SCOPE | Ratings

Szabó Fogaskerékgyártó Kft.

Hungary, Capital Goods

Issuer
B-

Outlook
Negative

Senior unsecured debt
B

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Related methodologies

General Corporate Rating Methodology, Feb 2025

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Rating composition

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

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	-11.1x	19.5x	2.6x	4.6x
Scope-adjusted debt/EBITDA	2.6x	6.3x	11.9x	6.3x
Scope-adjusted funds from operations/debt	40%	14%	5%	12%
Scope-adjusted free operating cash flow (FOCF)/debt	14%	-99%	3%	0%
Liquidity	>200%	>100%	>100%	>200%

Rating sensitivities

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

- Easing concerns about the company's governance principles and liquidity profile
- FOCF/debt improving to around 5% on a sustained basis, e.g. due to revenue growth and/or an improvement in profitability
- Greater size and improved diversification (deemed remote)

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

- Our expectation of positive FOCF does not materialise and FOCF/debt remains negative in 2026/2027
- Deterioration in liquidity, especially against the backdrop of upcoming maturities
- Failure to address governance issues
- Loss of a major customer

*All credit metrics refer to Scope-adjusted figures.

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Moderate to good operating profitability (EBITDA) in a peer group context • Relatively long relationship with largest customer • Good interest coverage	• Persistently difficult business environment in 2025 and poor visibility on potential recovery in 2026 and beyond • Very small niche player on the European capital goods market with revenues of HUF 1.4bn (approx. EUR 3.5m) in 2024 • Weak diversification with regard to products and customers, over 90% of revenues from only two customers • Nature of the business leads to very low share of recurring revenues (mainly project business) and lack of aftermarket activities, which usually provide for lower volatility • Weak Scope-adjusted FOCF also post investment cycle • Key person risk (ESG factor) as the entire management of the company rests with the current CEO Ferenc Szabó – the 100% sole owner – and his son Krisztian Szabó (the executive vice president) • Governance issues arising from the acquisition of a 60% stake in Szabó Hajtástechnológia by Krisztian Szabó from Szabó in 2025 and capital transfers

2. Rating Outlook

The **Negative Outlook** reflects the persistently challenging business environment in 2025, with anticipated below-average revenue and low profitability this year, as well as poor visibility on operational recovery in 2026 and beyond. It also reflects the risk that our expectation of positive FOCF in 2026 will fail to materialise. A muted operating recovery poses exacerbated risks from the scheduled debt maturities of around HUF 205m in 2027, including the first bond tranche due in February 2027, as well as the risk of subsidy repayments in 2027 due to the non-fulfilment of milestones. The Negative Outlook also takes into account governance issues arising from Krisztian Szabó's acquisition of a 60% stake in Szabó Hajtástechnológia from Szabó in 2025, as well as capital transfers this year.

3. Corporate profile

Family-owned gear manufacturer

Founded in 1976, Szabó is a gear manufacturer based in Kaposvár, Hungary. It is a family-operated business and Ferenc Szabó is the sole owner. The company’s activities include computer numerical control (CNC) hobbing, CNC milling, gear shaping, CNC turning, contact surface testing heat treatment, CNC gear grinding, broaching, and 3D CNC measuring. The main product lines are spur gears, helical gears, worm gears, planetary gears, spline shafts, straight bevel gears and geared axes. Customers are primarily manufacturers of agricultural machinery.

In 2024, Szabó reported revenue of around HUF 1.4bn (EUR 3.5m) and employed over 40 people. In 2024, the company completed the construction of a new 5000 m^2 production hall in the industrial park of Kaposvár. Following the relocation of gear production operations to the new production hall, Szabó is in the process of establishing a regional heat treatment centre (subcontract) in the 'old' production facility, thereby creating a new standalone business unit. The 'old' production facility, which covers 3,500 m^2, is located in Kaposvár and belongs to Szabó Hajtástechnológia. In 2025, Krisztián Szabó, Szabó's executive vice president, acquired a 60% stake in Szabó Hajtástechnológia from Szabó.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
26 NOV 2025	Downgrade	B-/Negative
18 DEC 2024	Outlook change	B/Negative
22 DEC 2023	Outlook change	B/Stable

5. Financial overview (financial data in HUF m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Scope-adjusted EBITDA interest cover	Net interest positive	Net interest positive	19.5x	2.6x	4.6x	5.9x
Scope-adjusted debt/EBITDA	4.7x	2.6x	6.3x	11.9x	6.3x	4.2x
Scope-adjusted funds from operations/debt	23%	40%	14%	5%	12%	19%
Scope-adjusted FOCF/debt	-11%	14%	-99%	3%	0%	3%
Liquidity	>200%	>200%	>100%	>100%	>200%	>100%
Scope-adjusted EBITDA						
EBITDA	526.8	793.1	614.3	171.7	317.9	424.8
less: capitalised development costs	-	-	-	-	-	-
add/less: gains/losses on disposal			-215.0	-	-	-
add/less: other items[1]	0.0	66.0	-82.5	-	-	-
Scope-adjusted EBITDA	**526.8**	**859.1**	**316.8**	**171.7**	**317.9**	**424.8**
Scope-adjusted funds from operations						
Scope-adjusted EBITDA	526.8	859.1	316.8	171.7	317.9	424.8
less: Scope-adjusted interest	66.4	77.5	-16.3	-66.4	-69.4	-72.4
less: cash tax paid	-38.7	-32.3	-18.2	-	-	-4.3
add: provisions	-	-	-	-	-	-
less: profit on disposals	-	-	-	-	-	-
Other non-operating charges before FFO	-	-	-	-	-	-
Scope-adjusted funds from operations (FFO)	**554.5**	**904.3**	**282.3**	**105.3**	**248.5**	**348.1**
Scope-adjusted FOCF						
Scope-adjusted FFO	554.5	904.3	282.3	105.3	248.5	348.1
Change in working capital	234.5	20.3	64.4	-143.5	-93.3	-121.6
Non-operating cash flow	944.5	57.8	-47.8	-	-	-
less: capital expenditures (net)	-959.2	-671.3	-2,369.9	100.0	-150.0	-180.0
add/less: special items[2]	-1,038.1	-3.5	100.8	-	-	-
Scope-adjusted FOCF	**-263.5**	**307.6**	**-1,970.1**	**61.9**	**5.2**	**46.5**
Scope-adjusted net cash interest paid						
Net cash interest per cash flow statement	-66.4	-77.5	16.3	66.4	69.4	72.4
Interest component on operating leases, pension	-	-	-	-	-	-
Scope-adjusted net cash interest paid	**-66.4**	**-77.5**	**16.3**	**66.4**	**69.4**	**72.4**
Scope-adjusted debt						
Reported financial (senior) debt	2,432.3	2,226.8	1,957.6	2,020.3	1,968.2	1,763.2
less: cash and cash equivalents[3]	-	-	-	-	-	-
add: non-accessible cash	-	-	-	-	-	-
add: pensions	-	-	-	-	-	-
Other debt-like items	25.0	25.0	25.0	25.0	25.0	25.0
Scope-adjusted debt (SaD)	**2,457.3**	**2,251.8**	**1,982.6**	**2,045.3**	**1,993.2**	**1,788.2**

[1] In 2023: write-offs of receivables (among other expenses); in 2024, the adjustment for the correction of the interest payment positively impacted the other operating result

[2] In 2020-2021: granting and repayment of loans to the shareholder and the subsidiary; in 2022: adjustment for the state subsidy

[3] No cash netting applied as cash positions are not deemed permanent and accessible at all times.

6. 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)

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

Key person risk

There is key person risk (ESG factor), as the company is completely managed by CEO Ferenc Szabó, the 100% owner of Szabó, and his son Krisztian Szabó, the executive vice president. Ferenc Szabó and Krisztian Szabó entered into an official agreement on the joint management of the company in February 2022, whereby Krisztián Szabó became the managing director of the company alongside his father and was given independent signing authority. Ferenc Szabó is responsible for strategic decisions, which are always made in consensus with Krisztian Szabó. Szabó senior also undertakes the representative tasks of the company, trains the mechanical engineers, and plays an active role in formulating pricing and other policies. Krisztian Szabó is responsible for the operative managerial tasks, taking an active role in production planning, either directly or through engineer colleagues, and the ERP system. Financial planning and accounting are his responsibility. He is also in charge of R&D and the first line of contact with international business partners. Overall, the company could prove vulnerable to structural changes in management.

The recent stake acquisition in Szabó Hajtástechnológia has raised some governance issues

Governance issues also arise from the fact that, in 2025, Krisztian Szabó acquired a 60% stake in Szabó Hajtástechnológia from Szabó for a negligible amount, with Szabó retaining a 40% stake. Szabó Hajtástechnológia, a company previously wholly owned by Szabó and managed by Krisztián Szabó, was not consolidated. Szabó Hajtástechnológia receives capital transfers from Szabó, as was recently the case. Szabó Hajtástechnológia also owns the 'old' production facility, which it leases to Szabó. Through this transaction, the bond holders no longer have access to the assets at Szabó Hajtástechnológia.

[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.

7. Business risk profile: B-

Szabó's business risks are largely mitigated by its good-to-moderate operating profitability and longstanding relationships with its largest customers. The company's business risk profile continues to be constrained by its small size, low product diversification and high customer concentration.

No uplift to BBB industry risk profile due to Szabó's business setup

Szabó specialises in gear manufacturing, the production of geared parts, and machining. As such, we classify Szabó as a supplier of capital goods, with an industry risk profile of BBB. However, this good industry risk profile does not provide a credit uplift within our assessment of Szabó's business risk profile. This is due to Szabó's small size, very low share of recurring revenue (mainly project orders with a short lead time of one to six months), lack of aftermarket activities, and very weak overall diversification – a business setup which tends to be highly cyclical and has low barriers to entry compared to the capital goods sector average.

Figure 1: Product examples

Sources: Szabó, Scope

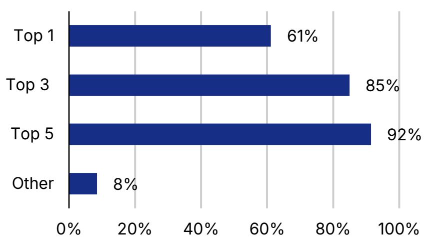
Size and diversification are main constraints

With revenue of around HUF 1.4bn (EUR 3.5m), Szabó is a very small niche player in the European capital goods market with relatively weak market positioning. In addition to its size, Szabó's business risk profile continues to be held back by very weak diversification in a number of key areas.

- Highly concentrated product portfolio (as indicated by relatively low revenue of around EUR 4m): the company's turnover is 99% gear and gearbox production, with waste management and heat treatment providing 1% of total turnover.
- Heavy dependence on certain strategic customers: the top two customers account for more than 85% of total revenue. We note positively that relationships with these two clients go back 20-30 years. Szabó not only manufactures gears for its customers, but is also involved in product development and testing, which promotes customer loyalty.
- High end-market concentration: over 85% of revenues are generated from companies in the agricultural machinery sector.
- Low geographical diversification and high currency risk: exports account for 66% of total net sales, with around 90% of exports made to Germany. The share of EUR-based revenue is around 85%, because a large part of domestic revenue is also EUR-based. As Szabó's manufacturing capacity is only located in Hungary, over 30% of costs, mainly personnel and some material costs, are incurred in HUF. Currency risk is not hedged.

Figure 2: High customer concentration

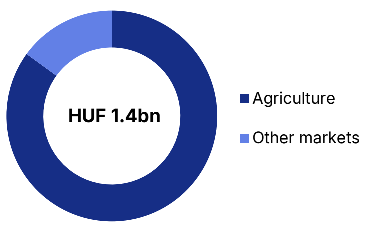
Revenue split by customers



Sources: Szabó, Scope

Figure 3: Dependency on the agricultural end-market

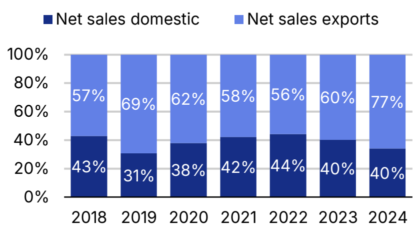
Revenue split by end-market



Sources: Szabó, Scope

Figure 4: Concentrated geographic footprint

Revenue split by geography



Sources: Szabó, Scope

Historically, Szabó's profitability, as measured by the EBITDA margin, has been over 20%. This makes profitability, in a peer group context, the main pillar of the company's business risk profile. This remains the case despite our downward revision of Szabó's profitability expectations for 2025-26. Our profitability assessment also takes into account the risk of an unexpected deterioration in profitability given the company's small size, high customer concentration and low share of recurring revenues, which has increased EBITDA margin volatility in the recent past.

Profitability is the main pillar of the company's business risk profile

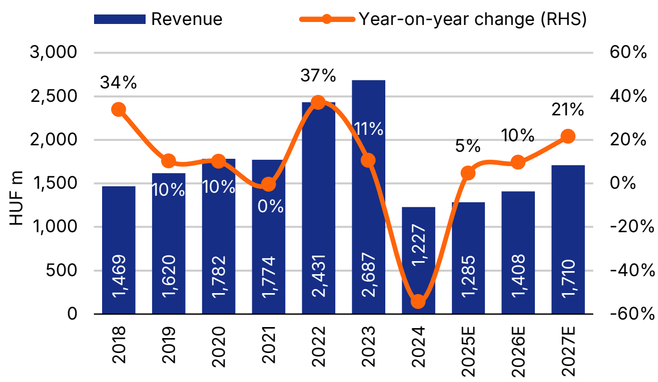
The business environment deteriorated markedly in 2024, due to the decline in overall demand for industrial and agricultural machinery, and remained muted in H1 2025. In response to the current business conditions, Szabó further reduced its workforce to 36 employees in H1 2025, from 43 in 2024. In addition, Szabó has postponed relocating production from the old plant to the new one until production reaches the required level and is looking into the possibility of alternative usage of the new site. The reported revenue figures for 2024 and H1 2025 include proceeds from asset sales. As this is not part of Szabó's usual operations, we have deducted respective amounts from the reported revenue figures. Based on these adjustments, Szabó's revenue declined by 54% YoY in 2024, but rebounded in H1 2025, increasing by 10% YoY to HUF 635m, mainly due to the weak reference base of the previous year. Overall, we have factored in revenue of around HUF 1.3bn (up 5% YoY) for the full year 2025.

Business environment deteriorated markedly in 2024 and remained muted in H1 2025

In contrast to revenues, profitability declined significantly in H1 2025, with the reported EBITDA margin turning negative at around -1%, down from 20% in H1 2024. According to Szabó, this was caused by a defectively manufactured order and the subsequent reproduction and rework costs for two new customers, which resulted in a loss of over HUF 102m. We expect the EBITDA margin for the full year to decline to around 14%, down from about 23% in 2024. In 2024, we adjusted EBITDA by positive one-off effects of around HUF 298m, comprising HUF 215m from the sale of assets and HUF 83m from the correction of interest payments. The weaker anticipated profitability has led us to revise our 2025 EBITDA expectation downwards to around HUF 170m (previously: HUF 325m).

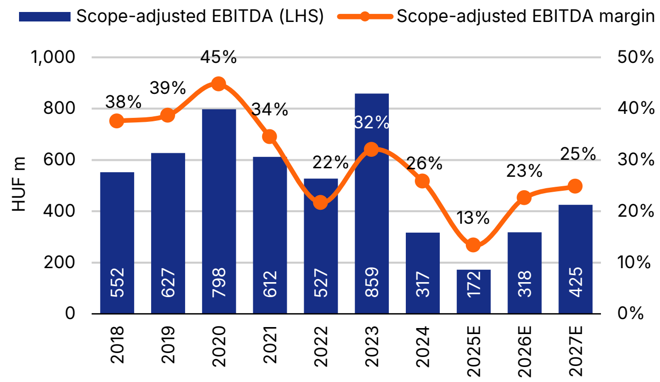
Revised EBITDA expectation for 2025 due to the anticipated reduction in profitability

Figure 5: Below-average revenue anticipated for 2025-27



Sources: Szabó, Scope (estimates)

Figure 6: Profitability expected to recover from dip in 2025



Sources: Szabó, Scope (estimates)

Following the relocation of its machining operations to the new production hall, Szabó is in the process of establishing a regional (subcontract) heat treatment centre. This initiative represents a step toward developing a new standalone business unit. That said, Szabó anticipates only a minor potential impact on revenue from these activities in 2026.

Szabó seeking to develop a new standalone business unit; revenue contribution is currently low

Visibility for 2026 revenue is rather low because of the still-fragile business environment. Due to the relatively short lead times (one to six months on average), the current order backlog provides limited visibility into 2026. The addition of new customers and increased business with recently acquired customers could stimulate growth. Furthermore, Szabó expects further increase in revenue from its main strategic product, bevel gear sets, from its major customers in 2026. We have factored in revenue of around HUF 1.4bn in 2026. This cautious prognosis reflects the persistently difficult business environment and the risks associated with ramping up volumes with new customers.

Business environment to remain fragile in 2026, posing risks to revenue

Higher anticipated profitability set to drive up EBITDA in 2026

According to Szabó, the factors that caused the defective manufacturing of the order were removed in 2025, and no further cost is expected. Szabó also has no plans to increase its headcount after the recent cuts. We expect the EBITDA margin to improve to around 25% in 2026, but to remain below historic levels, with EBITDA growing to HUF 320m. A more pronounced recovery would require higher volumes, the feasibility of which is currently uncertain.

8. Financial risk profile: B

Financial risk profile revised to B from B+ previously

The financial risk profile reflects our changed expectation for EBITDA in 2025-26, now with weaker credit metrics in these years. Szabó’s financial risk profile continues to be supported by good debt protection but remains constrained by weak cash flow cover and the new, weaker leverage assessment.

Reported financial debt of HUF 2.0bn at year-end 2024

Szabó’s reported financial debt of HUF 2.0bn at year-end 2024 comprises corporate notes of HUF 1.5bn issued in February 2022 under the MNB Bond Funding for Growth Scheme, bank loans (HUF 267m) and financial leases (HUF 191m). Around 95% of Szabó’s total debt was fixed coupon at end-2024.

Our reported debt adjustments

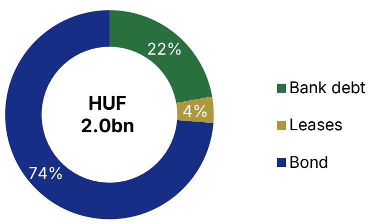
No adjustment for subsidy: which is non-refundable, but linked to the fulfilment of milestones

We have made an adjustment for an EU investment grant of HUF 25m (part of accrued liabilities), which will terminate in 2025. Our debt does not include subsidies of HUF 1.0bn received to finance the company’s investments under the Economic Development and Innovation Operational Programme Plus. The subsidy is in principle non-refundable, but linked to the fulfilment of milestones, e.g. to the growth rate of gross value added compared to GDP growth. Testing for the repayment of subsidies starts in 2025, after the completion of project implementation (purchase of machinery and construction of facilities). Repayment before 2027 is rather unlikely. Failure to meet the milestones will result in a pro-rata repayment rather than a 'full' repayment of the subsidy received.

No material deleveraging in 2025-26; potential deleveraging in 2027 is subject to business conditions

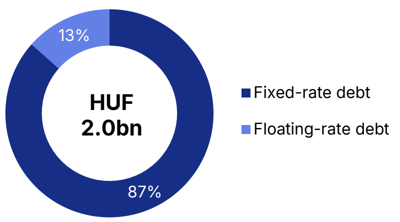
Based on this adjustment, we calculate debt of HUF 2.3bn at year-end 2024, slightly down from the HUF 2.5bn at the end of 2023. In H1 2025, Szabó repaid a significant part of its lease liabilities with Raiffeisen Bank. In parallel, the company raised two new loans with Erste Bank totalling around HUF 284m. Overall, Szabó plans to increase in its financial debt by a total of around HUF 63m by the end of 2025 to around HUF 2.02bn. The company projects: i) a minor debt reduction by around HUF 52m in 2026 driven by the repayment of leases and bank loans; and ii) a larger reduction in 2027, when the first bond tranche of HUF 150m is due for repayment, in addition to the repayment of around HUF 52m of bank debt. Szabó's ability to repay the 2027 maturities from internal sources, and thus achieve the planned debt reduction, will largely depend on EBITDA recovery in 2026-27.

Figure 7: Funding structure at end-June 2025



Sources: Szabó, Scope

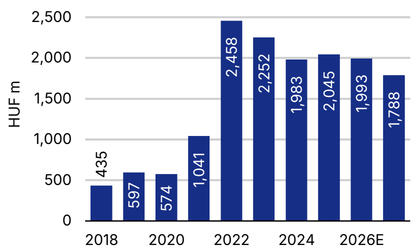
Figure 8: Interest profile of interest-bearing debt at end-June 2025



Sources: Szabó, Scope

Figure 9: Debt level relatively stable in 2024-26

Scope-adjusted debt



Sources: Szabó, Scope (estimates)

Current business conditions are set to prevent a recovery in debt/EBITDA in 2025-26

Since the bond placement in 2022, Szabó’s debt/EBITDA has ranged between 2.5x and 5.0x. This relative volatility is caused by fluctuating EBITDA given the company’s size and the concentration of its products and customers. As expected, the debt/EBITDA ratio deteriorated to over 6x in 2024, up from 2.6x in 2023, reflecting the decline in EBITDA. Based on our revised EBITDA expectations, we project that debt/EBITDA will remain significantly above 6x in 2025 (previous expectation:

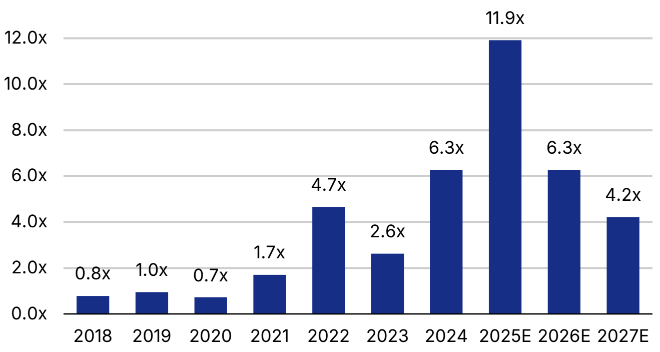
5.8x). We do foresee an improvement to around 6.0x in 2026, driven by higher profitability. However, debt/EBITDA is projected to remain above our previous expectation, and above 4x for the third consecutive year – our trigger for a negative rating action.

Due to weak earnings performance, funds from operations (FFO)/debt deteriorated to 15% in 2024, down from 40% in 2023, largely in line with our expectation. Based on our revised EBITDA expectations, we anticipate that the weakness in FFO/debt will persist, with FFO/debt expected to fall to around 5% in 2025 before improving to about 10% in 2026.

Weak FFO/debt is expected to continue beyond 2024

Figure 10: Debt/EBITDA projected to stay significantly above 6x in 2025

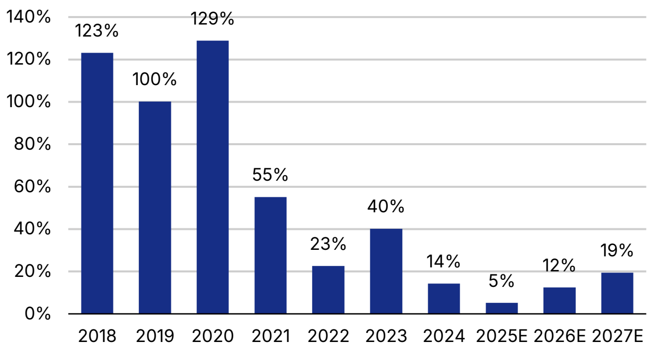
Debt/EBITDA



Sources: Szabó, Scope (estimates)

Figure 11: Weak-to-moderate FFO-based leverage in 2024-27

FFO/debt



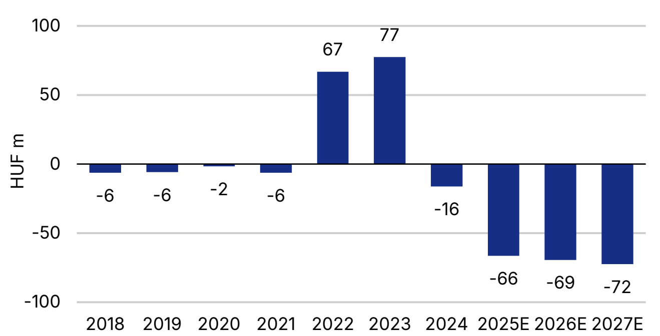
Sources: Szabó, Scope (estimates)

Following two years of positive interest results, the interest result turned slightly negative in 2024. This was due to a decline in interest income following a reduction in the cash position during the year. In 2024, Szabó capitalised HUF 53m of bond interest, which we then added to total interest. Based on the lower anticipated level of cash on balance compared to previous years, we project another decrease in interest income and expect the interest result to weaken further in 2025-26. Overall, we have factored in interest expenses of around HUF -70m per year for 2025-26. We envisage weak interest cover of around 2.5x in 2025, followed by a moderate 4.5x in 2026, on the back of the projected improvement in profitability. We therefore continue to see interest cover as the main support for Szabó's financial risk profile.

Interest cover is expected to remain the main support for Szabó's financial risk profile

Figure 12: Forecast rise in interests due to lower interest income

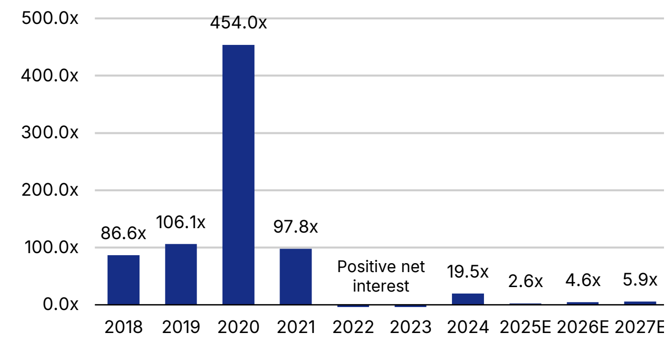
Net cash interest



Sources: Szabó, Scope (estimates)

Figure 13: Debt protection metric to improve slightly from its low in 2025

EBITDA/interest



Sources: Szabó, Scope (estimates)

Szabó's overall financial risk profile continues to be constrained by its weak FOCF, primarily due to the investment cycle that began in 2021. As part of its investment programme, Szabó has been investing in a new 5000 m^2 production hall in the industrial park of Kaposvár. This project is supported by the government with a state subsidy of HUF 1bn under the Economic Development and Innovation Operational Programme Plus. Szabó's FOCF was negative in 2021 and 2022. Due

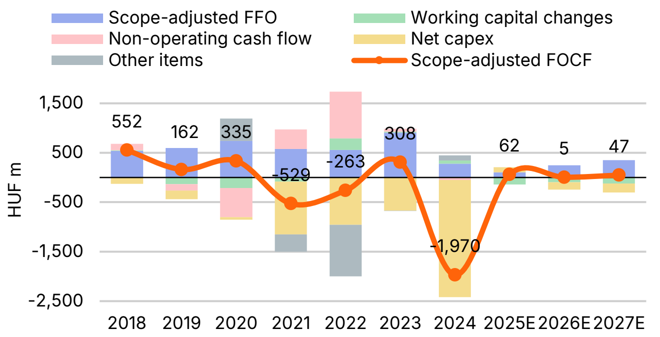
As expected, FOCF was deeply negative in 2024 to delays in property development, investments were partly postponed from 2023 to 2024, resulting in positive FOCF in 2023. FOCF turned deeply negative in 2024 at HUF -2.0bn, which is broadly in line with our expectation. In addition to record-high capex, it was negatively impacted by weaker operational performance. Proceeds from the sale of assets of HUF 307m had a positive impact on FOCF.

Net working capital also had a slightly positive impact, supported by another significant reduction in trade receivables both in absolute terms and as a percentage to revenue. Szabó has explained this development by stating that the majority of trade receivables were settled financially.

FOCF is projected to remain negative in 2025 despite reduced capex and asset sales

As expected, the H1 2025 figures indicate that Szabó has significantly reduced its capex following the completion of its investment programme in 2024. Furthermore, Szabó has indicated that it has sold further assets in 2025. We therefore project positive net capex in 2025 and positive FOCF of around HUF 60m. Szabó has stated that it has no plans to divest further assets in 2026-27. Nevertheless, we project slightly positive FOCF in 2026 and in 2027 supported by the reduced capex following the investment cycle and higher anticipated EBITDA. We anticipate that cash flow cover will remain at a weak level of between 0% and 5% in 2025-27.

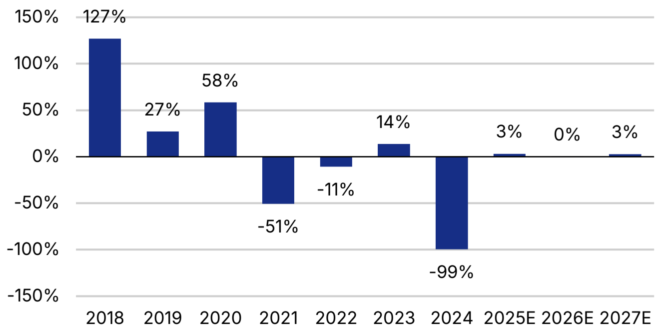
Figure 14: Investment cycle weighed on FOCF in 2021-24, slightly positive FOCF post investment cycle



Sources: Szabó, Scope (estimates)

Figure 15: Cash flow cover to remain weak in 2025-27

FOCF/debt



Sources: Szabó, Scope (estimates)

Adequate liquidity

We consider Szabó's liquidity and financial flexibility to be 'adequate' supported by the refinancing concluded in 2025, the projected available liquidity reserves at year-end 2025 and only minor debt repayments in 2026. Our liquidity assessment also takes into account slightly positive expected FOCF in 2026-27, which will help to repay the first bond tranche of HUF 150m due in February 2027.

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

	2025E	2026E	2027E
Unrestricted cash and marketable securities (t-1)	300.2	272.7	225.8
Open committed credit lines (t-1)	0.0	0.0	0.0
Free operating cash flow (t)	61.9	5.2	46.5
Short-term debt (t-1)	267.0	52.1	205.0
Liquidity	**>100%**	**>200%**	**>100%**

Sources: Szabó, Scope (estimates)

Principal cash sources comprise:

Cash sources

- Cash on the balance sheet of HUF 205m at YE 2024 and around HUF 275m expected at YE 2025,
- Short-term financial assets (short-term bank deposits and short-term government bonds) of HUF 95m at YE 2024,
- Expected FOCF of HUF 5m in 2026 and HUF 47m in 2027.

In October 2024, Szabó signed a new EUR loan in the amount of about HUF 183m. This is a long-term credit line with Erste Bank (maturity of credit: October 2029, interest 1 month Euribor+1.07%), which was unused at end-December 2024. In addition, Szabó signed a new working capital loan with Erste Bank in the amount of HUF 100m in 2025 (maturity of credit: May 2027). Both lines have been drawn during 2025.

Expected cash uses comprise:

Cash uses

- Loan of HUF 152m to 100% subsidiary Szabó Hajtástechnológia,
- Debt repayments (net of debt raised) in the amount of around HUF 267m in 2025 and around HUF 52m in 2026. The 2025 maturities have already been repaid using new credit lines.

Risk of partial repayment of subsidy in 2027

Repayment of the subsidy before 2027 is fairly unlikely. Although there is a risk that Szabó will fail to meet the milestones, it is currently unclear whether repayment will be required after 2026 and, if so, how much it will amount to.

Our base case assumes compliance with new credit lines' financial covenants

The new credit lines from Erste Bank raised in 2024 and 2025 contain financial covenants requiring the company to maintain an equity ratio of over 30% and a liquidity ratio of over 1x (defined as current assets divided by short-term liabilities). The equity and liquidity ratios at end-June 2025 were 42.5% and 4.6x, respectively, and we expect Szabó to comply with these covenants in our base case. Unlike the new credit lines, neither the HUF 1.5bn bond issued by Szabó under the Hungarian Central Bank's bond scheme nor its other bank loans are subject to financial covenants. However, the banks require a certain percentage of annual sales to be paid into the respective bank accounts.

Bond has an accelerated repayment clause

Szabó has entered the grace period

Szabó's bond has an accelerated repayment clause. The clause requires the nominal amount to be repaid within 10 business days after the bond rating falls below B-. There is a two-year grace period for a B/B- bond rating, which means that to avoid accelerated repayment the company must ensure the debt rating returns to B+ before the grace period ends. Following the downgrade of the senior unsecured bond rating to B in November 2025, Szabó has entered the grace period, which ends in November 2027. If the debt rating does not return to B+ within the grace period, the company could face severe liquidity constraints, which could have default implications, unless it obtains refinancing that covers the early repayment of the outstanding bond amount, or it proactively obtains an investor waiver related to the repayment acceleration.

9. Supplementary rating drivers: +/- 0 notches

Credit-neutral financial policy

We have a neutral view on Szabó's capital allocation.

Regular dividend payments in the past, no dividends in 2025, no dividends planned in 2026

As per the bond prospectus, the company committed to reducing the annual dividend to HUF 50m during the investment cycle from 2022 to 2024. Prior to this, Szabó tended to distribute the entirety of FOCF as shareholder dividends. In view of the business development, Szabó has not paid any dividends in 2025 and does not plan to pay dividends in 2027-26.

Capital transfers to sister company in 2025

We also note that, in recent years, Szabó provided loans to its shareholder and its subsidiary, run by Krisztian Szabó, who is both son of the owner of Szabó and executive vice president of Szabó. Loans provided to the shareholder amounted to HUF 24.2m at end-June 2025 compared to HUF 23.6m at YE 2024 and are planned to be fully repaid in 2026. Loans provided to the subsidiary increased to HUF 301m at end-June 2025, from HUF 30m at YE 2024. Szabó has explained this by providing funds for the acquisition of new machines. The HUF 152m loan made to Szabó Hajtástechnológia was transferred to the long-term credit on the balance sheet as of 30 September 2025.

10. Debt rating

Senior unsecured debt rating: B

We have downgraded the senior unsecured debt rating to B from B+, based on the downgrade of the issuer rating. We have maintained one notch uplift to the issuer rating due to above-average recovery prospects in the event of a default. Our recovery analysis incorporates a liquidation value of HUF 2.7bn for a hypothetical default scenario in 2026. This value is based on a haircut on the assets and reflects liquidation costs of 10% for the assets. The relatively high assumed liquidation value reflects the large amount of PPE as a result of the investment cycle between 2021 and 2024.

The HUF 1.5bn bond (ISIN: HU0000361480) issued in February 2022 through the Hungarian Central Bank's Bond Funding for Growth Scheme is senior unsecured. The HUF 183m loan signed with Erste Bank is collateralised by a 70% state guarantee (through a state agency) and a mortgage on the inventory of Szabó. The HUF 100m raised in 2025 through the new loan from Erste Bank is secured by a collateral on the inventory. Other banking loans are secured by a pledge on the property of Szabó and on some selected machines, vehicles, trucks and cars. Furthermore, the HUF 1bn subsidy is secured by a pledge on the property of Szabó and on some selected machines, vehicles, trucks and cars. To determine claimholders, we ranked the repayment obligation for the HUF 1bn subsidy and banking loans at the simulated point of default senior to the claims on the bond.

We assume that the business plan will be executed as planned, with no additional bank debt or other senior ranking financings ahead of the bond.

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