31 July 2024

Corporates

Opus Global Nyrt.
Hungary, Investment Holding Company

SCOPE

BB STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Total cost cover	2.6x	3.2x	2.1x	2.1x
Scope-adjusted loan-to-value (LTV)	43%	37%	35%	
Liquidity	No short-term debt	No short-term debt	No short-term debt	No short-term debt

Rating rationale

The issuer rating is supported by Opus' good financial risk profile, particularly total cost cover, driven by its cash-generative investment portfolio and lean cost structure. The issuer rating further benefits from the company's well-balanced portfolio, diversified across four different industries.

The rating is held back by portfolio sustainability due to concentration risk in recurring income generation, which continues to be very high, reflecting the most of non-industrial core-holdings' inability to pay dividends so far.

Outlook and rating-change drivers

The Stable Outlook incorporates our expectations of a broadly unchanged investment portfolio over the next two years, a focus on developing the existing portfolio, no major cash outflows (other than the already envisaged share buyback programme of HUF 10bn over the next three years and dividend payments to shareholders) as well as total cost cover significantly above 1.0x.

The upside scenario for the ratings and Outlook would require:

- Improved business risk particularly with regard to concentration risks related to dividend income. However, we do not foresee any material changes in this regard in the short-to-medium term.

The downside scenario for the ratings and Outlook would require:

- Total cost cover being sustained below 1.0x.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
31 Jul 2024	Affirmation	BB/Stable
03 Aug 2023	Affirmation	BB/Stable
28 Feb 2023	Monitoring review	No action
29 Mar 2022	Affirmation	BB/Stable
01 Apr 2021	Affirmation	BB/Stable

Ratings & Outlook

Issuer	BB/Stable
Senior unsecured debt	BBB-

Analyst

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Related Methodology

General Corporate Rating Methodology; October 2023

Investment Holding Companies Rating Methodology; May 2024

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Conservative buy-and-build strategy • Consistently strong total cost cover constrained by significant dividend payments to shareholder • Improving portfolio diversification by value	• Continued high dividend concentration • Low geographic diversification • Governance: Frequent top management changes (ESG driver)

Positive rating-change drivers	Negative rating-change drivers
• Improvement in dividend diversification	• Total cost cover sustained below 1x

Corporate profile

Opus Global is a Hungarian investment holding company. It qualifies as a holding company due to its portfolio approach to generating income (not all portfolio companies are 100% owned). Although there is limited integration between portfolio companies in different sectors, the holding company centralises certain services and funding. The group is the result of a merger between Opus and Konzum in 2018. With about HUF 300bn (roughly EUR 770m) in market capitalisation, it is among the top entities on the Hungarian stock exchange.

The group's investment philosophy focuses on holding majority positions in four industrial sectors: industry, food processing, energy and tourism. Opus' long-term buy-and-build approach involves identifying undervalued targets and creating growth and value through tight operational control of its portfolio companies. In the last two years, Opus has executed larger transactions, mainly in the energy division, which was already earmarked for transition out of traditional fossil fuels and into renewables and distribution. Additionally, the asset management division, which traditionally holds minority positions, has been further reduced to allow for a focus on the four core divisions.

Industrials segment (2023): Sales: HUF 285bn, reported EBITDA HUF 42bn (up 74% YoY); EBITDA margin: about 14.7%; order backlog HUF 100bn	**Food Processing segment (2023):** Sales: HUF 134bn, reported EBITDA HUF 20bn (up 69.4% YoY); EBITDA margin 14.5%	**Energy segment (2023):** Sales: HUF 242bn, reported EBITDA HUF 22bn (down 32.6% YoY); EBITDA margin 9.2%	**Tourism segment (2023):** Sales: HUF 39bn, reported EBITDA HUF 6bn - up 64% YoY; EBITDA margin 15.8%
• Meszaros es Meszaros Zrt. (M+M; 51% owned directly): general contractor for typically large public procurement construction projects such as utilities, road and railways • R-Kord Kft. (51% owned directly): general contractor for large public procurements in railway construction • RM International Zrt (51% owned indirectly): holds a 50% share in the consortium for the development of the high-speed railway connection between Budapest and Belgrade • Wamsler SE (99.93% directly owned): German fireplace and stove manufacturer; largest player in Central and Eastern Europe	• KALL Ingredients Kft. (74% owned directly): corn processing with extensive product portfolio including isosugar and liquid sugars; just invested EUR 160m in a modern plant • Viresol Kft. (51% owned directly at end-2022 – increased to 84% at the end of 2023): wheat processor with extensive product portfolio including starches, industrial alcohol, gluten and raw material for fodder • Csabataj Zrt (74% directly owned): mixed farming (livestock breeding, egg and crop production)	• Opus Titasz (50% directly owned): electricity distribution in the eastern part of Hungary, reaching more than 780,000 customers • Opus Tigaz (49.57% indirectly owned): owns and operates Hungary's largest natural gas distribution network • OPTESZ OPUS Zrt. (49.99% indirectly and directly owned)	• Hunguest Zrt. (99.99% owned directly): among Hungary's leading hotel operators with 21 locations in Hungary, Austria, Montenegro • BALATONTOURIST Camping Kft. and BALATONTOURIST Kft. (99.99% owned indirectly)

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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)	

Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

Some governance concerns

We are still concerned about frequent changes in top management at Opus (the latest at the end of 2022), which may impact governance. Over the past four years, there has been high volatility in top management composition, partly unexplained, which is not conducive to long-term planning and strategy.

Opus is directly and indirectly controlled by Lorinc Meszaros, Hungary's richest individual. Mr Meszaros does not have direct management or supervisory board representation within the holding company.

[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.

Financial overview

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Total cost cover	2.6x	3.2x	2.1x	2.1x
Scope-adjusted loan/value (LTV)	43%	37%		~35%
Liquidity	No short-term debt	No short-term debt	No short-term debt	No short-term debt
Recurring cash income in HUF m				
Dividends from holdings	6,018	9,740	20,999	21,200
Interest received from shareholder loans	588	714	750	1,286
Interest received on deposits	1,047	1,365	527	655
Management and service fees	1,343	1,801	1,750	2,127
Recurring cash income	**8,996**	**13,620**	**24,026**	**25,268**
Total costs in HUF m				
Operating expenses	1,378	2,233	2,864	2,922
Taxes paid	-	-	-	-
Interest paid	2,061	2,032	2,032	2,032
Dividends paid	-	-	6,733	7,000
Total costs	**3,439**	**4,265**	**11,629**	**11,954**
Scope-adjusted debt in HUF m				
Gross financial debt	67,805	71,258	71,259	71,260
less: cash and cash equivalents	-8,264	-11,385	-9,803	-27,000
add: other items (guarantees)	60,021	55,530	48,885	38,930
Scope-adjusted debt	**119,562**	**115,403**	**110,341**	**83,190**
Scope-adjusted gross asset value in HUF m				
Gross asset value	279,743	314,777		
Short-term investments	0	0		
Scope-adjusted gross asset value	**279,743**	**314,777**		

Business risk profile: BB-

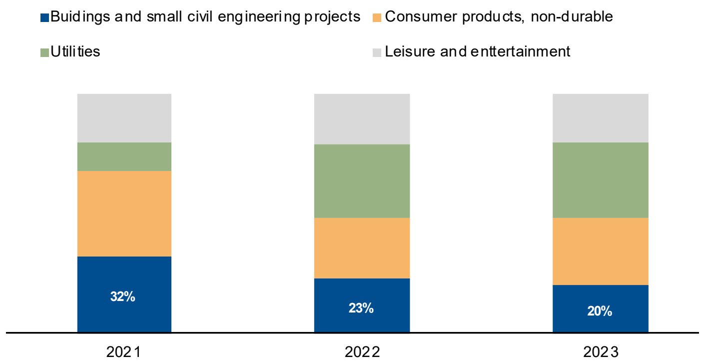
Weighted average industry portfolio risk

Opus’ exposure to four distinct, relatively non-cyclical and low-correlated sectors continues to support its business risk profile. Most of the industries represented in the portfolio have low or medium cyclicality.

Opus’ largest exposure by asset value was previously in the industrial and food processing segments (more than two-thirds, compared to about 45% at YE 2023). The four industries are now more evenly represented, reflecting recent investments in the energy and tourism segments. However, the holding company’s industrial exposure remains to be a mix of low-rated construction activities and high-rated food processing and energy sectors.

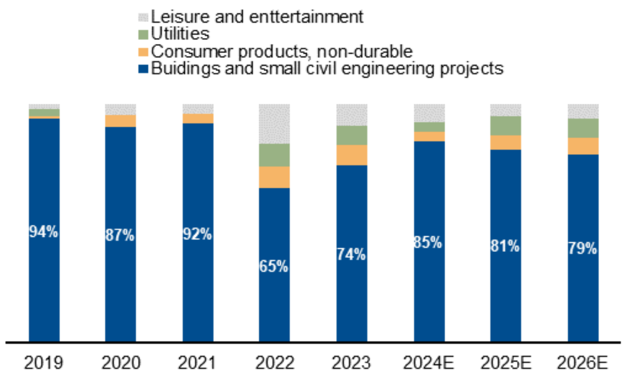
In addition, most of the investment companies within Opus' portfolio have significant growth potential, either due to a high order backlog (Meszaros es Meszaros) or regulated energy infrastructure (Tigaz, Titasz).

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



Sources: Opus, Scope

Figure 2: Weighted average industry portfolio risk based on income



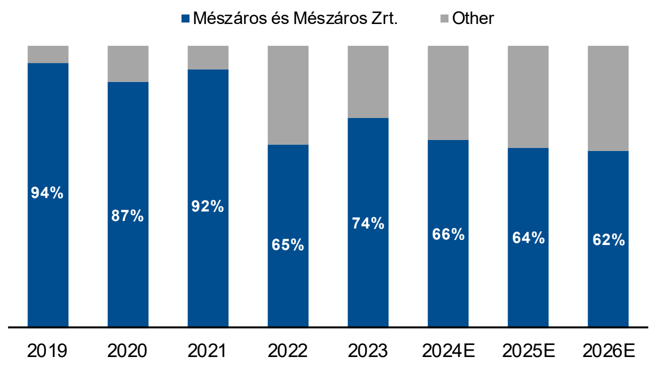
Sources: Opus, Scope

The weighted average industry portfolio risk based on asset value corresponds to a BBB category, contrasting with an outcome of B for the weighted average industry portfolio risk based on (dividend) income. A blended mix of BB reflects Opus’ overall current exposure to underlying industry representation.

Portfolio sustainability

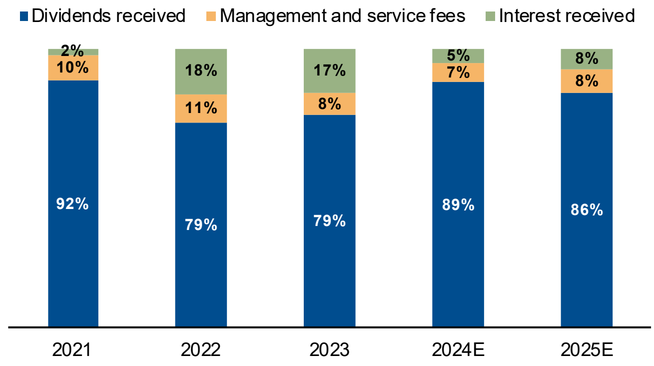
The rating is held back by portfolio sustainability due to concentration risk in recurring income generation, which continues to be very high, reflecting the most of non-industrial divisions’ inability to pay dividends so far. This also applies to Hunguest (Opus’ main tourism company), despite significant progress in terms of sales and the EBITDA margin in the past years. Opus’ portfolio is highly concentrated in the core holding Meszaros es Meszaros (90% of dividend income in 2023). However, we believe that such income concentration is likely to be reduce gradually over time – based on the positive operating trends achieved in most portfolio companies. However, we anticipate that the rating will remain heavily dependent on Meszaros es Meszaros and R-Kord dividends in the short-to-medium term.

Figure 1: Cash income breakdown from top core holdings



Sources: Opus, Scope estimates

Figure 2: Income breakdown



Sources: Opus, Scope estimates

Portfolio diversification

Opus has improved its portfolio diversification. The sizeable energy segment now provides more balanced asset value diversification than three years ago when the portfolio was largely concentrated on two segments (industrials and food processing). In addition, the recent transaction involving the minority buyout of Viresol (from Duna Aszfalt) have further strengthened portfolio diversification by sector.

The holding's portfolio diversification is still limited by its exposure to the Hungarian market. The dividend-paying undertakings generate most of their revenue in Hungary (especially the energy and industry divisions) and are therefore exposed to the country's economic cycle, with limited ability to offset the negative impact of a downturn in this region. However, the food processing segment, which accounts for 30% of Opus' gross asset value, is largely international with significant multinational customers such as Coca Cola and Haribo. This partially mitigates the portfolio's concentration risk.

Gross asset value concentration is modest. The top three holdings (Meszaros es Meszaros, Tigaz and Hunguest) are well balanced and accounted for around 57% of the total portfolio at YE 2023 (52% at YE 2022).

Portfolio liquidity

Opus only owns unlisted shareholdings. Asset fungibility is therefore a weakness in the context of our business risk assessment. However, the high share of unquoted shareholdings does not constrain Opus' ability to extract divestiture proceeds, as has been demonstrated in the past. Opus sold its coal power plant to the Hungarian state three years ago. In addition, the food processing and tourism assets should be easily disposable if necessary.

Investment philosophy

A buy-and-build investment strategy has a positive impact on the credit quality of an investment holding company. Opus focuses on generating dividend income from all its subsidiaries in the medium term, which only a few of its portfolio companies do at present. The aim is to generate income by providing an increasing amount of management services to subsidiaries, as seen in the Viresol minority buyout, and centralising certain functions at the holding company level. The ratings thus continue to reflect Opus' conservative and long-term buy-and-build investment approach, focused on growing portfolio net asset value by exercising active operational control over its portfolio companies.

After Opus' recent portfolio streamlining, management has reiterated its commitment to a long-term investment approach, although it remains open to opportunistic transactions (Viresol, Hunguest).

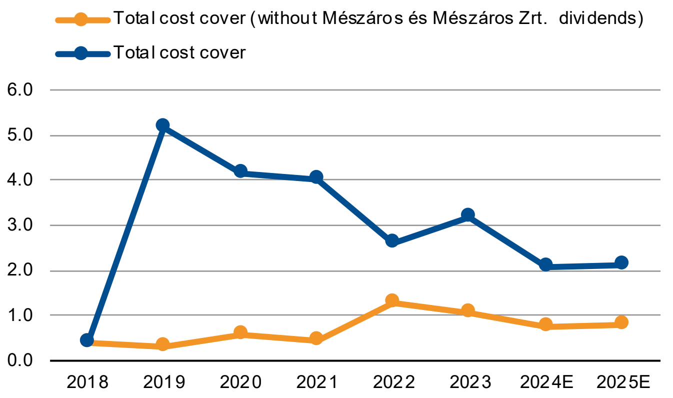
This commitment to a long-term investment approach is evident in two key aspects. The first aspect is an increase in majority-owned shareholdings**.** Opus has been aiming to enlarge its shareholdings in its investments (Viresol). While this has not been directly possible for the two energy utilities so far, Opus has been able to execute and gain control via its owner and his network. The second aspect is Opus' active role on the boards of its shareholdings. By participating in the decision-making processes of its investments, the group enhances its ability to influence their dividend policies.

Financial risk profile: BBB-

Total cost cover

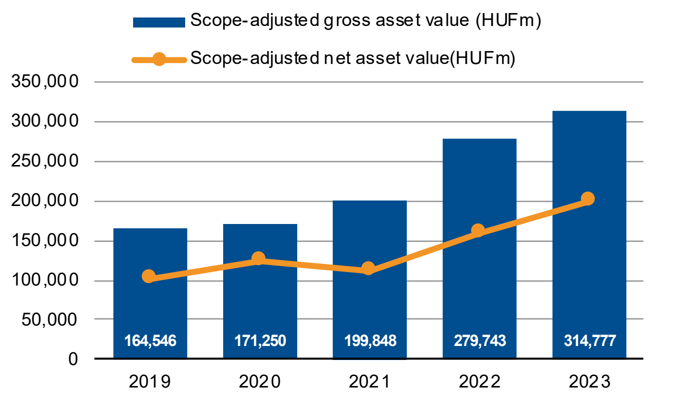
Management is committed to maintaining a strong cushion relative to the rating's total cost cover requirements. While a rating downgrade could occur if total cost cover dropped to below 1x, Opus' annual performances have been reliably well ahead of that level. Total cost cover is also safeguarded by the possible waiving of own dividend payments as confirmed by management. Opus also wants to maintain a significant cash cushion in order to: i) develop its undertakings further; or ii) make new investments in long-term within the industries in which it currently operates in (i.e. no expansion outside of these sectors).

Figure 3: Total cost cover providing cushion



Sources: Opus, Scope estimates

Figure 4: LTV stretched but stable



Sources: Opus, Scope estimates

The better-than-expected operating performance in FY 2023 is the result of higher-than-expected interest income. Despite significantly higher dividends from the industrial sector (already paid in 2024), we expect total cost cover to deteriorate from 3.2x in FY 2023 to 2.1x in FY 2024 due to the new shareholder-focused financial policy.

We forecast that total cost cover will remain above 2.0x over the next few years, supported by: i) the relatively stable nature of management and service fees; ii) increasing interest received on shareholder loans; and iii) fixed interest payments on the outstanding bonds. However, the significantly increased dividends received from the construction segment (paid in 2024) raises concerns regarding the company's ability to sustainably pay dividends based on operating performance in the future. Furthermore, the introduction of significant dividend payments to shareholders will put total cost cover under pressure.

The sensitivity analysis below show that even with the 80% exclusion of dividend payments from Meszaros es Meszaros in 2025, total cost cover will still remain above 1.0x, all else being equal.

Figure 7: Sensitivity analysis

Total cost in 2025 (HUFm) change in % of dividends paid to shareholder		Total Cash income in 2025 (HUFm) change in % of Mészáros és Mészáros Zrt. dividends received										
		24,613	23,043	21,473	19,903	18,333	16,763	15,193	13,623	12,053	10,483	8,913
		0%	-10%	-20%	-30%	-40%	-50%	-60%	-70%	-80%	-90%	-100%
9,154	-40%	2.7x	2.5x	2.3x	2.2x	2.0x	1.8x	1.7x	1.5x	1.3x	1.1x	1.0x
9,854	-30%	2.5x	2.3x	2.2x	2.0x	1.9x	1.7x	1.5x	1.4x	1.2x	1.1x	0.9x
10,554	-20%	2.3x	2.2x	2.0x	1.9x	1.7x	1.6x	1.4x	1.3x	1.1x	1.0x	0.8x
11,254	-10%	2.2x	2.0x	1.9x	1.8x	1.6x	1.5x	1.4x	1.2x	1.1x	0.9x	0.8x
11,954	0%	2.1x	1.9x	1.8x	1.7x	1.5x	1.4x	1.3x	1.1x	1.0x	0.9x	0.7x
12,654	10%	1.9x	1.8x	1.7x	1.6x	1.4x	1.3x	1.2x	1.1x	1.0x	0.8x	0.7x
13,354	20%	1.8x	1.7x	1.6x	1.5x	1.4x	1.3x	1.1x	1.0x	0.9x	0.8x	0.7x
14,054	30%	1.8x	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	1.0x	0.9x	0.7x	0.6x

Sources: Opus, Scope estimates

LTV

Opus' loan/value ratio (LTV) has been hovering around 40%, except for in 2020 when there was strong cash generation. LTVs have been decreasing steadily, reflecting organic and inorganic growth over recent years. As of YE 2023 the ratio has been a comfortable 37% (43% as of YE 2022). The decrease compared to the previous year is due to growing portfolio value as the result of asset revaluation. We expect the LTV to decline gradually, especially after 2025 when the bond amortisation starts coupled with the decreasing nature of surety guarantees (additional payment obligations taken on from the Viresol transaction in 2022 – shareholder loans granted by former owners).

The ratings of other Hungarian investment holding company peers are generally constrained by limited visibility of the net asset value of company investments. In contrast, Opus has provided detailed guidance on recent valuation reports of core holdings. The latter allows us to use market values to define the LTV ratio. We have not forecast how Opus' portfolio market value will develop. However, based on our sensitivity analysis, market value would have to deteriorate by 30% before breaching an LTV of 50% (at constant indebtedness).

Figure 8: Sensitivity analysis

Scope-adjusted debt (HUFm)		Portfolio value (HUFm)							
		346,255	330,516	314,777	283,299	251,822	220,344	188,866	157,389
	change in %	10%	5%	0%	-10%	-20%	-30%	-40%	-50%
115,403	0%	33%	35%	37%	41%	46%	52%	61%	73%
121,173	5%	35%	37%	38%	43%	48%	55%	64%	77%
126,943	10%	37%	38%	40%	45%	50%	58%	67%	81%
132,713	15%	38%	40%	42%	47%	53%	60%	70%	84%
138,483	20%	40%	42%	44%	49%	55%	63%	73%	88%
144,254	25%	42%	44%	46%	51%	57%	65%	76%	92%
150,024	30%	43%	45%	48%	53%	60%	68%	79%	95%
155,794	35%	45%	47%	49%	55%	62%	71%	82%	99%

Sources: Opus, Scope estimates

Given Opus' unlisted investment portfolio companies, volatility has not been an issue in its recent history. Individual impairments in the years characterised by the coronavirus pandemic (Kall) were mitigated by portfolio growth and exposure to fairly non-cyclical sectors.

Balance in HUF mHUF m	2023	2024E	2025E
Cash and marketable securities (t-1)	8,890	11,385	9,803
Free operating cash flow (t)	11,793	12,380	13,297
Open committed credit lines (t-1)	0	0	0
Short-term debt (t-1)	0	0	0
Coverage	**No short-term debt**	**No short-term debt**	**No short-term debt**

Liquidity

Opus continues to manage liquidity in a very conservative manner, which is both due to its ample cash on the balance sheet and its now zero dependence on bank debt (the low 2021 exposure having been fully repaid in 2022). In addition, liquidity must be viewed in conjunction with the total cost cover of above 1.0x. This is also supportive, as Opus does not have to cover costs from its ongoing operations through the absorption of debt or the disposal of assets. The bond amortization starts in 2026.

Large headroom to ratings-related covenant

Opus' senior unsecured bonds issued under the Hungarian National Bank's Bond Funding for Growth Scheme have a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 67.7bn) if the debt rating of the bonds 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.

Supplementary rating drivers: +/- 0 notches

Supplementary rating drivers

The ratings are unaffected by supplementary rating drivers. Governance is a negative consideration, which we have factored in through our assessment of Opus' 'investment philosophy' and the overall blending of the good financial risk profile.

Long-term debt rating

Senior unsecured debt rating: BBB-

The senior unsecured debt rating has been affirmed at BBB-, including the HUF 28.6bn (ISIN HU0000359278) and HUF 39.0bn (ISIN HU0000360409) bonds, two notches above the issuer rating, reflecting superior recovery prospects.

We performed a recovery assessment for the senior unsecured debt category. For this assessment, we constructed a hypothetical default scenario, derived a liquidation value and compared it with senior unsecured debt (namely the company's two bonds) in order to determine the recovery rate. For Opus, we calculated a superior recovery of the senior unsecured debt positions, mainly supported by very little secured bank debt ranking ahead, and the comparatively high market value of portfolio companies. Even discounting this value by 50% and adding guarantees and suretyships of about HUF 40bn, senior unsecured debt is likely to be recovered.

Our assessment assumes no cross-default clauses in the portfolio companies' debt documentation.

Appendix: Peer comparison

	Opus Global Nyrt.	Lexholding Zrt.	LP Portfolió Kft.	Forrás Nyrt.	Franz Haniel & Cie. GmbH
	BB/Stable	B+/Stable	B+/Stable	B+/Stable	BBB-/Stable
Last reporting date	31 December 2023	31 December 2023	31 December 2023	31 December 2023	31 December 2023
Business risk profile	BB-	B	B	B+	BBB-
Financial risk profile	BBB-	BB+	BB	B+	BBB
Total cost cover	>2.0x	1.3x	>2x	1.7x	1.3x
Loan-to-value	35%	40%	30%	58%	14%
Asset values (EUR m)	850	86	40	162	5,539
Liquidity	No impact	No impact	No impact	No impact	No impact

Sources: Public information, Scope

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