Cordia International SE. Hungary, Real Estate

BB- NEGATIVE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	6.2x	4.3x	4.3x	2.4x
Scope-adjusted debt/EBITDA	4.0x	5.1x	4.4x	6.1x
Scope-adjusted loan/value ratio	28%	30%	31%	35%

Rating rationale

The rating reflects Cordia's solid competitive position in the residential property development market, its sizeable project pipeline and relatively strong profitability. Main constraints arise from the company's relatively small size and moderate concentration in its core markets.

The rating is also supported by Cordia's moderate credit metrics and strong liquidity profile, although constrained by its exposure to interest rate risk and potential for earnings volatility.

Outlook and rating-change drivers

The **Negative Outlook** continues to reflect challenging market fundamentals for developers, with varying conditions that are either unfavourable, uncertain or encouraging, depending on the specific in which Cordia operates. While we anticipate that the company will successfully execute its development pipeline, potential earnings volatility, coupled with exposure to interest rate risk, could exert some pressure on Cordia's credit metrics, which could negatively impact the rating.

The **upside scenario** for the rating and Outlook are (collectively):

1) Scope-adjusted EBITDA interest cover sustaining above 2x.
2) Increased visibility of a sustained recovery in Cordia's main markets.

The **downside scenarios** for the ratings are (individually):

1) Scope-adjusted EBITDA interest cover dropping below 2x on a sustained basis.
2) Worsening of liquidity (deemed remote for the time being).

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
6 Dec 2024	Affirmation	BB-/Negative
8 Dec 2023	Downgrade	BB-/Negative
26 May 2023	Affirmation	BB/Negative
2 Jun 2022	Outlook change	BB/Negative

Ratings & Outlook

Issuer	BB-/Negative
Senior unsecured debt	BB-

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Related Methodologies and Research

General Corporate Rating Methodology; October 2023

European Real Estate Rating Methodology; March 2024

ESG considerations for the credit ratings of real estate corporates; April 2021

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Solid reputation and strong brand recognition in the eastern European property development market, with leading position in Hungary (Budapest) • Sizeable and well-balanced project pipeline across different markets, ensuring favourable growth prospects • Strong operating profitability supported by low land-acquisition cost and supportive market sale prices • Moderate leverage and adequate debt protection despite rising cost of financing	• Small-to-medium residential developer compared to European peers, suggesting high vulnerability to shifting demand and cash flow volatility • High exposure to volatility induced by the cyclical nature of real estate development and weak prospects surrounding the demand for newly built apartments, exacerbated by elevated interest and inflation rates • Despite diversification efforts, development activities remain largely concentrated in two core-markets (Budapest, Poland) • Debt protection constrained by exposure to floating rate debt (36% of total debt at end-June 2024) • Lack of recurring revenue sources and cash flow volatility

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted EBITDA interest cover of sustaining above 2.0x • Increased visibility of a sustained recovery in Cordia's markets	• Scope-adjusted EBITDA interest cover of below 2.0x • Worsening of liquidity (deemed remote for the time being)

Corporate profile

Cordia International SE (Cordia) is a residential property development company serving individual customers. Its primary product is apartment units in multi-family residential buildings, with a geographic focus in Hungary, Poland, Romania, Spain and the United Kingdom. The company also has a 11.5% stake in Argo Properties N.V., a German-based owner and manager of residential and commercial properties.

Cordia was spun out of Futureal (established in 2001) and established as its own company in 2016, hence the shorter financial data history. Over the last 20 years, Cordia/Futureal have developed more than 9,500 apartments in Hungary, Poland and Romania.

Financial overview

				Scope estimates	
Scope credit ratios	**2022**	**2023**	**H1 2024**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	6.2x	4.3x	4.5x	4.3x	2.4x
Scope-adjusted debt/EBITDA	4.0x	5.1x	5.4x[1]	4.4x	6.1x
Scope-adjusted loan/value ratio	28%	30%	31%	31%	35%
Scope-adjusted EBITDA in HUF m					
Reported EBITDA	8,144	10,334	8,207	21,100	18,514
Recurring associate dividends received	2,970	1,385	393	820	384
Capitalised expenses	477	1,782	0	0	0
One-off items[2]	5,789	1,294	0	0	0
Scope-adjusted EBITDA	**17,380**	**14,795**	**8,600**	**21,920**	**18,898**
Funds from operations in HUF m					
Scope-adjusted EBITDA	17,380	14,795	8,600	21,920	18,898
less: (net) cash interest paid	(2,791)	(3,424)	(1,932)	(5,047)	(7,981)
less: cash tax paid per cash flow statement	(1,121)	(6,369)	(428)	(1,838)	(937)
Other non-operating charges before FFO	(1,652)	1,426	(231)	7,400	1,454
Funds from operations (FFO)	**11,816**	**6,428**	**6,009**	**22,434**	**11,433**
Net cash interest paid in HUF m					
Net cash interest per cash flow statement	(2,792)	(3,424)	(1,932)	(5,047)	(7,981)
Change in other items	0	0	0	0	0
Net cash interest paid	**(2,792)**	**(3,424)**	**(1,932)**	**(5,047)**	**(7,981)**
Scope-adjusted total assets in HUF m					
Total assets (reported)	296,300	287,110	357,172	372,426	371,501
less: cash and cash equivalents	(64,888)	(50,825)	(73,881)	(80,777)	(59,807)
less: positive value of derivatives	(1,330)	(595)	(564)	(564)	(564)
Fair value adjustments	20,135	18,712	16,670	16,670	16,670
Scope-adjusted total assets	**250,217**	**254,402**	**299,397**	**307,755**	**327,800**
Scope-adjusted debt in HUF m					
Reported gross financial debt	134,121	125,949	170,520	180,977	178,177
less: cash and cash equivalents	(64,888)	(50,825)	(73,881)	(80,777)	(59,807)
add: non-accessible cash	0	0	0	0	0
add: pension adjustment	0	0	0	0	0
add: operating lease obligations	0	0	0	0	0
Other items[3]	0	0	(3,946)	(3,946)	(3,946)
Scope-adjusted debt	**69,233**	**75,124**	**92,693**	**96,254**	**114,424**

[1] H1 2024 EBITDA annualised.
[2] Includes non-cash items (including write-down of long-term receivables and inventories).
[3] Includes an adjustment of financial investments, considered as cash equivalents.

Table of Content

Environmental, social and governance (ESG) profile[4]

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)

Cordia does not prepare any extra-financial performance report nor has defined specific ESG targets/KPIs so far (under preparation). Given the extensive environmental footprint of the real estate industry, we believe that the issuer would greatly benefit from the disclosure of greenhouse gas emissions and the implementation of actions/strategies to mitigate climate-related risks for instance, in line with the Paris agreement. Nevertheless, Cordia committed to adhere to high standards, with the objective of developing buildings that exceed the minimum criteria for nearly zero-energy buildings in all of its markets, by at least 10%.

To support its sustainability initiatives, Cordia introduced its Green Finance Framework in April 2024, facilitating the financing of projects with environmental benefits. In May 2024, the company issued its first green bonds, raising HUF 40bn with a 15-year maturity to fund eligible projects.

[4] 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.

Business risk profile: BB-

Industry risk profile: BB

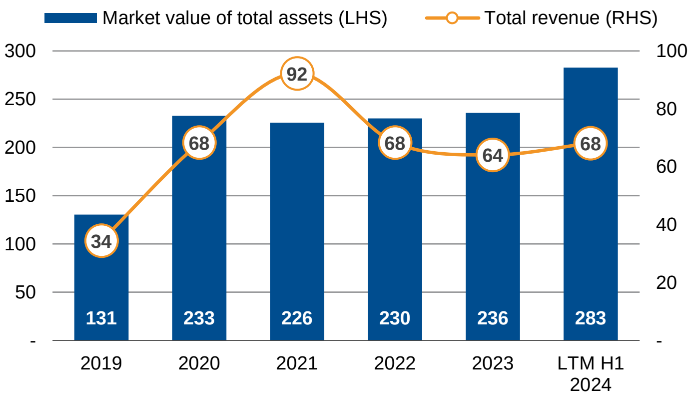
Cordia's activities are centred around the development and sale of residential properties, which translates into an industry risk assessment of BB (homebuilders).

Market leading residential developer in Budapest

With Scope-adjusted total assets of HUF 254bn and total revenue of HUF 64bn as of end-2023, Cordia is one of the leading residential developers in Central and Eastern Europe. However, it remains small in a European context. During 2023, the company handed over 900 units (a 19% YoY decrease, largely attributable to Hungary) and sold 533 units (down 37% YoY).

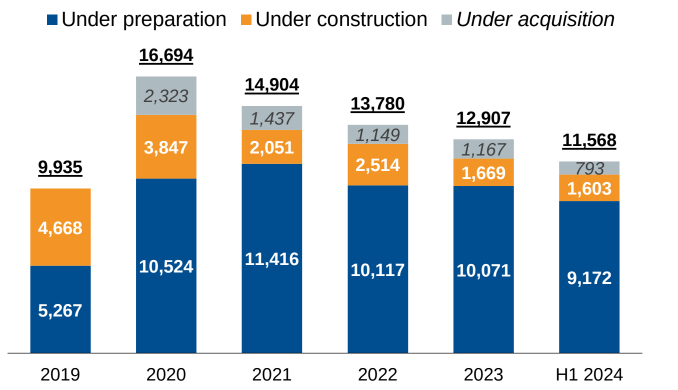
In the first half of 2024, Cordia delivered 404 units (stable YoY) and sold 458 units, representing a 67% increase compared to H1 2023. This growth was largely driven by the notable recovery of the Hungarian property market. In Budapest, Cordia sold 10% more units in H1 2024 than in the full year of 2023.

Figure 1: Market value of total assets and total revenue (HUF bn)



Sources: Cordia, Scope

Figure 2: Cordia's land bank – number of units



Sources: Cordia, Scope

Strong market shares in Budapest…

In terms of market shares, Cordia is the leading developer of residential property in its home market of Budapest, where it had five projects under construction as of end-June 2024. Based on units sold throughout Budapest during the first half of 2024 (3,100), Cordia's market share stood at around 8% and its total offer (680 units open for sale) represented about 11% of the total in Budapest. Noting that Cordia is positioned in the mid-to-upper market segment, which accounts for about two-thirds of new-build flat transactions, its segment market share stands at 11%-14%.

… but still negligible in other markets

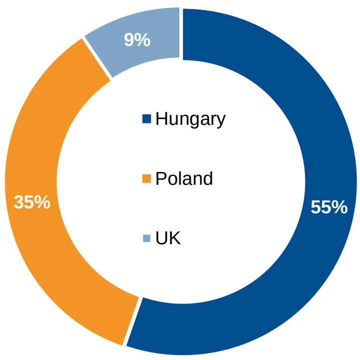
Among residential developers in Poland, Cordia remains a relatively minor player, having sold 739 units in the 2022-H1 2024 period and a current offer of 582 units as of H1 2024. For context, the three largest developers in Poland each sold more than 800 units in H1 2024 alone. Consequently, Cordia's market share was just below 1% and is expected to remain at similar levels based on its project pipeline. Cordia's market shares in Romania, Spain and the United Kingdom remain negligible, with only a handful of active projects.

Moderate geographical concentration

Cordia's residential projects are spread across five countries and eight metropoles, although we note a larger concentration in Budapest, which accounts for 51% of the units under construction and the total offering as of Q3 2024. The company's geographical reach benefitted from the increased activity in Poland, now its second-largest market, especially after the 2020 acquisition of Polnord. Aside from its two core markets, the minor exposure gained in Romania (Bucharest), Spain (Costa del Sol) and the United Kingdom (Birmingham) also alleviate the geographic concentration, as these markets benefit from slightly different demand patterns and market specificities (e.g. buyer profiles, mortgage lending models and regulations). Therefore, adverse market developments in one country can be balanced out by more resilient sales activity in another, which, for instance, could be supported by local government schemes such as subsidised loans or reduced value-added tax.

Figure 3: Pipeline geographical diversification (by number of units under construction)

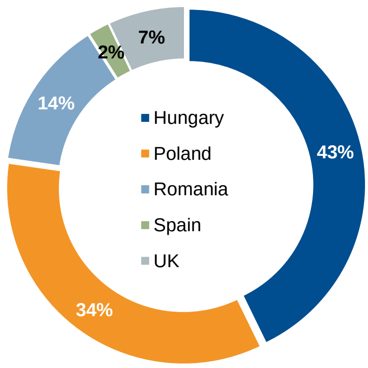
[As of end-June 2024]



Sources: Cordia, Scope

Figure 4: Cordia's secured land bank geographical diversification (by planned number of units)

[As of end-June 2024]



Sources: Cordia, Scope

Exposure to development risks partly mitigated by a balanced and calibrated project pipeline

As of end-June 2024, Cordia's secured project pipeline contained a potential of 10,775 units, of which 1,603 were under construction and 9,172 under preparation. The average project size of 189 units helps to limit development risks and the necessity to deploy substantial capital resources on a single project, given that large-scale developments such as 'Marina City' are carried out in phases. Furthermore, each project is operated and financed through a dedicated SPV and only starts once the development budget is fully funded, limiting the risk of non-completion.

Exposure to various real estate regulations

The markets in which Cordia operates have different sales regulations and project financing modes, spreading out the regulatory risks while partly mitigating disposal risks. As such, project-equity and pre-sales requirements from local bank financing vary from one country to another, but usually request 20%-30% of equity of the total development costs and 20%-40% of pre-sales for a given project. Also, we note the different rules encompassing sales contracts or payment phases, as buyers' initial deposits (e.g. up to 25% of the purchase price in Hungary) are non-refundable or penalised if withdrawn, which limits the risk of walk-aways. All in all, these various specificities provide the company with some flexibility in the risk management of its projects.

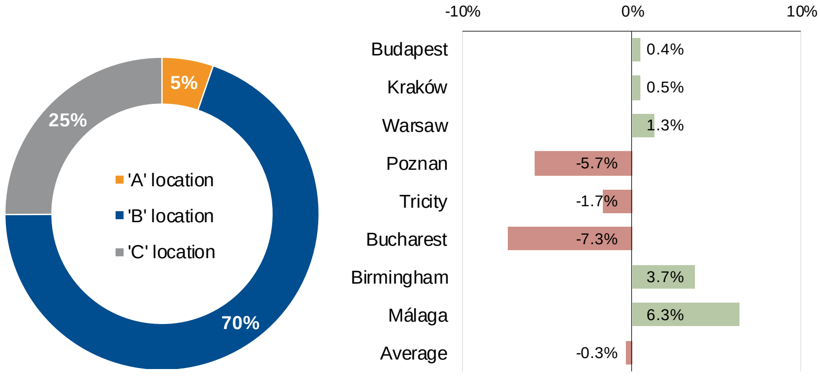
Diversified customer base thanks to B2C sale model

Buyer concentration is low due to the large exposure to private homebuyers purchasing a single unit (first-time buyer of primary residence or single-investment) and to a lesser extent, investors buying up to 15 units. As such, we consider customer concentration and the exposure to buyers' default to be very limited. The latter is largely mitigated by contract terms allowing the company to withhold initial deposits or charge penalties in the event of a buyer's withdrawal, whilst having the ability to resell the unit afterwards. Besides this, we note a large proportion of cash buyers in eastern European markets (more than 60% of Cordia's customers are cash-buyers), which helps maintain sales amid elevated mortgage loan costs that is pricing out many applicants or making them ineligible.

Solid reputation in the Hungarian residential development market

With over two decades of experience, Cordia has gained a solid reputation in the residential development market in Central and Eastern Europe (especially in Budapest) and built a strong brand, having successfully conducted multi-award-wining projects and large-scale urban redevelopment (e.g. Corvin promenade). This good standing is evidenced by the trust gained from local and international buyers (sale model primarily focused on B2C). The company's development projects are positioned in the mid-upper market segment, which captures a large volume of transactions. The average selling price for Cordia's units is above observable market prices as of end-June 2024, driven by the introduction of high-end projects (e.g. Marina City).

Figure 5: Categorisation of Cordia's project locations[5] and population growth 2020-2030E



Sources: Cordia, Scope, Eurostat

Unfavourable demographics on project locations mitigated by sound demand for modern flats

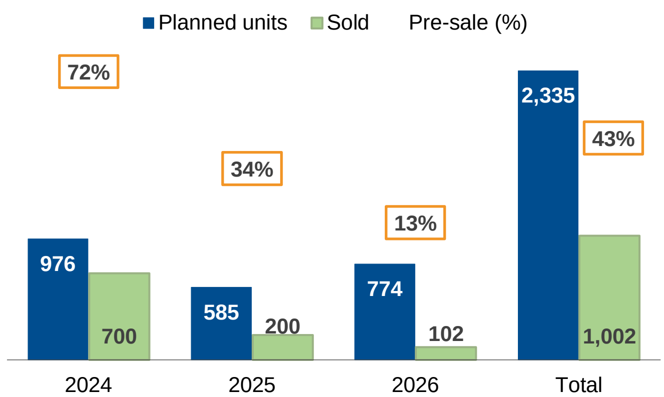
Cordia's project portfolio is predominantly located in its home market of Budapest but also spans several Polish cities, the Romanian city of Bucharest, the UK city of Birmingham and the Spanish region of Costa del Sol.

Although demographic trends are unfavourable in Cordia's project locations (mostly 'B' locations as assessed by us), these cities remain of national importance and benefit from a sound demand for newly built apartments as the existing stock is largely old and energy-intensive.

Good pre-sale rates support cash flow visibility

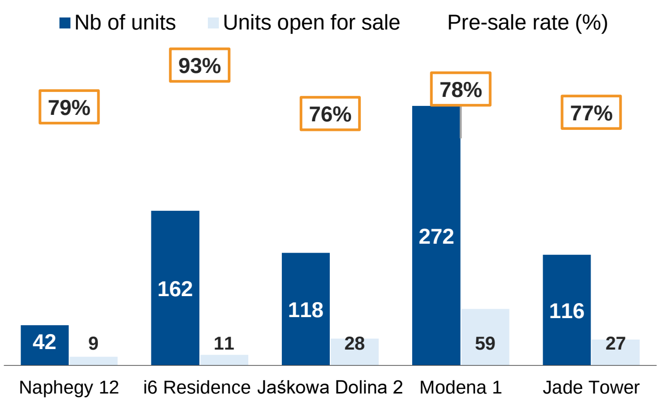
The pre-sale rates achieved in Cordia's completed and ongoing projects contribute significantly to mitigating development risks and securing future revenues. As of Q3 2024, pre-sales reached 88% for completed projects and 31% for projects under construction[6], whilst noting that over 700 units were launched in H1 2024. This reflects an overall pre-sale rate of 64%, excluding an ongoing built-to-rent project.

Figure 6: Pre-sale rates in ongoing projects by planned year of completion up to 2026 – [As of end-September 2024]



Sources: Cordia, Scope

Figure 7: Pre-sale rates in projects completed during H1 2024 [As of end-September 2024]



Sources: Cordia, Scope

[5] Classification of locations as defined by Scope.
[6] Excluding one build-to-rent project.

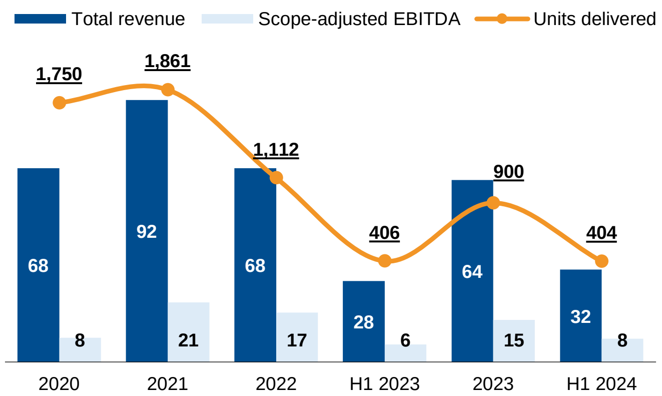
Profitability supported by low cost of land and growing sales price

Profitability, as measured by the Scope-adjusted EBITDA margin, remained stable at 22% in 2023 (down 0.1 pp YoY), driven by tight cost discipline (i.e. SG&A costs down 6% YoY) and positive effect from sale market prices. Despite a decline in revenues during the 2023 financial year (down 6.5% YoY), the company has been able to maintain robust profitability levels, which continue to benefit from a relatively low cost of land and favourable price dynamics for apartments.

In H1 2024, Cordia delivered a solid performance, with revenue growth of 14.3% YoY and gross profit up 13% YoY to HUF 11.3bn. This was achieved with a stable number of deliveries compared to H1 2023 (around 400 units delivered), demonstrating Cordia's strong emphasis on margins rather than volumes.

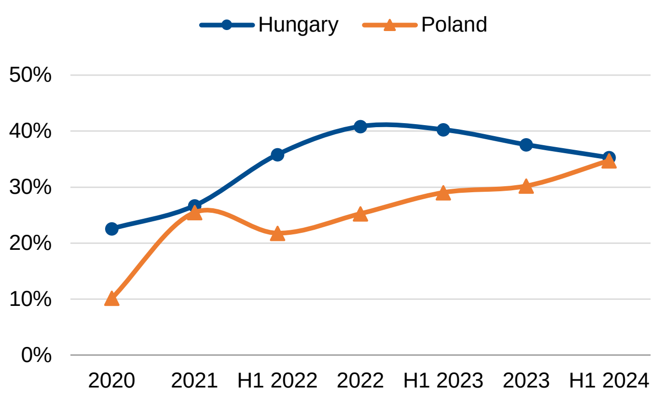
Profitability is expected to remain above 15% going forward, supported by steady market sale prices and normalised construction costs. The upward trend in the Hungarian property market, likely to continue, could create more favourable business conditions.

Figure 8: Revenue and Scope-adjusted EBITDA (HUF bn) vs number of units delivered



Sources: Cordia, Scope

Figure 9: Gross profit margins in Cordia's main markets



Sources: Cordia, Scope

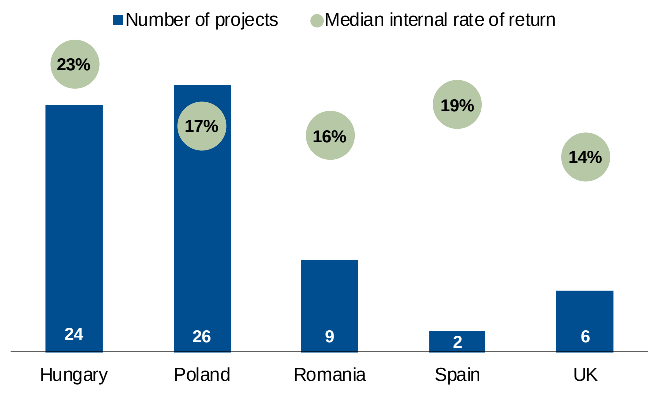
Robust project-based profitability in Cordia's core markets

Cordia's strategy prioritises profitability over volume, targeting for a minimum 20% internal rate of return (IRR) and a minimum 1.8x return on invested capital. To this end, the company has a restrictive land acquisition policy, as proven by the company's average land cost sitting more than 50% below market prices in Budapest as at end-June 2024.

The weighted average internal rate of return stands at 21% for completed projects and 22% for ongoing projects. Projects conducted in Budapest have the highest internal rate of return, which is further supported by the local contractor's capacity, resulting in shorter construction periods and favourable construction costs.

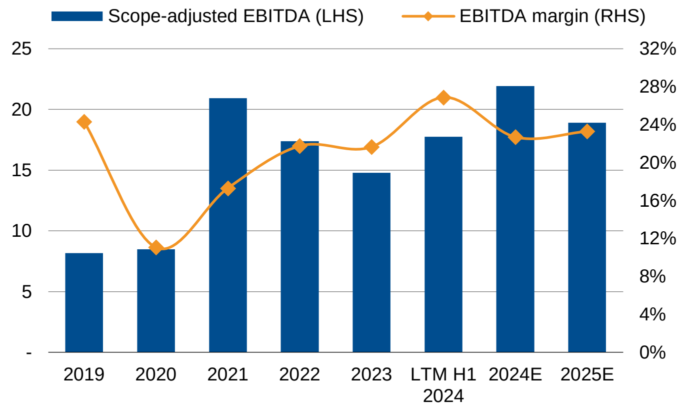
Figure 10: Projects' internal rates of return by geography

Including projects completed and under construction



Sources: Cordia, Scope estimates

Figure 11: Scope-adjusted EBITDA margin



Sources: Cordia, Scope estimates

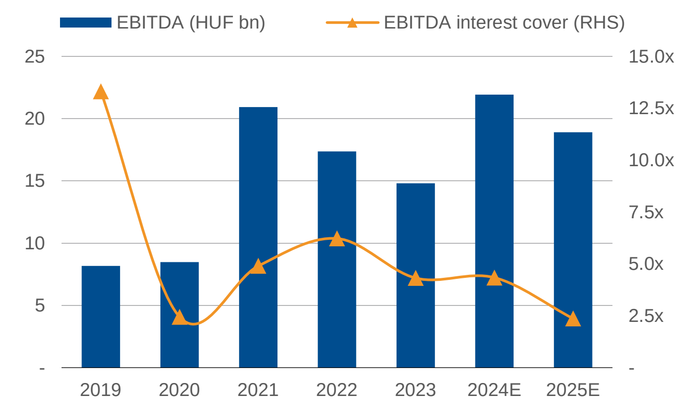
Financial risk profile: BB-

Adequate debt protection to serve interest payments…

Cordia's debt protection is adequate, with Scope-adjusted EBITDA interest cover standing at 4.5x in H1 2024 (2023: 4.3x), which has been driven by the increased indebtedness, with the higher interest burden on floating rate debt being mitigated to some by the growth in profitability.

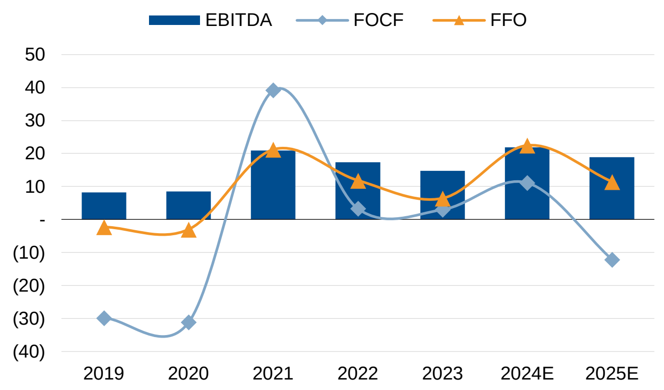
The current interest cover level is sufficient to serve actual and future interest payments while leaving some headroom against the potential cash flow volatility, commonly affecting real estate development.

Figure 12: Scope-adjusted EBITDA/interest cover



Sources: Cordia, Scope estimates

Figure 13: Cash flow (HUF bn)



Sources: Cordia, Scope estimates

…although constrained by high interest rates and exposure to floating-rate debt

However, Cordia is exposed to interest rate risk, as the majority of its projects are financed through construction loans (HUF 11bn as of H1 2024), half of which are at floating rates. Furthermore, Cordia also has floating rate bonds (both in Poland and Hungary, respectively six-month WIBOR +4.5% and six-month Bubor +4%) with a total face value of approximately HUF 55.7bn as of H1 2024. As a result, 36% of the company's total debt is at floating rates.

Furthermore, we do not expect upside pressure reference base rates, in line with Hungary's monetary policy easing. In conjunction, a decrease of risk-free cash deposit returns is expected.

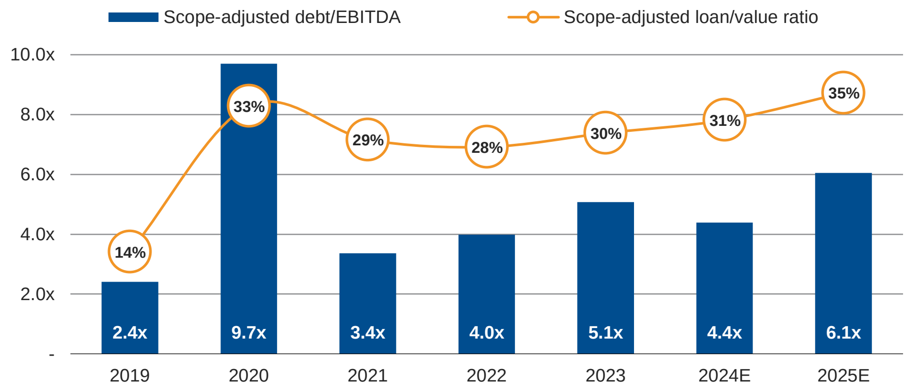
Cordia's debt protection is expected to remain volatile and largely dependent on the timely execution of its development pipeline. As such, there is a heightened risk that interest cover could decrease towards 2.5x. This includes the higher interest burden from construction loan drawdowns and outstanding bonds, which to some extent, will be partially counterbalanced by interest received from cash deposits and steady profitability.

Swings in leverage, although at moderate levels

Leverage as measured by Scope-adjusted debt/EBITDA stood at 5.4x at the end of June 2024 (end-2023: 5.1x), reflecting the financing transactions conducted during the first half of the year. These transactions included the issuance of HUF 40bn green bonds in May 2024 and PLN 120.4m on the Polish bond market in June 2024.

Cordia's current leverage remains satisfactory for a residential developer, as it provides some headroom to mitigate potential earnings volatility, and ensure a good access to external financing, on both a secured and unsecured basis, to fund working capital needs, build inventories, or pre-finance projects. This view is corroborated by Cordia's unencumbered asset ratio, which exceeds 110% as of H1 2024.

Figure 14: Leverage

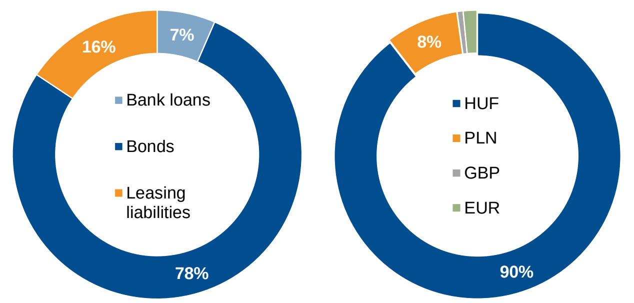


Sources: Cordia, Scope estimates

Cordia's reported gross debt amounted to HUF 170.5bn by the end of June 2024 (up 35% from end-December 2023), largely attributed to the net increase in bonds outstanding (up by HUF 40.8bn from end-December 2023). Following these transactions, a gradual decrease in the stock of bonds outstanding is anticipated in line with the amortisation/redemption schedule of the Hungarian bonds that will mature in 2026 and 2030. Going forward, the company's indebtedness will remain driven by project loans (HUF 43.5bn of unutilised facilities as of H1 2024) and by the amortisation schedule of the bonds maturing in 2026. It is therefore anticipated that gross debt will remain at a level of between HUF 170bn and 190bn in 2024-25, including lease liabilities.

Figure 15: Debt composition and currency denomination

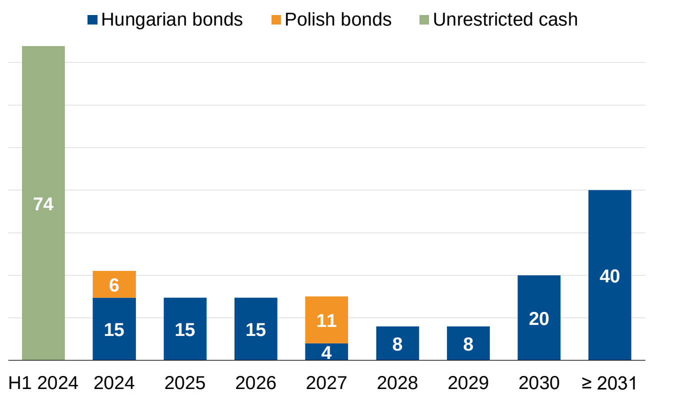
[As of end-June 2024]



Sources: Cordia, Scope

Figure 16: Bonds redemption schedule (HUF bn)

[As of end-June 2024] – Nominal value



Sources: Cordia, Scope

Adequate liquidity

Cordia's liquidity is adequate, with cash sources (unrestricted cash and cash equivalents of HUF 77.8bn as of end-June 2024) fully covering short-term debt of HUF 23.6bn due in the 12 months to end-June 2025. We believe the company can comfortably meet its debt obligation in the next 12-18 months, as short-term obligations relate to bond amortisation and project loans that are repaid along the project lifecycle. The company had HUF 40.5bn of unused project financing credit limit as of end-June 2024, which are tied to project constructions; cross-subsidies are not possible.

Balance in HUF m	2023	2024E	2025E
Unrestricted cash (t-1)	64,888	50,825	80,808
Cash equivalents (t-1)	0	0	3,946
Non-accessible cash (t-1)[7]	(6,489)	(5,083)	(8,475)
Open committed credit lines (t-1)	0	0	0
Free operating cash flow	3,016	11,104	(12,146)
Short-term debt (t-1)	1,320	29,548	55,026
Coverage	**> 200%**	**192%**	**117%**

We find comfort in the company's prudent liquidity management, which aims to maintain a minimum cash position of around EUR 50m at all times and sets at minimum a 1.5-year cash reserve for bond redemptions. Furthermore, we acknowledge Cordia's financial assets (HUF 39.6bn as of end-June 2024), a portion of which are earmarked for bond repayments. Consequently, 10% of these investments are treated as cash equivalents.

Long-term debt rating

Senior unsecured debt rating: BB-

We have affirmed the BB- debt rating on senior unsecured debt issued by Cordia International SE. We expect an 'average' recovery for outstanding senior unsecured debt in a hypothetical default scenario in 2025 based on the company's liquidation value. With an unencumbered asset ratio of above 110%, senior unsecured debt holders could also benefit from a pool of assets not pledged as collateral.

[7] 10% of available cash is deemed non-accessible to account for potential delayed cash inflows.

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