18 November 2024 Corporates

ÉPKAR Zrt. Hungary, Construction

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA interest cover	139.9x	net interest	net interest	net interest
Scope-adjusted debt/EBITDA	1.2x	2.3x	2.3x	2.3x
Scope-adjusted funds from operations/debt	75%	48%	41%	40%
Scope-adjusted free operating cash flow/debt	52%	95%	5%	53%

Rating rationale

The affirmation reflects ÉPKAR's capacity to maintain solid profitability and a strong financial position, supported by steady cash holdings (HUF 13.1bn at YE 2023) and minimal refinancing needs until 2027. The company's fixed-rate bond structure shields it from interest rate volatility, while its relatively low fixed costs support positive free operating cash flow throughout the construction cycle. Revenue is expected to grow by 31% in 2024 to HUF 36.7bn, with an improved order backlog covering 2.9 years of work, and its market-leading position in façade cladding and roof covering, supported by long-standing client relationships, all supporting the current rating level.

Outlook and rating-change drivers

The Outlook is Stable, reflecting our view that credit metrics will remain solid, with the debt/EBITDA ratio expected to remain between 2-3x over the next 18-24 months. This is underpinned by ÉPKAR's ability to execute its order book, which provides solid revenue visibility into 2024-2025. The rental income from the R70 office building alone is expected to cover the company's interest costs. Despite challenges in the local construction market and an uncertain macroeconomic environment, ÉPKAR is expected to maintain controlled leverage. However, the overall rating is constrained by the company's comparatively weaker business risk profile, despite its good financial performance.

The **upside scenario** for the ratings and Outlook is:

1. A stronger business risk profile, driven by increased market share, a more diversified backlog, and greater exposure to market-based projects.

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

1. Debt/EBITDA ratio of above 3.5x
2. Backlog of less than one year

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
7 Nov 2024	Affirmation	BB-/Stable
9 Nov 2023	Affirmation	BB-/Stable
10 Nov 2022	Affirmation	BB-/Stable
5 Nov 2021	Affirmation	BB-/Stable

Ratings & Outlook

Issuer	BB-/Stable
Senior unsecured debt	BB

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Related Methodologies and Related Research

Corporate Rating Methodology; October 2023

Construction and Construction Materials Rating Methodology; January 2024

European Real Estate Rating Methodology; March 2024

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ÉPKAR Zrt.

Hungary, Construction

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Market leader in its niche segment, with position protected for the medium term through medium entry barriers for specialty construction (façade cladding and roof covering) and long-standing relationships with clients • Adequate customer diversification and credit quality limits the impact of a single customer's default or inadequate payment behaviour • Strong debt protection benefitting from no immediate financing needs and fixed interest rates • Relatively low fixed costs support positive FOCF throughout the construction cycle • Improved profitability driven by elimination of non-business-related grants to direct owners and cost savings enabled by investments into the company's PPE	• Small construction company, but market leader in its niche segment • Exposed to domestic construction industry, leaving cash flows vulnerable to the expected cooldown • Weak segment diversification as all activities serve the same domestic end-markets • Limited cash flow visibility beyond 2025

Positive rating-change drivers	Negative rating-change drivers
• A stronger business risk profile, driven by increased market share, a more diversified backlog, and greater exposure to market-based projects.	• Debt/EBITDA ratio of above 3.5x • Backlog of less than one year

Corporate profile

ÉPKAR Zrt. is one of the leading Hungarian construction companies, established in 1981. It is privately owned by its management and employees and generated HUF 27.9bn of revenue in 2023. ÉPKAR's heritage and location of its headquarters is Budapest, which accounts for about 50% of its activities with the other half of construction work all over Hungary. It is predominantly involved in the construction and maintenance of buildings, monuments and sport facilities, with an aim to building up a real estate portfolio.

Financial overview

			Scope Estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	139.9x	net interest	net interest	net interest	net interest
Scope-adjusted debt/EBITDA	1.2x	2.3x	2.3x	2.3x	2.5x
Scope-adjusted FFO/debt	75%	48%	41%	40%	37%
Scope-adjusted FOCF/debt	52%	95%	5%	53%	55%
Scope-adjusted EBITDA in HUF '000s					
Reported EBITDA	5,244,724	4,483,353	5,006,196	4,395,016	3,579,561
Operating lease payment	-	-	-	-	-
Other items (incl. one-offs)	-	-	-	-	-
Scope-adjusted EBITDA	**5,244,724**	**4,483,353**	**5,006,196**	**4,395,016**	**3,579,561**
Scope-adjusted funds from operations (FFO) in HUF '000s					
Scope-adjusted EBITDA	5,244,724	4,483,353	5,006,196	4,395,016	3,579,561
less: Scope-adjusted interest	(37,484)	554,414	63,318	17,696	32,705
less: taxes paid	(390,528)	(408,474)	(389,031)	(323,692)	(252,403)
Other non-operating charges before FFO	-	411,598	-	-	-
Scope-adjusted FFO	**4,816,712**	**5,040,891**	**4,680,484**	**4,089,021**	**3,359,862**
Scope-adjusted free operating cash flow (FOCF) in HUF '000s					
Scope-adjusted FFO	4,816,712	5,040,891	4,680,484	4,089,021	3,359,862
Working capital changes	(771,301)	5,466,730	(3,106,654)	1,500,844	1,892,178
less: Capex (net)	1,421	(612,447)	(1,000,000)	(200,000)	(200,000)
Capex (mandatory)	(722,779)				
Scope-adjusted FOCF	**3,324,053**	**9,895,174**	**573,829**	**5,389,865**	**5,052,041**
Scope-adjusted interest in HUF '000s					
Net cash interest per cash flow statement	37,484	(554,414)	(63,318)	(17,696)	(32,705)
add: interest component on operating leases	-	-	-	-	-
add: other interest	-	-	-	-	-
Scope-adjusted interest	**37,484**	**(554,414)**	**(63,318)**	**(17,696)**	**(32,705)**
Scope-adjusted debt in HUF '000s					
Reported financial debt	12,893,818	13,148,251	13,148,251	13,148,251	13,148,251
less: cash and cash equivalents	(9,452,783)	(15,732,735)	(11,589,880)	(13,848,202)	(16,054,819)
add: non-accessible cash	-	7,866,368	5,794,940	6,924,101	8,027,409
add: operating guarantees	2,980,000	5,158,000	3,990,000	3,990,000	3,990,000
Scope-adjusted debt (SaD)	**6,421,035**	**10,439,884**	**11,343,311**	**10,214,150**	**9,110,842**

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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)	Grey leaf
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)	Grey leaf
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)	Grey leaf
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	Grey leaf

Legend
Green leaf (ESG factor: credit-positive)
Red leaf (ESG factor: credit-negative)
Grey leaf (ESG factor: credit-neutral)

The construction industry exerts a significant impact on the environment and has great potential for reducing energy consumption and associated emissions. However, recent disruptions in supply chains have compelled contractors to swiftly seek out alternative suppliers or accept higher material prices, a situation that is unlikely to change soon. Additionally, new Covid-related hygiene and safety regulations have seriously disrupted construction site operations. Furthermore, increased union influence may raise project costs and extend project timelines.

The most relevant ESG risks for construction companies reside in: i) rising costs and sustainable building materials; ii) efficient technologies; iii) employee health and safety; and iv) litigation and bribery.

We consider ÉPKAR's ESG assessment to be neutral. The company has no explicit ESG strategy but demonstrates a clear and transparent corporate structure and good stakeholder management. ÉPKAR is owned by the Szeivolt family and 38 employee shareholders (2.5%). It does not have an independent board to provide oversight. While we understand this is due to the family-owned nature of the company, an improvement in corporate governance would be positive given its growth in scale.

[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.

Business risk profile: B

Industry risk profile: B

While the construction industry is frequently linked to cyclicality—unlike industries with stable demand patterns—the intensity of these cycles varies by business model. We incorporate economic trends that influence the downside risk to cash flows. This downside risk may arise from: i) volume-related risks tied to high involvement in building and industrial construction, alongside significant reliance on public and governmental clients; or ii) risks from fluctuations in material costs, labour expenses, and energy prices. Our assessment remains that the construction industry is highly cyclical, with relatively low barriers to entry and moderate substitution risk.

However, the industry risk profile has been revised to a single 'B' due to the projected growth in revenue from construction activities. Consequently, EBITDA contribution from the real estate segment is expected to represent less than 10% of total EBITDA going forward. This update signals a return to a single 'B' for the overall industry risk profile, though we recognise the steady income stream provided by ÉPKAR's real estate-related revenue

Small player in a European context but top 10 in Hungary's fragmented market

In the context of the European construction industry, ÉPKAR is considered a relatively small company, having generated HUF 27.9bn (EUR 72.7m) in revenues and HUF 4.5bn (EUR 11.7m) in Scope-adjusted EBITDA in 2023.

The Hungarian construction market is highly fragmented with a competitive landscape comprised of a multitude of smaller, regional or local companies, thus, the top-five contractors accounts for less than 20% of the market. Main competitors mentioned in their segments are Market Építő, Hunép, ZÁÉV, WHB, EB Hungary Invest, Peka Bau and FK Raszter. Market Epitö (BB-/Stable) is by far the leading construction company, with an estimated market share between 5-7%.

ÉPKAR maintains a strong position within the upper ranks of its segment, enjoying market visibility and moderate access to third-party capital and guarantees. These factors support the company's ability to generate future business. ÉPKAR holds a minor market share of less than 0.5%, based on 2023 KSH construction figures, with revenue of HUF 28bn.

Geographical diversification remains unchanged

Geographical diversification remains limited, as ÉPKAR generates nearly all of its revenue from the Hungarian construction industry. This concentration leaves the company vulnerable to the cyclical nature of the sector, where revenues and earnings often face pressure during downturns. The only partial offset to this risk is the revenue stream from the office building purchased in 2022.

The construction sector in Hungary has been severely impacted by the Russian-Ukrainian war, an increased cost of financing, inflation, and a budget deficit of 4.5 – 5.0% of GDP in Hungary. As a result, many large-scale state-financed projects have been postponed due to a lack of funding.

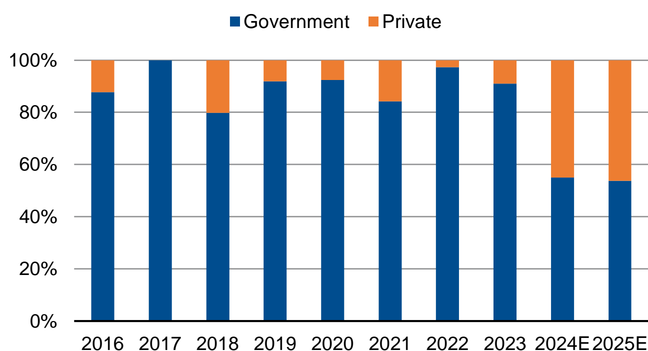
To date, ÉPKAR is only active in Hungary, mostly in the Budapest area (40% of projects) with the remainder spread across the country. Given the cyclicality of the industry, revenues and margins are likely to come under pressure in a downturn and ÉPKAR has no mitigating exposure to dampen this effect.

ÉPKAR's segment diversification is constrained as the company primarily operates within three core areas: buildings, civil engineering and sports facilities. The buildings segment encompasses a wide array of projects, including offices, residential structures, event venues, parking facilities, historical landmarks, hospitals and educational institutions. However, these projects do not offer substantial diversification as they share a common structural nature with varying end uses. In contrast, the sports facilities segment provides a degree of diversification due to its civil engineering characteristics and the demand for specialised technical expertise.

Occupancy rate increases to 79% with further increases expected

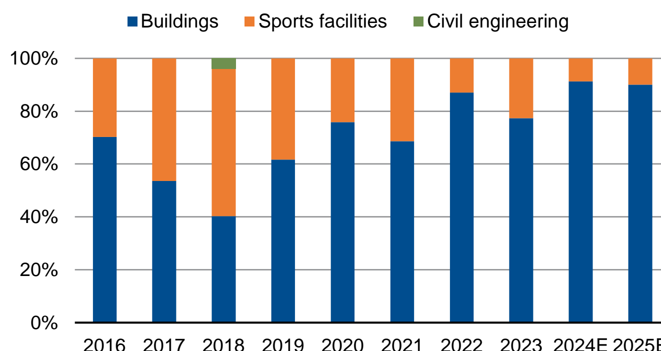
To somewhat mitigate this risk, in January 2022, ÉPKAR acquired R70 INVEST KFT, the owner of the R70 office building in central Budapest, for HUF 10.7bn (EUR 29.9m), fully funded through bond proceeds. The building offers 19,241 sqm of office space and 431 parking spaces, conveniently located next to a metro station. Since the acquisition, ÉPKAR has focused on boosting occupancy, which increased to 79% by the end of August 2024, up from 62% the previous year, with the WAULT also improving to 3.4 years from 2.2 years. This growth was driven by several new tenants. With several rental agreements currently under negotiation, ÉPKAR expects occupancy to rise further to 88% by 2025.

Figure 1: Project diversification by customer (percentage of revenue)



Sources: ÉPKAR, Scope

Figure 2: Project diversification by segment (%)



Sources: ÉPKAR, Scope

Loosening dependency on government projects

In terms of customer diversification, ÉPKAR has predominantly relied on local and central government contracts in recent years. However, government deficit constraints and delays in EU funding have led to the postponement of several public projects, dampening market sentiment in this segment. As a result, ÉPKAR has been shifting its focus towards private sector clients. For 2024, the company expects 45% of its revenue to come from private sector contracts, reflecting its strategic shift away from public sector reliance. However, this share could be lower if orders from universities, municipalities, and hospitals—categorised as public sector—are taken into account. This shift reduces the company's reliance on the public sector, which is currently impacted by budgetary constraints and project delays. Diversifying into private sector contracts provides ÉPKAR with access to a wider range of project opportunities and potentially quicker payment cycles. However, the private sector is generally more competitive, which may limit margin improvement, and its projects are more exposed to economic fluctuations, introducing a degree of unpredictability in revenue streams.

Customer concentration has increased compared to the previous year

ÉPKAR's backlog concentration has been an ongoing constraint. As of the end of September 2024, the top three projects account for 44% of the contracted backlog for 2024 (2023: 32%), similar to 2022, when the top three represented 47%. These projects include the construction of an Orthodox church, an apartment complex, and a sporting facility.

The top 10 projects account for 88% of the backlog (2023: 72%). A significant portion of these top 10 projects are funded by the central or local government (Republic of Hungary, rated BBB/Stable; Hungarian sub-sovereigns ultimately financed through the sovereign), which helps mitigate some of the concentration risk in terms of counterparty exposure.

However, the high concentration of projects also introduces operational risks. Delays or cancellations of any of these large projects could result in significant volatility in ÉPKAR's cash flow. Additionally, any cost overruns on these major contracts could have a substantial impact on the group's margin profile, as a small number of large projects represent a significant portion of its revenue.

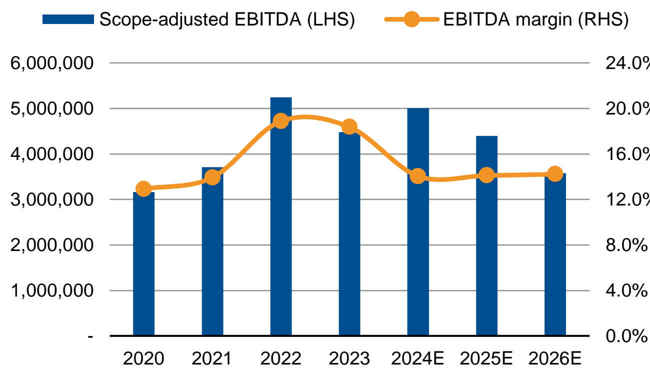
Significant growth expected for 2024 and 2025, supported by strong pipeline

ÉPKAR anticipates strong revenue growth in 2024, 2025, and 2026, driven by its ongoing contracts and a healthy project pipeline. The above-average growth expected in 2024 is partly attributed to a carry-over effect from 2023, as major projects like ELTE and Stadium Nyíregyháza were nearing completion at the end of 2023. However, due to additional client-requested works, invoicing for these projects did not occur until 2024. Profitability stood at 16% in 2023 (2022: 18%) and is expected to remain around this range in 2024 and 2025, supported by a healthy backlog.

The profitability pressure from inflationary staff costs, which was a significant factor from 2021 to 2023, has eased in 2024. Consequently, margins are not expected to erode further and are projected to stabilise around current levels. This pattern has been prevalent across all sectors in Hungary, driven by wage increases and labour shortages. However, with material costs stabilising and inflationary pressures slowing, margins are expected to remain stable through 2024 and 2025, supported by a strong backlog and improving cost conditions.

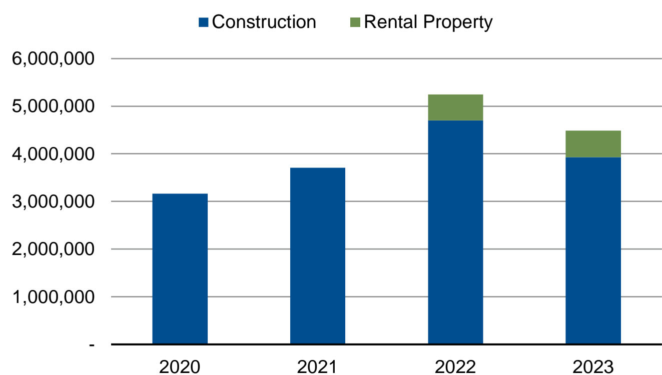
Additional support to ÉPKAR's margin comes from its buy-and-hold office building, which in itself currently has an EBITDA margin of 55%.

Figure 3: EBITDA (HUF '000s) and EBITDA margin



Sources: ÉPKAR, Scope estimates

Figure 4: EBITDA breakdown (HUF '000s)



Sources: ÉPKAR, Scope

Future revenue growth driven by strong order backlog

As of Q3 2024, the current order backlog is HUF 82bn, an increase from HUF 61bn in Q3 2023 and HUF 53bn in Q2 2022. This backlog[2] now covers 2.9 years of work (compared to 2.3 years in 2023), providing enhanced visibility on future revenue streams. The larger backlog supports more effective project scheduling and resource management, offering greater predictability in future cash flows. It also reflects ongoing demand for the company's services, reducing the likelihood of revenue shortfalls and contributing to operational stability.

Compared to industry peers, a 2.9 year backlog provides a competitive advantage, ensuring a solid pipeline of secured work in a market subject to economic fluctuations. This increased backlog supports long-term stability and reduces exposure to demand volatility. In addition, ÉPKAR has potential opportunities from projects still in the pipeline, which, if secured, could add HUF 15bn to the backlog. These projects, while not yet included, represent further upside potential for future revenue.

ÉPKAR's book-to-bill ratio is quite volatile and oscillates between 2x (very strong demand) and below 1x (insufficient, weak demand), but apart from 2018 when the company was working off the Puskas arena contract, it has been above 1x. By removing all the projects from its 'signed contract ledger' that are dependent on EU funding in 2021, the ratio

[2] 3Y average revenue of HUF 28.2bn [2021-2023]

dropped to 0.8x in 2021, slightly improved in 2022 to 0.9x and improved again in 2023 to 1.1x. Given the recent order intakes in 2024, it is expected to increase even further by YE 2024.

Financial risk profile: BBB

Our rating scenario assumes the following:

- Revenue growth of 35% expected in 2024, of which 100% is contracted. Total revenue of HUF 96bn from 2024-2026, of which HUF 82bn is contracted.
- The EBITDA margin is forecasted to decline to around 15% in 2024 and 2025, down from 18.4% in 2023 and 18.9% in 2022. This forecast reflects heightened anticipation of rising operating, material, and service costs due to prevailing market uncertainties.
- Restricted cash: operating guarantees of HUF 4.0bn in 2024, HUF 4.0bn in 2025, and HUF 4.0bn in 2026, as the operating guarantees consists of cash collateral. Reduced from HUF 5.2bn in 2023, as the projects the guarantees were linked too are now completed. 50% of available cash is deemed non-accessible due to potential fluctuations in working capital and the risk of delayed cash inflows if certain projects, primarily in residential development, do not perform as expected.
- Dividend pay-outs of 50% net profit per annum as per management's plan, and as outline in the bond perspective. Previously, only partial amounts of declared dividends was paid to the shareholders, with the rest accumulating on balance sheet as other short/long-term debt.

Strong debt protection, with no short-term maturities

ÉPKAR's debt consists solely of a fixed coupon bond, which largely insulated the company from recent interest rate increases in Hungary. With interest rates now declining and limited refinancing needs until 2027, when the bond begins to amortise, the company remains well-positioned with minimal exposure to interest rate volatility in the medium term.

At YE 2023, the company held HUF 13.1bn in cash (YE 2022: HUF 12.7bn), though this amount fluctuates throughout the year. The cash cushion has been placed in a HUF term deposit account, and we therefore assume HUF deposit rates will continue to generate significant interest income going forward. We expect ÉPKAR to maintain strong interest coverage, enabling the company to comfortably meet its interest payments over the forecasted period, assuming normal business conditions. With higher interest rates expected to persist for an extended period, we project interest coverage to remain well above 10x in the medium term.

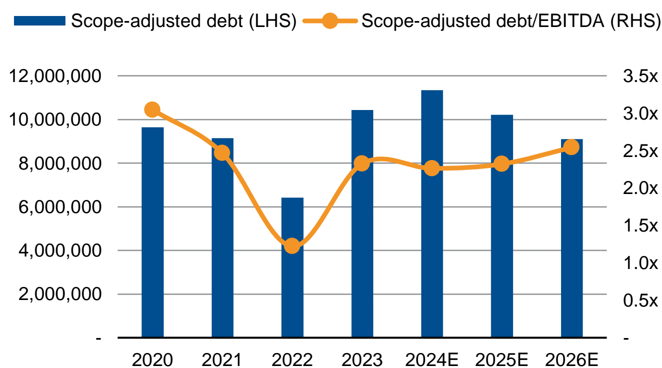
Steady income stream from office building

ÉPKAR has consistently generated positive, though volatile, Scope-adjusted FOCF. This volatility is expected to persist due to fluctuations in working capital, with most construction work being prefinanced by the contractor. The risk for ÉPKAR related to the continuous pre-financing of inventories is partially mitigated by a legally enforced payment scheme, which protects contractors from non-payment or late payments for projects exceeding HUF 1.5bn, covering 77% of ÉPKAR's backlog. The acquisition of a stable euro-based office rental income-generating asset (R70 office building) contributes positively going forward. ÉPKAR's cash flow generation has been sufficient to cover its capex expenditure historically, while also increasing its net cash position

The large fluctuations in working capital observed in 2023, driven by increased inventory levels, faster receivables collection, and deferred income, are expected to normalise in 2024 and 2025, contributing to more stable cash flow generation. The company's ability to extend payables and receive interest-free advances from developers also supports liquidity. As a result, Scope-adjusted FOCF/debt is forecast to remain positive over the next 18 to 24 months, though it remains subject to potential variability.

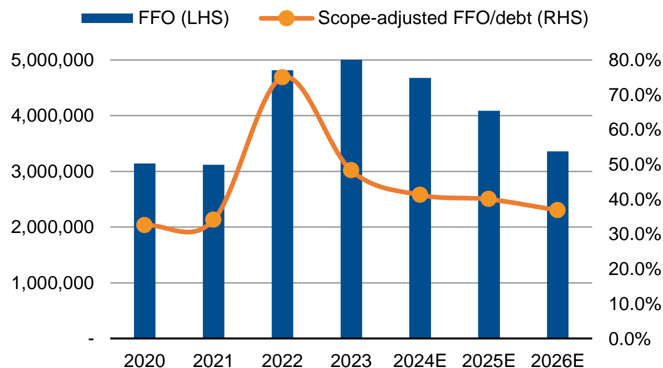
While cash flow coverage appears strong based on Scope-adjusted FOCF/debt metrics, we would like to highlight the still somewhat concentrated backlog of approximately 43 projects (similar to 2023), with the top three accounting for 44% of the total (up from 32% last year). Any delays or cost overruns on one of these key projects could negatively impact cash flow.

Figure 5: Leverage metrics; debt in HUF '000s



Sources: ÉPKAR, Scope estimates

Figure 6: FFO metrics, FFO in '000s



Sources: ÉPKAR, Scope estimates

Strong cash cushion, aided by no bank debt

Leverage, as measured by the Scope-adjusted debt/EBITDA ratio, has historically been negative, due to large cash holdings exceeding the very limited debt. After taking up HUF 11bn as a bond loan to finance Budapest CRE in November 2020, ÉPKAR did not spend it immediately, resulting in Scope-adjusted debt/EBITDA to be at 3.0x given we did not deduct cash earmarked for the transaction (remaining true at YE 2021).

In January 2022 ÉPKAR bought the office building with the bond funds, putting the money at work (removing it from restricted cash in scope-adjusted debt) and reaping in the benefits at EBITDA level. Hence, we saw a deleveraging to 1.2x, exceeding our original expectations of 2.4x.

Uncertainty persists beyond 2025

The sustainability of current leverage metrics in the long term remains uncertain, particularly given the highly cyclical and unpredictable nature of the industry. However, the backlog provides good visibility for the remainder of 2024 and 2025, although with limited visibility beyond 2025, there is potential for a slowdown. Scope-adjusted EBITDA could drop to between HUF 3bn and HUF 4bn in 2026, although some projects and revenue delays could smooth the distribution of the current backlog into 2026.

Despite these uncertainties, the company's longstanding relationships with its substantial client base and its reputation for consistently delivering high-quality projects reduce the likelihood of a significant revenue drop over the into 2026.

Reduction in operating guarantees

Operating guarantees have historically ranged from HUF 2.5bn to 3.0bn but increased to HUF 5.2bn in 2023 due to large advance payments. This, along with restricted cash amounts, has significantly impacted Scope-adjusted debt. However, the impact was offset by an increase in cash of over HUF 6bn in 2023. ÉPKAR, ended 2023 with a healthy cash cushion of HUF 15.7bn (2022: HUF 9.5bn). In 2024, operating guarantees have reduced to HUF 4.0bn and are expected to remain at this level in 2025 and 2026. Meanwhile, the cash cushion has also decreased as ÉPKAR has invested in securities, with projections reaching HUF 2.5bn by YE 2024, HUF 3.5bn by YE 2025, and HUF 4.5bn by YE 2026.

Leverage, as measured by Scope-adjusted funds from operations/debt, is projected to remain between 35% and 45% (2023: 48%, down 27pp YoY), with low risk of deterioration in the medium term. However, the cyclical nature of the construction sector creates some uncertainty beyond 2025. EBITDA could drop to between HUF 3bn and HUF 4bn by 2026,

though delayed projects may smooth out revenue into 2026. Despite these uncertainties, the company's longstanding relationships with its substantial client base and its reputation for consistently delivering high-quality projects reduce the likelihood of a significant revenue drop into 2026. In addition, the significant increase in the valuation of the R70 office building, to HUF 19.1bn from HUF 10.7bn, and the fixed revenue it provides help mitigate downside risks.

Adequate liquidity

We consider ÉPKAR's liquidity to be adequate. In detail:

Balance in HUF m	2024E	2025E	2026E
Unrestricted cash (t-1)	15,733	11,590	13,848
Open committed credit lines (t-1)	0	0	0
Scope-adjusted FOCF	574	5,390	5,052
Short-term debt (t-1)	0	0	0
Coverage	No ST debt	No ST debt	No ST debt

ÉPKAR's liquidity position is adequate, with cash sources, including unrestricted cash of HUF 15.7bn at end-2023, and forecasted Scope-adjusted FOCF of around HUF 600m in 2024, projected to cover key cash outflows. Primary uses of cash include working capital requirements to support activity across numerous construction sites and ongoing maintenance capex, with no short-term debt obligations. The company has historically funded its operations from FOCF, supporting stable liquidity. Liquidity flexibility is further bolstered by anticipated investments in marketable securities, expected to provide additional cash sources in 2024.

We highlight that ÉPKAR's senior unsecured bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 11bn) if the debt rating of the bond 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 2 notches. We therefore see no significant risk of the rating-related covenant being triggered. In addition to the rating deterioration covenant, ÉPKAR has no financial covenants attached to its bond, which constitutes the company's only financial debt. The bond restricts dividend payments to 50% of profits after tax and includes a change of control clause, requiring that 51% of ÉPKAR remain held by the Szeivolt family.

Long-term ratings

Senior unsecured debt rating: BB

In November 2020, ÉPKAR issued a HUF 11bn senior unsecured bond (ISIN: HU0000360045) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond proceeds were used to acquire an office building in central Budapest to diversify ÉPKAR's revenue by increasing rental income from real estate. The bond has a tenor of 10 years and a fixed coupon of 3%. Bond repayment is in four tranches, with 10% of the face value due in 2027, 20% in 2028, and 20% in 2029, followed by a 50% balloon payment at maturity in 2030.

Our recovery analysis is based on a hypothetical default scenario at YE 2025, assuming outstanding senior unsecured debt of HUF 11.0bn (bond) in addition to, operating guarantees of HUF 4.0bn, senior secured payables of HUF 2.1bn, and senior unsecured payables of HUF 2.1bn. We expect an 'above average' recovery for the company's unsecured debt and have affirmed the senior unsecured debt rating at BB (one notch above the issuer rating).

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