported EBITDA	4,590	11,412	15,130	14,947	16,924
Other items (incl. one-offs)[1]	-	(358)	-	-	-
EBITDA	**4,590**	**11,054**	**15,130**	**14,947**	**16,924**
Funds from operations (FFO)					
EBITDA	4,590	11,054	15,130	14,947	16,924
less: interest	2,075	108	(2,450)	(3,489)	(3,589)
less: cash tax paid	(67)	(1,145)	(696)	(381)	(393)
Other non-operating charges before FFO	-	-	-	-	-
Funds from operations	**6,598**	**10,018**	**11,984**	**11,077**	**12,941**
Interest					
Interest paid as per cash flow statement	2,703	2,986	3,975	4,314	4,355
Interest received	(4,777)	(3,094)	(1,525)	(825)	(766)
Interest	**(2,075)**	**(108)**	**2,450**	**3,489**	**3,589**
Total assets	189,701	210,691	231,683	241,913	252,645
less: cash and cash equivalents	(55,313)	(20,363)	(47,005)	(25,975)	(32,306)
Market value of total assets	**134,388**	**190,328**	**184,678**	**215,938**	**220,339**
Debt					
Reported financial debt	76,395	90,912	103,101	102,451	100,236
less: cash and cash equivalents[2]	-	-	-	-	-
Debt	**76,395**	**90,912**	**103,101**	**102,451**	**100,236**

[1] Include gains/(losses) on disposals.

[2] Netting of cash is generally only applicable to ratings in the BB category or higher.

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

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

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

Persisting issues

Following repeated changes in management, ownership structure and strategic direction, we acknowledge that the company has made notable improvements and that its strategy now appears to have stabilised. Earlier concerns related to 'clarity and transparency', previously flagged no longer appear to be significant. As such, we recognise progress in addressing the previously identified transparency and corporate governance issues (ESG factor: credit negative).

In particular, positive developments include the redefined and more stable strategy, the simplification of the corporate structure, culminating in the registration as a regulated property investment company and the acquisition of SZIT status since July 2024, the strengthening of management and internal functions, and enhanced clarity and transparency in financial disclosures.

Nevertheless, some concerns persist, especially regarding the numerous interdependencies with closely related entities (namely, one of the majority owner's other holdings) and the company's extensive reliance on outsourcing and third-party service providers, both of which continue to limit visibility.

ESG profile: neutral

In 2024, Appeninn published its first sustainability report, marking a formal entry into ESG reporting. Disclosures align with the Budapest Stock Exchange ESG Guide and GRI standards. While still at an early stage, the company has outlined a long-term vision focused on integrating energy efficiency and responsible water management across its portfolio, particularly through future acquisitions. However, no specific or quantitative ESG targets have been disclosed to date. Notable actions include the installation of solar panels across Hungarian retail properties and a commitment to sourcing 100% green electricity for its Polish subsidiaries.

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

7. Business risk profile: B

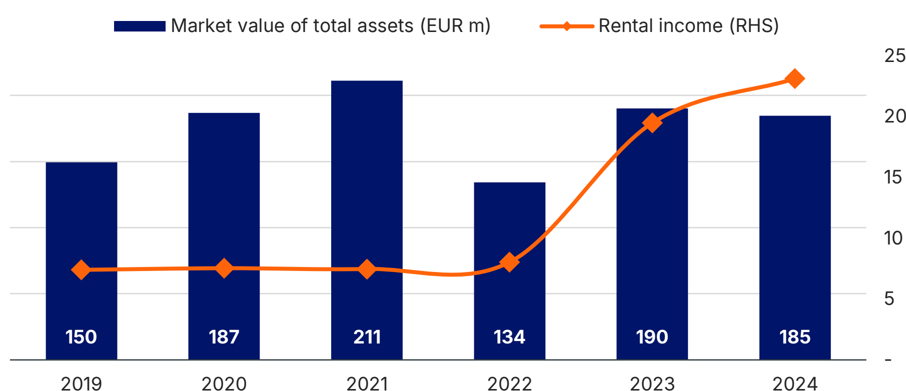
Industry risk profile: BB

Following the completion of its strategic refocusing, Appeninn's industry risk profile is primarily shaped by its exposure to the commercial real estate sector under a buy-and-hold strategy. The company has fully divested its leisure and tourism activities, thereby eliminating the development risk previously associated with that segment. With improved visibility on Appeninn's long-term strategic direction, we currently assign an industry risk assessment of BB.

Small property company in a highly fragmented market

Appeninn is a relatively small real estate company in the European context, with total assets of EUR 184.7m (-3% YoY) and a GLA of 157k sq m as at end-December 2024. The company's property portfolio is primarily composed of assets valued between EUR 1m and EUR 15m, largely concentrated in its home market of Hungary, with a recently expanded footprint in Poland.

Figure 1: Market value of total assets and gross rental income (in EUR m)



Sources: Appeninn, Scope

Moderate changes in the portfolio are anticipated, primarily through strategic rebalancing involving the disposal of non-core assets and selected acquisitions. As a result, the overall portfolio size is projected to remain broadly stable, with potential for further growth through opportunistic acquisitions.

The Hungarian commercial real estate market remains fragmented, with dominant market shares concentrated within specific segments such as logistics. Appeninn's market presence in Hungary remains limited, both in terms of owned property value and occupied GLA, resulting in very modest market shares.

Geographic diversification improving – but concentration in home market remains

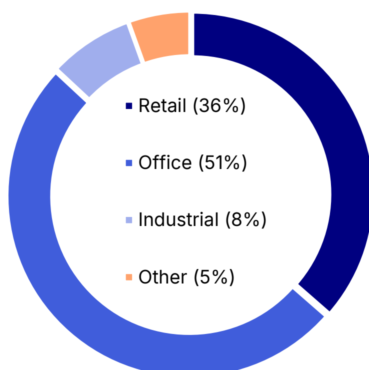
Appeninn's property portfolio remains primarily concentrated in Hungary, accounting for 75% of total portfolio value as at end-2024, with a notable focus on the Budapest metropolitan area (15 properties accounting for 36% of total portfolio value). Outside of Budapest, the company's assets predominantly consist of retail properties (20 locations, 17 of which are leased by major retailers such as SPAR, LIDL, and ALDI), benefiting from broad geographic coverage across Hungary.

In Q1 2023, Appeninn began diversifying geographically with the acquisition of office properties in Warsaw, totalling 40,560 sq m, which accounted for approximately 25% of total portfolio value at end-2024. The company is currently exploring further opportunities in Poland, which would reduce the company's domestic concentration further is it materialise.

Good diversification across asset classes

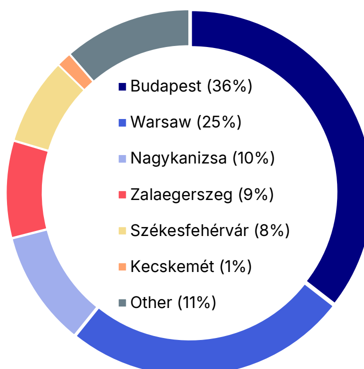
Within the commercial real estate sector, Appeninn's investment portfolio spans three property segments – retail (36% of GLA), office (51%), and industrial (8%) – each benefitting from distinct demand dynamics.

Figure 2: Asset class diversification -
By total GLA as of end-2024



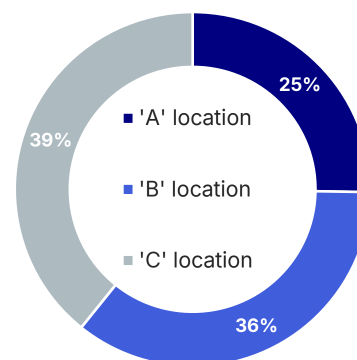
Sources: Scope, Appeninn

Figure 3: Geographic diversification -
By market value as of end-2024



Sources: Scope, Appeninn

Figure 4: Categorisation of property locations – By market value as of end-2024



Sources: Scope, Appeninn

High concentration of the tenant portfolio

The top three tenants in Appeninn's portfolio accounted for 36% of total net rental income in 2024 (2023: 39%), with Bank Pekao as the largest tenant, followed by MediaWorks and SPAR – previously the top tenant in 2023 – with leases spread across multiple properties. The ten largest tenants contributed 58% of total net rental income in 2024 (2023: 54%). More broadly, the top 20 tenants span a diverse range of sectors, including pharmaceutical and healthcare companies, banks, government-related entities, as well as fashion and food retailers.

The quality and granularity of the tenant base has become increasingly important amid challenging economic conditions, where the risk of tenant defaults or delayed payments is elevated. Appeninn's tenant portfolio quality is assessed as moderate to good, underpinned by a solid presence of reliable occupiers, which helps to mitigate the risk associated with smaller or less creditworthy tenants.

Portfolio KPIs

As of end-2024, Appeninn's portfolio occupancy[4] stood at 91%, marking a 5.2 pp YoY increase. The WAULT remained stable, at approximately 4.2 years for the Hungarian asset portfolio and 3.3 years for the Polish assets. Retail assets were fully occupied as of end-2024, with lease maturities ranging from 2026 to 2031, resulting in a WAULT of over 4 years.

The company relies on external property management firms to actively manage lease maturities, aiming to ensure tenant retention and optimise lease terms. Where appropriate, lease incentives may be granted to sustain high occupancy levels and enhance tenant satisfaction.

Still large exposure to secondary locations

Appeninn's investment portfolio remains predominantly located in Hungary, accounting for 75% of total portfolio value as at year-end 2024, with 36% concentrated in the Budapest metropolitan area, considered as a 'B' location (according to our definition). The remaining Hungarian assets are spread across smaller or regional cities, typically considered 'C' locations. The recent acquisition of office properties in Warsaw, an 'A' location due to its national significance and the total stock of commercial real estate, has improved the geographical profile of the portfolio.

While the exposure to Warsaw's larger and more liquid real estate market is a positive factor, it does not yet materially uplift overall portfolio quality, which remains largely concentrated in secondary locations in terms of property count. As a result, Appeninn's portfolio continues to be considered less liquid, particularly in the context of a very subdued investment landscape, where transaction volumes in Hungary declined by 39% YoY to EUR 387m in 2024.

Aged portfolio showing wide dispersion of vintage...

The weighted average economic age of the portfolio is estimated to stand between 10 and 15 years, reflecting a slight improvement compared to 2023 due to ongoing and completed refurbishment

[4] Excluding properties held for sale.

works. While most properties are subject to regular annual maintenance, certain assets – primarily those classified as held for sale – have not undergone refurbishment in over two decades. As a result, these properties are considered less attractive to the market due to the significant capital expenditure required to bring them up to modern standards.

...although asset quality set to improve thanks to capex ramp up and portfolio streamlining

To address historical underspending across its portfolio, Appeninn has ramped up its capital expenditure plan from 2024 onwards, targeting average annual investments equivalent to 2%-3% of the latest portfolio valuation. At least one-third of the planned capex for 2025-26 will be allocated to recently acquired properties, particularly the Warsaw office buildings. These investments are expected to enhance tenant appeal, support occupancy levels, lease durations, and property valuations.

In addition, the planned disposal of non-core properties is expected to improve overall portfolio quality upon completion. These assets are characterised by high vacancy rates and negligible rental cash flow, and their disposal is considered an effective step toward streamlining the portfolio.

Profitability normalising above 60%, yet cost-pressured in the short term

Appeninn's operating profitability has been volatile in recent years, largely due to frequent shifts in strategic direction and the associated costs. However, with the company's strategy now stabilised, profitability is gradually normalising towards levels consistent with a buy-and-hold model. The EBITDA margin reached 65% in 2024, marking an improvement of 8.7 pp YoY.

In the near-term, profitability is expected to remain supported by the steady performance of the existing portfolio and the company's lean organisational structure. That said, profitability will remain temporarily constrained by the increase in property and outsourcing costs, largely stemming from asset rotation and efforts to enhance portfolio KPIs.

8. Financial risk profile: BB+

Capex-sufficient operating cash flow

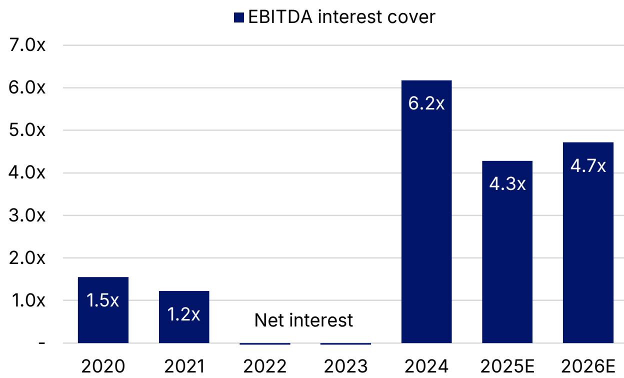
Appeninn's cash flow generation has been volatile, reflecting its transition to a buy-and-hold model, including the divestment of its tourism portfolio and fluctuations in working capital. Cash flow stability is not anticipated in the short-term, as the company remains in a build-up phase, with individual transactions having a material impact on financials due to the relatively small portfolio scale. Nevertheless, operating cash flow level has been sufficient to cover capex needs, thereby limiting reliance on additional short-term financing.

Good debt protection

Debt protection, as measured by the EBITDA interest cover, remained strong, reaching 6.2x in 2024 (net cash interest in 2023). The income contribution from properties acquired in 2023, largely cash-financed, has supported earnings growth relative to the interest burden. In addition, interest cover benefitted meaningfully from the high remuneration of excess cash, although deposit rates have gradually since declined.

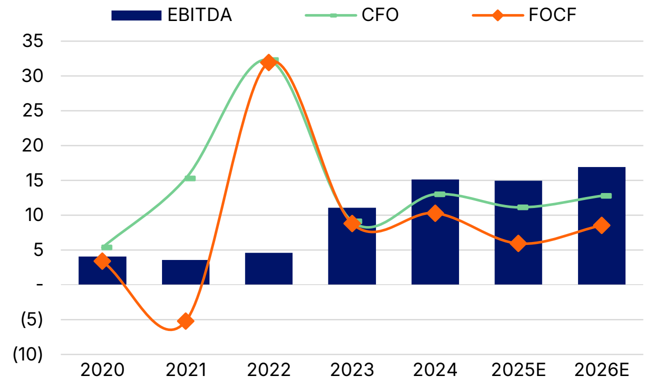
The current level of interest cover is sufficient to meet both ongoing and future interest payments, which remain highly predictable due to the predominantly fixed-rate debt structure. It also provides a buffer against potential earnings volatility stemming from temporary mismatches in cash flow timing.

Figure 5: Debt protection



Sources: Appeninn, Scope estimates

Figure 6: Cash flow (EUR m)



Sources: Appeninn, Scope estimates

...benefitting from long-dated and fixed-rate debt structure

Appeninn is expected to continue benefiting from its favourable financing structure, characterised by fixed-rate and long-dated debt – particularly if profitability continues to improve. The financings raised in 2024 had a moderate impact on the overall cost of debt, as the company primarily secured a 10-year subsidised loan of EUR 15m at 3% fixed interest rate. An additional EUR 7.1m loan was drawn with 70% fixed-rate component (2.85%) and 30% floating component (3M Euribor + 2.5%), resulting in very modest exposure to interest rate risk. These funds are currently deposited – generating interest income – until deployed for potential acquisitions, partially offsetting interest expenses in the interim.

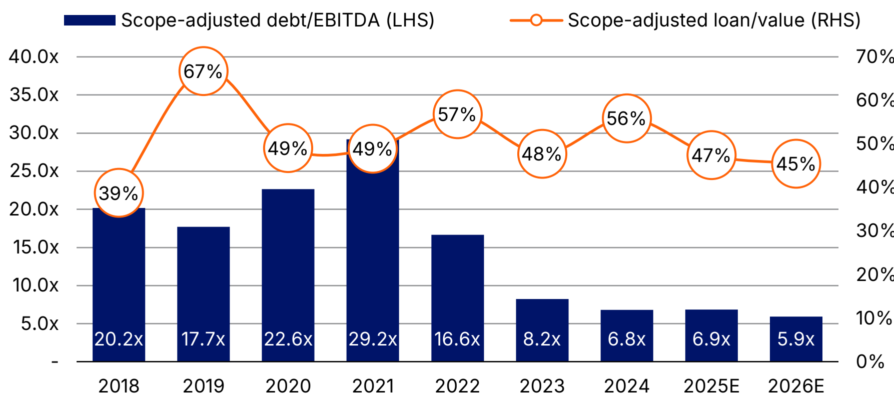
We expect interest cover to remain well above 3x going forward, despite the higher interest burden from outstanding debt. This will be offset to a lesser extent than in the previous period by interest income from cash deposits.

Moderate leverage, expected to return back below 55%

Leverage, as measured by the loan/value ratio, increased to 56% as at end-2024, up from 48% at year-end 2023. The increase was primarily driven by a 4% decline in asset valuations, while reported debt rose by 13% YoY to EUR 105m. The latter reflects the drawdown of a 10-year EUR 15m loan (secured by the Wisniowy property), although the funds have not yet been deployed and are currently held in a remunerated deposit account.

Current leverage continues to provide some buffer against residual yield pressure, particularly in secondary locations. Nonetheless, we believe that the decline in property values is nearing an end, and Appeninn's portfolio valuation as at end-2024 is considered to largely reflect prevailing market and property-specific conditions.

Figure 7: Leverage



Sources: Appeninn, Scope estimates

The company maintains good access to external financing, both on a secured and unsecured basis, supported by a large pool of unencumbered assets. As of end-2024, EUR 61m in secured bank debt was outstanding against a property portfolio valued at approximately EUR 168m (excluding assets held for sale), providing meaningful collateral capacity that could serve as a backstop for secured lending or support future acquisitions.

We do not expect Appeninn to raise substantial additional debt in 2025-26, given its strong liquidity position, which is sufficient to cover potential acquisitions in the near-term. Given Appeninn's limited reliance on additional financing and the accretive EBITDA contribution from recently acquired properties, we anticipate that the debt/EBITDA ratio will remain below 10x. However, downside risks to cash flow persist, primarily due to the relatively low WAULT of the portfolio and concentration within the tenant base.

Table 1. Liquidity sources and uses (in EUR '000s)

	2024	2025E	2026E
Unrestricted cash (t-1)[5]	15,272	35,253	19,482
Open committed credit lines (t-1)	0	0	0
FOCF (t)	10,287	5,921	8,545
Short-term debt (t-1)	2,308	3,087	2,915
Liquidity	**>200%**	**>200%**	**>200%**

Sources: Appeninn, Scope estimates

Adequate liquidity

Appeninn's liquidity is adequate, with cash sources (available cash of EUR 47m as of end-2024 and forecasted FOCF of EUR 5.9m in 2025) fully covering short-term debt obligations of EUR 3.1m due in the 12 months to end-December 2025. The company will be able to comfortably repay its debt in the next 12-18 months, as all short-term debt relates to amortised loans.

We consider liquidity and refinancing risks to be limited for Appeninn, supported by the absence of significant debt maturities, with no major repayments due before 2029.

Accelerated repayment clause

Appeninn's senior unsecured bond, has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 20bn) if the debt rating of the bond remains below B+ for more than two years (grace period) or falls below B- (immediate repayment). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is zero notch. Given the limited rating headroom, the company must at least maintain its current credit profile to avoid triggering the rating-related covenant.

9. Supplementary rating drivers: +/- 0 notch

Improved governance, but persisting issues

We acknowledge that progress has been made in addressing previously identified transparency and corporate governance issues. In particular, we see positive developments with the redefined and now more stable strategy, the simplification of the corporate structure (registered as a regulated property investment company with SZIT status since July 2024), the strengthening of management and internal functions, and the clarity and transparency of financial disclosures. However, we continue to note persisting issues, particularly regarding the numerous interdependencies with closely related entities and the extensive use of outsourcing and third-party service providers, which continue to limit overall transparency (ESG factor: credit negative).

10. Debt rating

Senior unsecured debt rating: B+

In November 2019, Appeninn issued a HUF 20bn senior unsecured bond (ISIN: HU0000359344) under the Hungarian National Bank's Bond Funding for Growth Scheme. The 10-year bond has a fixed coupon of 3.5%, and is repayable in a lump sum at expiry.

[5] Including 15% haircuts on cash sources.

We have affirmed the B+ rating of Appeninn's senior unsecured debt. Our recovery analysis is based on a hypothetical default in 2026, using the company's liquidation value. Despite showing an 'above-average' recovery, the rating is capped at the issuer level due to the limited creditor protection available to senior unsecured bondholders. This view is based on the assumption that the company would fully utilise its available secured debt capacity to maximise liquidity in the lead-up to a potential default.

As at end-2024, Appeninn held a large pool of assets that have not been pledged as collateral, translating into an unencumbered asset ratio of well above 110%.

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