LP Portfólió Kft.

Investment Holding Company, Hungary

Rating composition

Business risk profile		
Competitive position	B+	**B+**
Financial risk profile		
Credit metrics	BB	**BB**
Liquidity	0 notches	
Standalone credit assessment		**BB-**
Supplementary rating drivers		
Governance & structure	0 notches	**-1 notch**
Parent/government support	0 notches	
Peer context	-1 notch	
Issuer rating		**B+**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Total cost cover	2.9x	3.1x	3.4x	2.3x
Loan/value (LTV)	34%	30%	~30%	
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenarios for the ratings and Outlook (individually):

- Improved business risk, particularly with regard to concentration risks related to dividend income
- Significant growth of investment portfolio size

The downside scenarios for the ratings and Outlook:

- Total cost cover dropping to 0.8x on a sustained basis

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

Issuer
B+

Outlook
Stable

Senior unsecured debt
BB-

Lead Analyst

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Related methodologies

General Corporate Rating Methodology, 14 Feb 2025

Investment Holding Companies Rating Methodology, 16 May 2025

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Conservative buy-and-build strategy • Non-cyclical underlying industries • Continued strong total cost coverage • Exposure to solar power plants (ESG factor: credit-positive)	• Limited overall portfolio size • Continued high dividend concentration • Low geographic diversification • Key person risk (ESG factor: credit-negative)

2. Rating Outlook

The **Stable Outlook** is based on our expectation that LPP's business risk and financial risk profiles will not change significantly in the next one to two years. The rating reflects total cost cover of at least 1x on a sustained basis and our expectation that further portfolio growth will not be funded via additional bank debt.

3. Corporate profile

LP Portfólió Kft. (LPP) is a small Hungarian investment holding company owned by Peter Lakics, one of the proprietors of family-owned Lakics Steel, which also forms one arm of the three-division LP Holding company. The holding company was founded in 2000, reflecting the owner's ambition to diversify his ownership in Lakics Steel by building exposure in solar energy and real estate. Today, LPP is an unlisted holding company with about HUF 18bn (EUR 44m) in asset value.

Buy-and-hold investment holding company

The company's investment philosophy focuses on holding majority positions in three defined industrial sectors (steel, solar energy and real estate). As part of its long-term buy-and-hold approach, LPP aims to develop the participations to dividend status – including opportunistic divestitures.

Steel (2024): Sales: HUF 10bn, reported EBITDA HUF 1.2bn (up 76% YoY); EBITDA margin: about 12%;	**Solar energy (2024):** Sales: HUF 3.1bn, reported EBITDA HUF 1.4bn (up 110% YoY); EBITDA margin 44%	**Real estate (2024):** Sales: HUF 1bn, reported EBITDA HUF 0.6bn (up 50% YoY); EBITDA margin 57%
• Lakics Vagyonkezelő Kft (33% owned directly) • Lakics Gépgyártó Kft (33% owned directly) • Acél235 Kft (40.25% owned directly)	• Helios Solar Kft. (100% owned directly) • Helios Nova Kft. (100% owned directly) • Helios TSZR Kft. (100% owned directly) • Helios DVR Kft. (100% owned directly) • Solar FM Kft (100% owned directly) • Solar construction Kft (100% owned directly)	• VRLD Invest Kft – EDU Campus (100% indirectly owned) • Petőfi Center Kft. (100% directly owned) • Almássy Invest Zrt. (100% directly owned)

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
31 JUL 2025	Affirmation	B+/Stable
31 JUL 2024	No Action	B+/Stable
08 AUG 2023	Affirmation	B+/Stable
17 AUG 2022	Affirmation	B+/Stable
17 SEP 2021	Affirmation	B+/Stable
28 SEP 2020	Affirmation	B+/Stable
9 OCT 2019	New	B+/Stable

5. Financial overview (financial data in HUF '000)

			Scope estimates	
Scope credit ratios	**2023**	**2024**	**2025E**	**2026E**
Total cost cover	2.9x	3.1x	3.4x	2.3x
LTV	34%	30%	~30%	
Liquidity	>200%	>200%	>200%	>200%
Recurring cash income				
Recurring dividends from shareholdings	442,000	433,785	666,770	433,000
Interest received	141,850	238,422	60,000	60,000
Management and service fees	44,900	38,818	39,594	40,386
Recurring cash income	**628,750**	**711,025**	**766,364**	**533,386**
Total costs				
Operating cost	50,238	49,008	55,000	55,000
Interest paid	158,000	157,652	158,000	158,000
Tax paid	7,013	21,978	14,999	14,998
Dividends distributed	-	-	-	-
Total costs	**215,251**	**228,638**	**227,998**	**227,996**
Gross asset value				
Gross asset value	**14,500,000**	**17,618,145**	**n/a**	**n/a**
Debt				
Reported financial debt	5,400,000	5,400,000	5,290,000	5,000,000
less: cash and cash equivalents	-535,067	-85,333	-508,199	-518,091
Debt	**4,864,933**	**5,314,667**	**4,781,801**	**4,481,909**

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

LPP is 100% owned by Peter Lakics. It is a typical owner-operated, family-value company with a lack of traditional governance bodies like supervisory boards. However, in the context of the ratings, we have not identified any concerns in this respect.

The concern is the company's perceived strong dependence on the CEO, categorised as key person risk. Our overall neutral stance on ESG reflects a positive assessment with regard to product innovation (E) regarding LPP's large exposure to renewable energy (which reduces business risks and strengthens cash flow generation), as well as negative assessments with regard to key person risk under management and supervision (G) and for stakeholder management (G) with regard to substantial payouts for portfolio companies.

[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+

Business risk profile: B+

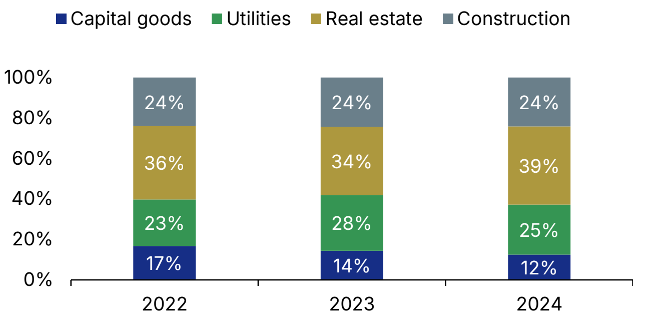
LPP's weighted average industry portfolio risk, portfolio diversification and investment philosophy are credit-supportive. However, LPP's business risk profile is constrained by concerns around portfolio liquidity and portfolio sustainability due to high concentration.

Mix of low to medium cyclicality sectors

Our assessment of LPP's weighted average industry portfolio risk is based on a mix of the characteristics of the underlying industries. The solar energy[2] division, a regulated segment with a AA industry assessment, has a relatively high industry score. However, the real estate development sector and the construction market (via Solar FM for the construction of the solar power plants) both have a B industry assessment.

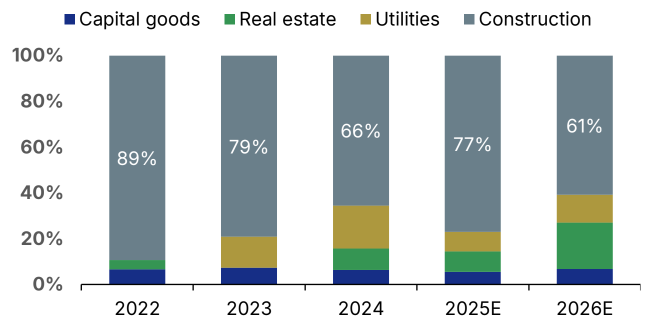
In 2024, the company's largest exposure by asset values remained the real estate and construction segments, with exposure close to 48%. This reflects ongoing portfolio growth in the fair value of new projects, such as Almassy Invest (residential, hotel) and EDU Campus.

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



Source: LPP, Scope

Figure 2: Weighted average industry portfolio risk based on income



Source: LPP, Scope

LPP's weighted average industry portfolio risk has reduced its exposure to the construction segment, as reflected in the income-based weighted average industry risk. The proportion of dividend income from renewable energy assets is increasing, accounting for 19% in 2024 compared to 14% in 2023, as more assets become operational and generate cash (ESG: credit positive).

The rating is held back by portfolio sustainability concerns around concentration risk in recurring income generation, which continues to be very high. As of 2024, LPP's asset base comprises four dividend-paying entities, with the top core holding accounting for 50% of total income and the top three holdings contributing over 95%.

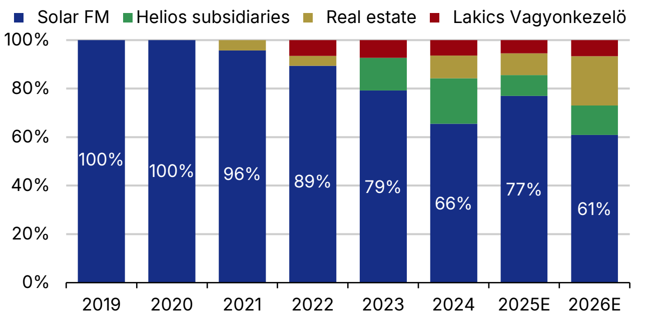
Solar FM's share of dividend income is gradually declining due to dividend payments from nearly all of the company's core holdings. At the same time, the concentration of overall dividend income from Solar FM is still projected to remain high in 2025, at approximately 77% of total dividend income.

This dividend concentration risk is partially offset by other income sources, such as interest income and management and service fees. These other income streams are expected to account for around 15%–20% of total cash income over the next two years.

[2] LPP therefore benefits from a supportive domestic business model, a mandatory purchase system for existing solar plants (KAT) and guaranteed power take-off under the METAR system (Renewable Energy Support Scheme), which came into force in January 2017. It consists of a guaranteed feed-in tariff, a 'green premium' granted without tendering for the small sizes it has (0.5 to 1 MW). The eligibility period and maximum amount of eligible electricity generated are determined for each electricity producer individually by the Hungarian Energy and Public Utility Regulatory Authority. LPP's solar energy assets have a remaining life span of about 20 years under the protective regulations. The guaranteed volume and pricing regulations will protect the holding company's income generation in the coming years.

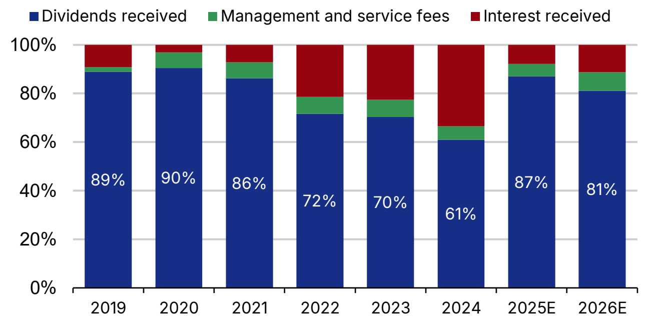
The first licences (25 years) were granted in 2016-17, but this window of opportunity closed in 2018. LPP has production on four larger solar power plants (2 MW in Taszar and 3.5 MW in Santos, 5.5 MW plant [METAR] and one 8.5 MW KAT).

Figure 3: Dividend income breakdown from top core holdings



Source: LPP, Scope

Figure 4: Income breakdown



Source: LPP, Scope

Portfolio diversification is constrained by LPP's main exposure to the Hungarian market. The dividend-paying undertakings generate all their revenues in Hungary, which exposes them to the Hungarian economic cycle and limits their ability to offset the negative impact from a downturn in this region.

While sector concentration by asset value remains relatively balanced, real estate continues to be LPP's largest sector exposure. Exposure rose to 39% at end-2024 from 34% at end-2023. This was driven by significant appreciation of the EDU Campus project, supported by high occupancy rates and long-term contracts with tenants.

The fair value of the real-estate portfolio is expected to increase with anticipated investments in the real estate sector. While this will result in greater dependence on the real estate sector within the portfolio, it should not lead to significant concentration.

The top three holdings (the EDU Campus, Helios Solar Kft and Solar FM) are well balanced and accounted for around 65% of the total portfolio at YE 2024 (61% at YE 2023). LPP only owns unlisted shareholdings. Asset fungibility is therefore a weakness in the context of our business risk assessment.

LPP's investment strategy continues to focus on building diversified income generation in the medium term around the owner's legacy steel processing stake. While there have been opportunistic divestitures historically, it is fair to assume that the owner will continue to concentrate on buy and hold positions. Following success with new office and shopping centre projects, the focus has shifted from the solar energy sector to real estate.

The successful execution of projects in 2024 – highlighted by the completion, handover, and operation of the 5 MW Dombóvár solar project – demonstrates management's efficiency and strategic execution capabilities.

Despite ongoing investment projects at the core-holding level (specifically the capacity expansion of the Solar FM manufacturing unit and the construction of an additional solar power plant) management confirms that no additional funding will be required at the holding level. However, if funding needs arise, we believe management would remain committed to maintaining a strong buffer in line with the rating's cost cover requirements.

8. Financial risk profile: BB

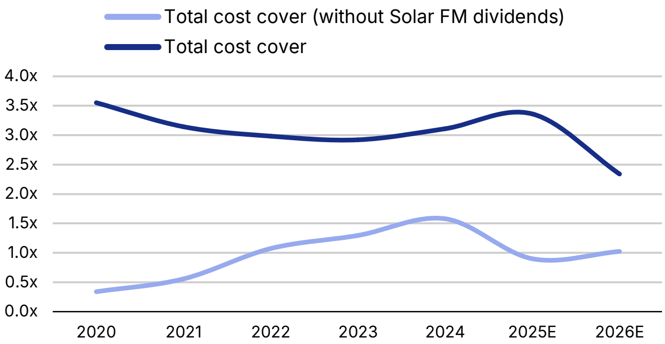
LPP's financial risk profile is constrained by moderate leverage, although total cost cover remains credit supportive.

Strong recurring cash income base

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 drops below 0.8x, LPP's annual performances have reliably been well ahead of that level.

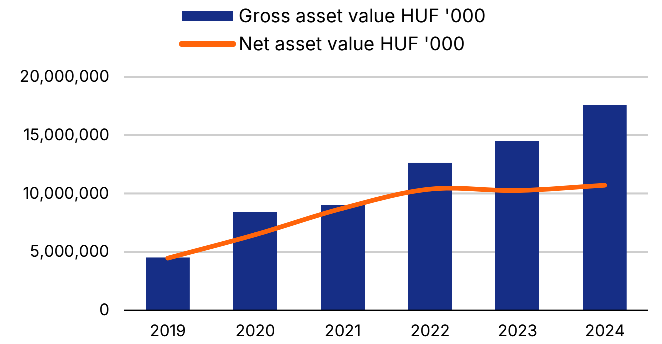
We expect stronger-than-anticipated operating performance in FY 2025 to be driven by higher-than-expected dividends from Solar FM, supported by robust underlying demand. Although this demand is projected to remain steady, dividend inflows from Solar FM should decline as the company enters a growth phase.

Figure 5: Total cost cover providing cushion



Source: LPP, Scope estimates

Figure 6: LTV stretched but stable



Source: LPP, Scope

Stable total cost cover expected

We forecast that total cost cover will remain at around 2.0x over the next few years, supported by: i) the relatively stable nature of management and service fees; and ii) fixed interest payments on the outstanding bonds.

On the other hand, income generation is still constrained by certain investment companies – most notably Almassy – not being permitted by their financing banks to pay dividends during the pre-cash generation phase. This situation is expected to gradually improve over the next few years, particularly in the real estate segment, where solid operational progress has been made in recent quarters. Nevertheless, we believe LPP is well-positioned to achieve the total cost coverage ratios outlined in our base case, supported by the high visibility of dividend income from the solar sector. Additionally, the holding's cost structure benefits from the absence of dividend payments to the owner, a fact that has once again been confirmed to us.

The sensitivity analysis below shows that even with the 100% exclusion of dividend payments from Solar FM in 2026, total cost cover will remain at around 1.0x, all else being equal.

Table 1: Sensitivity analyses on total cost cover

Total cost (HUFm) change in % of total costs in 2026		Total Cash income in 2026 (HUFm) change in % of Solar FM dividends received										
		533	503	473	443	413	383	353	323	293	263	233
		0%	-10%	-20%	-30%	-40%	-50%	-60%	-70%	-80%	-90%	-100%
228	0%	2.3x	2.2x	2.1x	1.9x	1.8x	1.7x	1.5x	1.4x	1.3x	1.2x	1.0x
251	10%	2.1x	2.0x	1.9x	1.8x	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	0.9x
274	20%	1.9x	1.8x	1.7x	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	1.0x	0.9x
296	30%	1.8x	1.7x	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	1.0x	0.9x	0.8x
319	40%	1.7x	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	1.0x	0.9x	0.8x	0.7x
342	50%	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	1.0x	0.9x	0.9x	0.8x	0.7x
365	60%	1.5x	1.4x	1.3x	1.2x	1.1x	1.1x	1.0x	0.9x	0.8x	0.7x	0.6x
388	70%	1.4x	1.3x	1.2x	1.1x	1.1x	1.0x	0.9x	0.8x	0.8x	0.7x	0.6x

Source: LPP, Scope estimates

Moderate leverage

LPP's LTV remains comfortable at 30% as of FY 2024 (34% as of FY 2023). The LTV has decreased slightly compared to the previous year due to the increasing value of the holdings while indebtedness remained broadly stable.

Our assessment of leverage is mainly constrained by limited visibility on the net asset value of investments as most of the assets do not have annual valuation reports. Although we do not forecast the development of LPP's portfolio market value, our sensitivity analysis indicates that its market value would have to deteriorate by over 40% in order to breach LPP's LTV threshold of 50% (at constant indebtedness).

Table 2: Sensitivity analyses on LTV ratio (end-2024)

Scope-adjusted debt (HUFm)		Portfolio value (HUFm)							
		19,380	18,499	17,618	15,856	14,095	12,333	10,571	8,809
	change	10%	5%	0%	-10%	-20%	-30%	-40%	-50%
5,315	0%	27%	29%	30%	34%	38%	43%	50%	60%
5,580	5%	29%	30%	32%	35%	40%	45%	53%	63%
5,846	10%	30%	32%	33%	37%	41%	47%	55%	66%
6,112	15%	32%	33%	35%	39%	43%	50%	58%	69%
6,378	20%	33%	34%	36%	40%	45%	52%	60%	72%
6,643	25%	34%	36%	38%	42%	47%	54%	63%	75%
6,909	30%	36%	37%	39%	44%	49%	56%	65%	78%
7,175	35%	37%	39%	41%	45%	51%	58%	68%	81%

Source: LPP, Scope estimates

Given LPP's unlisted investment portfolio companies, volatility has not been an issue in its recent history.

Adequate liquidity

LPP continues to manage liquidity in a very conservative manner. This is both due to its ample cash on the balance sheet and its now zero dependence on bank debt. In addition, liquidity must be viewed in conjunction with total cost cover of above 1.0x. This is also supportive, as LPP does not have to cover costs from its ongoing operations through the absorption of debt or the disposal of assets. The bond amortisation starts in 2025.

Table 3: Liquidity sources and uses (in HUF m)

	2024	2025E	2026E
Unrestricted cash (t-1)	535,067	85,333	508,199
Open committed credit lines (t-1)	0	0	0
Free operating cash flow (t)	-64,584	532,866	299,891
Short-term debt (t-1)	0	110,000	290,000
Liquidity	**>200%**	**>200%**	**>200%**

Source: LPP, Scope estimates

Good headroom to ratings-related covenant

LPP's 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 5.4bn) if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 15 days). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is two notches. We therefore see no significant risk of the rating-related covenant being triggered.

9. Supplementary rating drivers: -1 notch

The ratings are affected by a negative notch for the holding company's small size in a peer context. Governance is critical with regard to key person risk (ESG: credit negative), which is reflected in our conservative standalone credit assessment.

10. Debt rating

Senior unsecured debt rating: BB-

We affirm the senior unsecured debt rating at BB-, including the HUF 2.5bn (ISIN HU0000359427), HUF 1.1bn (ISIN HU0000360144), and HUF 1.5bn (ISIN HU0000360789) bonds, one notch above the issuer rating, reflecting above-average recovery prospects for senior unsecured debt in a hypothetical default scenario.

Our recovery analysis is based on significant asset haircuts of 50% on the HUF 18bn of gross asset values. We continue to evaluate these conservatively, partly using book values (equity), as none of the subsidiaries are quoted. Our analysis indicates superior recovery rates for senior unsecured bond debt, which translates into two notches of uplift for the instrument relative to the issuer rating. Although the recovery rate is very high despite the increased debt and using only half of the assets (valued on a net basis, i.e. deducting their bank debt) as recoverable, we have adhered to our approach of limiting the uplift to one notch.

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

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