SCOPE | Ratings

KÉSZ Holding Zrt.

Hungary, Construction

Issuer
BB-

Outlook
Negative

Senior unsecured guaranteed bonds:
(ISIN: HU0000360466),
(ISIN: HU0000360870)
BB-

Rating composition

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

Key metrics

			Scope estimates		
Scope credit ratios*	**2023**	**2024P**	**2025E**	**2026E**	**2027E**
Scope-adjusted EBITDA interest cover	15.6x	11.1x	7.1x	5.9x	7.0x
Scope-adjusted debt/EBITDA	2.7x	3.3x	3.7x	3.9x	3.9x
Scope-adjusted funds from operations/debt	35%	25%	22%	21%	22%
Scope-adjusted free operating cash flow/debt	34%	-33%	-17%	7%	8%
Liquidity	>200%	186%	197%	199%	187%

Rating sensitivities

The upside scenarios for the ratings and Outlook are (collectively):

- Order backlog consistently above 1x.
- Debt/EBITDA (including netting of cash seen as permanent) staying below 4.0x.
- Free operating cash flow (FOCF) turning positive from 2026 onwards.

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

- Order backlog at or below 1x.
- Debt/EBITDA (including netting of cash seen as permanent) at or above 4.0x.
- FOCF remains negative for a prolonged period.

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

Lead Analyst

Patrick Murphy
+49 69 667738903
p.murphy@scoperatings.com

Related methodologies

General Corporate Rating Methodology, February 2025

Construction and Construction Materials Rating Methodology, January 2025

Table of content

1. Key rating drivers
2. Rating Outlook
3. Corporate profile
4. Rating history
5. Financial overview (financial data in HUF m)
6. Environmental, social and governance (ESG) profile
7. Business risk profile: B+
8. Financial risk profile: BB-
9. Debt rating

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Long-established market position in domestic markets, ranking among the top five construction companies in Hungary, supports competitive tendering and contract acquisition. • Vertical integration strategy enhances operational efficiency and reduces reliance on external subcontractors, leading to greater cost control, improved execution reliability, and stronger positioning in tenders. • High portion of fixed-rate debt (c. 70% as of December 2024) provides interest cost predictability and shields profitability from interest rate volatility.	• Relatively small-scale construction company in the European context, making it more vulnerable to market cyclicality and intense competition, though partially mitigated by exposure to other business segments. • Limited geographic diversification, with c. 75% of revenue generated in Hungary, increasing exposure to domestic market risks and economic fluctuations. • High customer concentration in Hungary, leading to reliance on a few key clients and potential revenue volatility. • Persistently high costs for building materials and labour, which continue to pressure profit margins, reducing financial flexibility. • Weaker contracted backlog (1.2x of average 2022-2024 revenues as at March 2025), limiting revenue visibility and increasing reliance on securing new projects.

2. Rating Outlook

The Outlook remains Negative, reflecting the uncertainty surrounding KÉSZ's financial risk profile, with continued risk of debt/EBITDA exceeding 4x, driven by weaker revenue visibility from 2026 onwards, ongoing legal proceedings, and a challenging macroeconomic environment. The Outlook also reflects our expectation that FOCF will turn positive after 2025 following the completion of the investment phase, which will allow the company to actively deleverage.

3. Corporate profile

KÉSZ was established in 1982 as a family-run business and is now one of the largest construction companies in Hungary. As an independent group of companies, KÉSZ aims to become one of the leading construction companies in Central and Eastern Europe through investments and project development in domestic and international markets. One of the leading domestic players in construction, KÉSZ has built numerous prominent industrial facilities, office buildings, shopping and logistics centres, sports venues, hotels and housing facilities (e.g. Kossuth Lajos Square, Mercedes-Benz factory, LEGO factory, Budapest Airport Sky Court, Sheraton Hotel, Duna Arena Swimming Complex).

KÉSZ Holding Zrt., the group’s holding company, was formed in 2007 to provide a clearer company structure and to professionalise the investment and asset management activities in Hungary and abroad. To date, KÉSZ has implemented more than 3,100 projects and has developed over 5 million sq m in more than 12 countries.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
24 Mar 2025	Affirmation	BB-/Negative
4 Apr 2024	Affirmation and Outlook change	BB-/Negative
30 Mar 2023	Initial	BB-/Stable

5. Financial overview (financial data in HUF m)

			Scope Estimates		
Scope credit ratios	**2023**	**2024P**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	15.6x	11.1x	7.1x	5.9x	7.0x
Debt/EBITDA	2.7x	3.3x	3.7x	3.9x	3.9x
Funds from operations/debt	35%	25%	22%	21%	22%
FOCF/debt	34%	-33%	-17%	7%	8%
EBITDA					
Reported EBITDA	9,633	11,465	12,281	10,951	10,243
Other items (incl. one-offs)	2,800	0	0	0	0
EBITDA	**12,433**	**11,465**	**12,281**	**10,951**	**10,243**
Funds from operations (FFO)					
EBITDA	12,433	11,465	12,281	10,951	10,243
less: interest	-798	-1,033	-1,737	-1,870	-1,461
less: cash tax paid	-5	-686	-349	-201	-189
Funds from operations	**11,631**	**9,745**	**10,195**	**8,880**	**8,593**
FOCF					
Funds from operations	11,631	9,745	10,195	8,880	8,593
Change in working capital	-6,605	-3,963	2,857	4,118	810
Non-operating cash flow	19,852	4,545	-3,973	-5,888	-2,768
less: capital expenditures (net)	-13,649	-23,142	-16,746	-4,164	-3,580
FOCF	**11,229**	**-12,815**	**-7,666**	**2,946**	**3,054**
Interest					
Net cash interest per cash flow statement	798	1,033	1,737	1,870	1,461
Interest	**798**	**1,033**	**1,737**	**1,870**	**1,461**
Debt					
Reported financial debt	58,426	58,496	56,525	52,615	48,668
less: cash and cash equivalents	-43,272	-33,141	-21,012	-18,976	-17,578
add: non-accessible cash	18,000	13,000	10,506	9,488	8,789
Debt	**33,154**	**38,354**	**46,019**	**43,127**	**39,879**

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

ESG profile: neutral

We did not identify any ESG-related rating driver that would have a relevant impact on our overall assessment of credit risk.

Given the extensive environmental impact of the construction industry, medium-to-large companies, including KÉSZ Group, increasingly seek to reduce the use of energy and non-renewable materials as well as limit the environmental footprint of construction projects throughout the supply chain. This aligns with efforts to mitigate climate-related risks in line with the Paris Climate Agreement. The social aspect is also relevant, especially regarding practices that could severely impair the group's reputation and financial performance (e.g. corruption, stakeholder management). The KÉSZ Group published its first concise ESG report in 2023.

The following ESG risks are the most relevant for companies in the segment: i) waste and sustainable building materials; ii) efficient technology; iii) employee health and safety; and iv) litigation, bribery and regulatory risk.

Supplementary rating drivers have no impact on the issuer rating. However, KÉSZ remains engaged in an ongoing legal dispute with Duna Terasz Grande (DTG) over the termination of a general construction contract for a large-scale residential development in Hungary. DTG terminated the contract in January 2024, citing project delays and alleged failure to meet agreed construction standards.

Both parties have filed competing legal claims, introducing financial, operational, and reputational risks, particularly regarding liquidity, working capital, and future project tenders. Should the resolution be unfavourable, KÉSZ is expected to absorb any financial impact without materially weakening its financial risk profile, provided it delivers on its other projects, maintains profitability, and sustains stable operations.

[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+

Blended industry risk profile: B+

KÉSZ's activities are primarily exposed to construction activities that contributed around 70% of revenues in previous years. Additionally, KÉSZ has extended their capabilities in the last two decades into the fields of steel structure manufacturing, design, value engineering, energy performance certificate contracting, ship-building, hydraulic engineering, and renewable energy projects. The group has also launched a new, smaller division in business solutions (IT services, facility management, business and marketing consulting, fleet management, factoring, hotel operation, innovation HUB etc).

Given that KÉSZ is active in various segments within the construction sector and focuses on large to medium sized projects subject to high entry barriers, together with the generally high cyclicality and low substitution risk of the construction industry, this leads to a blended industry risk assessment of B+.

Small in a European context but with stablished market position, ranked top 5 in Hungary

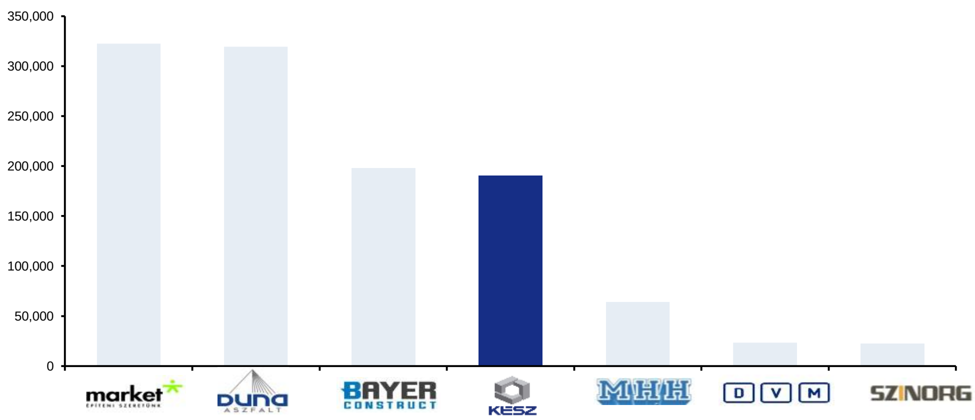
KÉSZ is a relatively small player in the construction industry in a European context but is among the largest local construction companies by turnover in Hungary. After a record year in 2023, with net sales of HUF 234.7bn and an additional HUF 2.2bn in other revenue[2]. 2024 saw a return to more normalised levels. Net sales stood at HUF 182bn, and an additional HUF 7.7bn in other revenue. This was slightly below the HUF 204bn forecasted by KÉSZ in March 2024, as some project revenues were delayed and subsequently carried over into 2025.

Although it has performed well in recent years, the group expects relative lower revenues in the next few years, due to the general pressure on the general contracting segment that faces increased competition. Being small on a European scale restricts the group's capacity to leverage economies of scale or to mitigate the effects of economic cycles, given its substantial exposure to the domestic market.

KÉSZ's vertical integration serves as a key differentiating factor from its peers.

This long-pursued vertical integration strategy affords KÉSZ competitive advantages over other market players, offering strategic benefits in accessing raw materials, new markets, and large tenders. In addition, their dedicated growth strategy, underpinned by the issuance of two bonds, has allowed the group to grow significantly in the past three years, aided by the successful tendering of larger projects. We believe this integration will continue to support KÉSZ's business, however, we note some downside risk of being a conglomerate, as this could result in limited room for maneuver their cost structure, which could lead to a prolonged period of deprived profitability. To mitigate this, KÉSZ intends to enhance profitability by focusing on more specialised construction works – which offer higher profit margins – and optimising the group's organisation.

Figure 1: Hungarian peers by Revenues, 2024P (HUF m)



Sources: public information, Scope

Geographical diversification beginning to improve

Geographic diversification remains weak but is gradually improving. In 2025, 24% of revenue is projected to be generated outside Hungary, based on contracted projects. This marks a strategic shift from KÉSZ's previously Hungary-centric focus, with expansion underway in Romania (HUF 50bn), Ukraine (HUF 13bn), and Germany (HUF 7bn). The company is also making progress in the US, where it successfully handed over its first project in February 2025 and recently secured

[2] Other revenue" includes the capitalised value from KÉSZ's own office building and residential development and does not represent sales to external customers.

a new contract. In 2024, the group generated HUF 38.6bn in revenue outside Hungary, a significant increase from HUF 9.0bn in 2022, reflecting its ongoing efforts to diversify. However, the company's revenue base remains concentrated in Hungary, underscoring the need for continued diversification.

The Romanian and Ukrainian projects, include a significant contract with STIHL, the German manufacturer of chainsaws and other handheld equipment, and two projects in Ukraine amidst challenging conditions. Alongside this, the group has also begun to expand its footprint in the US, with some minor projects, which underscore a deliberate effort towards geographical and operational diversification.

In Ukraine, the most immediate risks include project delays or cancellations, due to the ongoing war with Russia, highlighting the need for robust contingency planning. Moreover, venturing into the US market carries its own set of execution challenges, including navigating new regulatory landscapes and logistical hurdles. However, we assess these risks as manageable, especially when considering the small scale of the US project relative to the total order backlog.

Segment diversification remains supportive for the rating

KÉSZ operates across various business segments, offering diversified income streams that partially mitigate its exposure to the construction industry. The group boasts a broad portfolio of business units whose activities overlap and complement each other. Specialising not only in general construction, KÉSZ also delivers complex and integrated solutions. From design through implementation to operation, the group can execute all related tasks and services required by their customers.

Business profile driven by construction activities

The flagship of the KÉSZ Group is KÉSZ Építő PLC, which is expected to account for 63% of total revenue in 2025. Going forward, KÉSZ plans to undertake 50-60+ projects every year of different sizes and currently have 9 projects each valued at EUR 10m or more for 2025. The group has completed many large construction projects in the past, and its clients include LEGO, SK Innovation, Samsung, Toray, BMW, Mercedes, STIHL and SMR.

Energy segment vulnerable to price volatility

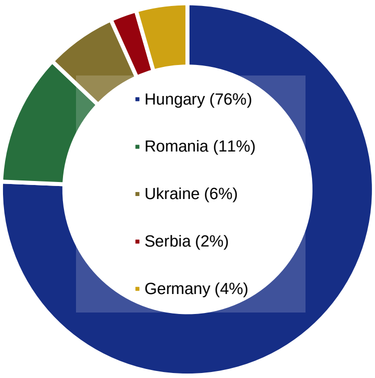
KÉSZ's acquisition of Greenergy in 2020 marked its entry into the energy market. Greenergy is a very small utility operator in Hungary. While the segment demonstrates strong performance in volume, the contracts are influenced by variable prices, which significantly decreased in 2023. As such revenue contributions from this segment are expected to be lower than originally forecasted.

Real estate own developments to support diversification

The group aims to expand activities in the real estate segment with upcoming residential developments in Serbia and Romania, and the construction of the Tilia Office building in Szeged, Hungary. Although the residential projects have faced delays due to the prevailing interest rate environment, the construction of the Tilia Office building commenced in Q4 2023 and is expected to be completed in 2026. Structural works are currently in progress, and KÉSZ has already secured an international anchor tenant for the building.

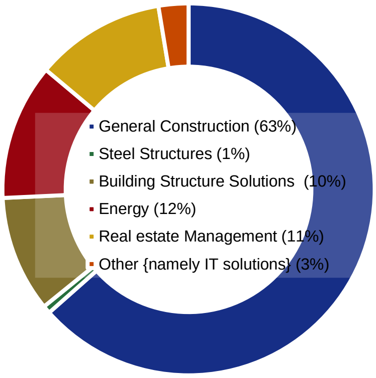
While we acknowledge KÉSZ achievements in reducing existing concentration risk, we expect the construction segment to continue to contribute to the largest portion of them groups revenues over the next number of years.

Figure 2: Backlog diversification as of March 2025



Sources: KÉSZ, Scope estimates

Figure 3: Backlog breakdown as of March 2025



Sources: KÉSZ, Scope

Profitability expected to stabilise around 5.5 – 6.0%.

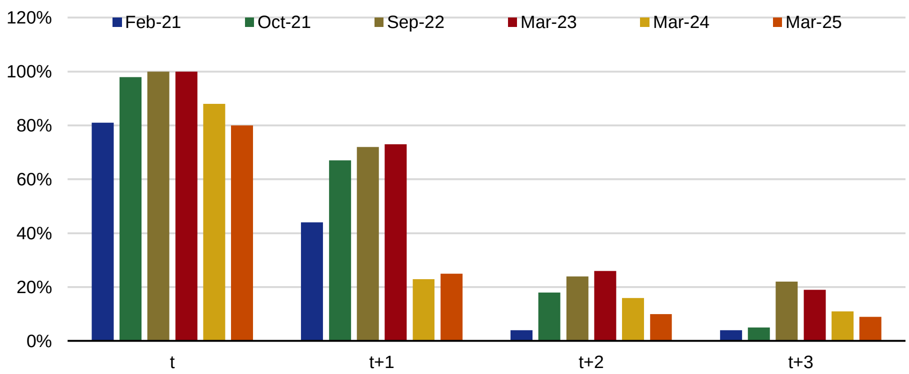
Profitability improved in 2024, with the EBITDA margin rising to 6.3% (2023: 5.3%), supported by easing inflation and stabilising raw material costs. Meanwhile, net sales revenues in 2025 are expected to remain broadly in line with 2024, with a stronger focus on profitability. Profitability is forecast to remain in the 5.5%-6.0% range through 2027, benefiting from a more predictable cost environment that should reduce the risk of loss-making projects – though recent disruptions to global trade and broader macroeconomic conditions could still pose challenges. Higher-margin segments – such as steel structure manufacturing, technological and electrical implementation, and building structure solutions – now account for 22% of the backlog in 2025 (2024: 19%; 2023: 12%), yet the lack of visibility beyond the next 12 months continues to constrain the rating. The EBITDA for KÉSZ was HUF 11.5bn in 2024 (based on preliminary figures), marking a slight decline from HUF 12.4bn in 2023. This decrease is partly due to a reduction in the number of projects undertaken and a number of projects revenue being delayed and rolled into 2025.

Visibility on revenue beyond 2025 remains a constraint

KÉSZ's backlog, excluding energy revenues, has weakened slightly to 1.2x the average revenue of the last three years (March 2024: 1.3x), reflecting the company's shift towards fewer but more profitable projects. The current backlog remains concentrated, with the top 10 projects accounting for 55% as of March 2025 (March 2024: 52%), an increase that underscores reliance on a limited number of contracts. However, this is somewhat mitigated by a focus on niche projects with higher profitability margins and contracts from large established corporations. The share of private sector orders on hand remains high, exceeding 90%.

The group continues to benefit from its strong foothold in the domestic market and established relationships with key clients, supporting its ability to secure new projects currently out for tender. While revenue visibility remains solid for the next 12 months, the backlog beyond this period remains more limited, as seen in previous years. This could lead to revenue and cash flow pressures in 2026, although the impact is partially mitigated by the focus on more profitable projects.

Figure 4: Revenue visibility according to contracted backlog (2021 – 2025)



Sources: KÉSZ, Scope

Ongoing legal dispute

In 2023, KÉSZ recognised a provision related to one of its projects, the residential development Duna Terasz Grande (DTG), where KÉSZ served as the general contractor. This provision was allocated in connection with an ongoing dispute with the client. The dispute could potentially impact KÉSZ's reputation in the Hungarian construction market, highlighting the importance of a prompt and positive resolution. The situation will be closely monitored, and any potential impact on KÉSZ's standing in the construction industry will be assessed. That said, this risk is viewed as limited for the time being, given the group's strong position in Hungary as a domestic leader in building construction, its highly reputable project portfolio, and its international presence in Central and Eastern Europe. Nonetheless, it is noted that a legal case remains ongoing.

8. Financial risk profile: BB-

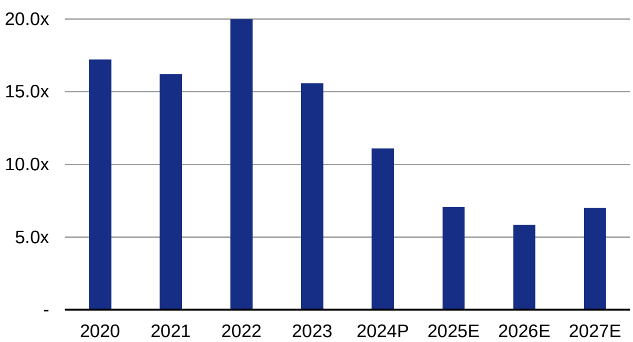
KÉSZ's financial risk profile reflects stable debt levels, manageable debt protection metrics, and the expectation of negative FOCF in the medium term due to ongoing investments. While leverage remains elevated, the group benefits from long-term fixed-rate debt and improved debt structure stability. Credit metrics could improve significantly if KÉSZ can deliver on residential development in Romania, but this remains subject to execution risks.

Interest cover remained stable in 2024, supported by the high proportion of fixed-rate debt, and is expected to hold steady in 2025. However, without improved revenue visibility, interest coverage could weaken beyond 2025. As of YE 2024, HUF 38.7bn in bonds (c. 70% of total debt) carried a fixed rate of 3.2% with an average maturity of 6.6 years. The remaining HUF 19.4bn in bank debt (YE 2023: HUF 18.8bn) is subject to both fixed and variable rates, though its composition has shifted. Short-term debt declined to HUF 3.3bn (YE 2023: HUF 6.9bn), while long-term debt increased to HUF 16.1bn (YE 2023: HUF 11.4bn), improving debt structure stability and reducing near-term refinancing risk. Of the total bank debt, HUF 15.0bn is denominated in euros, introducing foreign-exchange and interest rate variation risks. The largest variable facility, a HUF 7.1bn loan drawn in Q3 2023, carries a 2.9% spread over 3M EURIBOR (2.52%) and matures in 2033. The foreign-exchange risk is partly mitigated by 60% of the order backlog being euro-denominated. Additionally, with central banks reducing interest rates since 2024, the risk of higher debt servicing costs has declined.

FOCF to remain negative until 2026, as KÉSZ continue to invest across multiple business lines to increase diversification

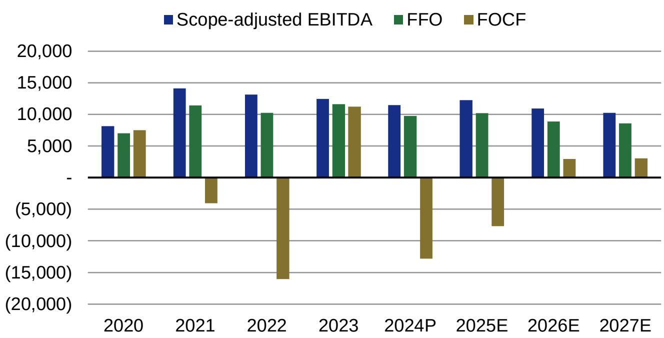
FOCF will remain constrained by ongoing capex. The group plans to invest HUF 16.7bn in 2025, followed by HUF 4.2bn in 2026 and HUF 3.6bn in 2027, with major allocations including HUF 4.7bn for Greenergy Zrt., HUF 4.8bn for the Tilia project, HUF 3.6bn for a new Industrial development, and HUF 2.4bn for land acquisitions. FOCF is expected to remain negative in 2025 before recovering in 2026 with cash inflows from large-scale Romanian developments. While cash flow cover is projected to stay negative in the medium term, the group has limited additional financing needs, with clients providing advance payments of 10–20% of contract values to support liquidity.

Figure 5: Scope-adjusted EBITDA interest cover (x)



Sources: KÉSZ, Scope estimates

Figure 6: Cash flow (HUF m)

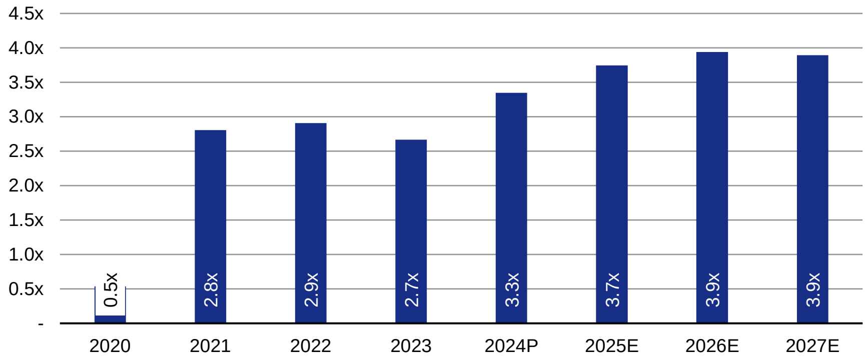


Sources: KÉSZ, Scope estimates

Weaker than expected EBITDA has caused leverage to weaken

Debt/EBITDA (incl. partial cash netting) deteriorated to 3.3x at YE 2024 (YE 2023: 2.7x), as EBITDA of HUF 11.4bn fell below forecasts. Interest-bearing gross debt remained stable at HUF 58.5bn at YE 2024, with no significant repayments due until 2026, when the first bond repayments are scheduled to begin. However, visibility on 2026 revenue is limited, as only HUF 61bn (around 30% of planned revenue) was contracted as of March 2025 – posing a risk to future cash flow generation. The company aims to maintain a cash buffer of around HUF 10bn in 2025 following the completion of its capex projects. Funds from operations continued to benefit from non-recurring income from financial operations, though these gains are projected to phase out, leading to a stabilisation of funds from operations/debt at around 20% between 2025 and 2027.

Figure 7: Leverage (Scope-adjusted debt/EBITDA)



Sources: KÉSZ, Scope

Adequate liquidity

KÉSZ's liquidity remains adequate, with available sources covering near-term obligations. As at YE 2024, the company had HUF 33.1bn in cash (of which HUF 25.3bn is deemed unrestricted) and HUF 13.7bn in undrawn credit lines, of which HUF 4.5bn is committed for more than one year. These sources sufficiently cover expected uses, including HUF 4.8bn in short-term debt and a projected negative FOCF of HUF 7.7bn in 2025. FOCF is expected to turn positive from 2026 onwards, once key investment projects are completed and sold, particularly large-scale developments in Romania. This will further strengthen the group's liquidity position over the medium term.

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

	2024P	2025E	2026E	2027E
Unrestricted cash (t-1)	25,272	20,141	10,506	9,488
Open committed credit lines (t-1)	13,662	4,492	-	-
FOCF (t)	(12,815)	(7,666)	2,946	3,054
Short-term debt (t-1)	(8,123)	(4,845)	(6,744)	(6,704)
Liquidity	186%	197%	199%	187%

Sources: KÉSZ, Scope estimates

9. Debt rating

In June 2021, KÉSZ issued a HUF 22bn senior unsecured bond (ISIN: HU0000360466) through the Hungarian Central Bank's Bond Funding for Growth Scheme. This was followed by a second issuance of HUF 11bn senior unsecured bond (ISIN: HU0000360870) in November 2021 under the same scheme. Both are guaranteed by KÉSZ Építő Zrt., KÉSZ Ipari Gyártó Kft. and Matech Magyar Technológiai Kft., all subsidiaries of the issuer. The proceeds of the bonds were used to support the group's working capital financing needs and to secure long-term funding for group-wide expansion plans. Both instruments have a tenor of 10 years, with the HUF 22bn bond having a fixed coupon of 2.8% and the HUF 11bn bond having a fixed coupon of 4.1%. The repayments of both instruments are structured in five tranches starting from 2026, with 10% of the face value payable yearly, and 50% balloon payment at maturity.

We highlight that Kész's guaranteed senior unsecured bonds issued under the Hungarian National Bank's Bond Funding for Growth Scheme, include a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 33bn) if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 30 days). Such a development could adversely affect the group's liquidity profile. The rating headroom before entering the grace period is two notches. We therefore see no significant risk of the rating-related covenant being triggered. In addition to the rating deterioration covenant, other covenants include (i) change of control, (ii) maximum dividend of 50% of the profit before taxes, and (iii) a consolidated net debt/EBITDA above 4x in the last three years of the bond tenor.

Our recovery analysis is based on a hypothetical default in 2026, which assumes outstanding senior unsecured debt of HUF 29.1bn, in addition to HUF 17.8bn in bank loans, HUF 3.5bn for an unsuccessful resolution with DTG, HUF 46.9bn in payables, provision and other financial obligations, assuming the group draws on available overdrafts. The recovery assessment results in an 'average' recovery for senior unsecured guaranteed bonds (ISIN: HU0000360466, ISIN: HU0000360870). As such, the rating has been downgraded to BB-, from BB, equal to the underlying issuer rating. Any potential additional uplift is constrained by the risk and the possibility that senior secured debt will increase in the path to default.

Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com

in
Bloomberg: RESP SCOP
Scope contacts
scoperatings.com

Disclaimer