19 November 2021 Corporates

MET Hungary Solar Park Kft
Hungary, Renewable Energy

SCOPE **B** STABLE

Corporate profile

MET Hungary Solar Park Kft (MET HSP) is the newly established operating holding company of a group of companies that own and operate solar power plants in Hungary. The company is currently ramp-up its power plant portfolio from 64 MW as of Sep 2021 to about 230 MW to be installed by YE 2022. MET HSP is fully owned by MET Renewables Holding AG, a 100% subsidiary of MET Holding AG.

Key metrics

		Scope estimates			
Scope credit ratios	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
EBITDA/interest cover	1.8x	3.0x	1.2x	2.0x	2.1x
Scope-adjusted debt (SaD)/EBITDA	22.2x	31.8x	25.7x	11.7x	11.2x
Scope-adjusted FFO/SaD	2%	2%	1%	4%	5%
FOCF/SaD	-52%	-13%	-35%	5%	5%

Scope Ratings GmbH (Scope) has assigned an initial issuer rating of B/Stable to Hungarian independent power producer MET Hungary Solar Park Kft. Concurrently, Scope has assigned a B+ rating on senior unsecured debt.

The rating is strongly supported by our view on the rated entity's protected business model, bolstered by the prioritised feed-in of generated electricity at predictable prices for an extended period. However, MET HSP's weak financial risk profile limits the rating, due to high leverage and modest debt protection (interest coverage), coupled with potential adverse regulatory risks and credit-negative factors related to governance and structure.

The Outlook is Stable and incorporates our expectation that MET HSP will ramp up its power generation on solar parks from 64 MW currently to about 230 MW by YE 2022, widely funded by potential proceeds from a HUF 65bn bond issue plus remaining funds of about HUF 22bn provided through additional funding from the shareholder. This rating case is coupled with expectations of a medium-term leverage of 9x and EBITDA interest coverage exceeding 2x after the execution of the investment phase. The rating case and Outlook assume no capacity additions until 2031 beyond what is currently under development. Scope also deems ratings upside related to the removal of the 'malus' for Corporate Governance as remote in the short-term.

A positive rating action could be warranted if the company's leverage – as measured by Scope-adjusted debt (SaD)/EBITDA – moves below 9x and EBITDA interest coverage moves closer to 3x. This development could result from stronger-than-expected cash inflows from MET HSP's power generation, bolstered by significantly higher generation volumes or, alternatively, significant usage of non-interest-bearing funding.

The rating could come under pressure if MET HSP's leverage remained substantially above 9x and EBITDA interest coverage stayed below 2x on a sustained basis. This could result from lower-than-expected operating cash flows stemming from an underperformance of solar power plants or amended feed-in tariffs. Alternatively, the company's financial setup could be challenged if it starts to distribute money to its shareholders other than interest on shareholder loans.

Furthermore, any additional operations of the company beyond the expected capacity ramp-up could affect the rating positively or negatively depending on the funding of such activities.

Ratings & Outlook

Corporate rating	B/Stable
Senior unsecured debt rating	B+

Analyst

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Related Methodology

Corporate Rating Methodology

European Renewable Energy Corporates

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Bloomberg: RESP SCOP

Rating drivers

Positive rating drivers	Negative rating drivers
• Protected business model under current regulatory environment: the company operates in the renewables industry with favourable market conditions in Hungary (ESG factor); all of the company's solar power plants are eligible for the government-backed FIT (KÁT) scheme • Strong profitability and cash conversion: company benefits from the highly subsidised prices of the KÁT scheme for the next 20 years, resulting in stable cash flow and a high EBITDA margin of around 80% in the long run • Sound liquidity and deleveraging potential after the ramp up of new solar power plants bolstered by solidly positive free operating cash flow/discretionary cash flow • Set of covenants include minimum debt service coverage ratio and financial indebtedness • Reduced exposure to subordinated shareholder loans could ease pressure on EBITDA interest coverage	• Very high leverage for a number of years: highly leveraged expansion plans backed by senior unsecured debt and subordinated shareholder loans • Potential regulatory changes, such as retroactive tariff cuts or lower tariffs for larger power plant units, as seen in countries with more mature renewable markets (ESG factor) • Modest EBITDA interest coverage • Potential negative impact on achievable profitability metrics and operating cash flow from cost of imbalances caused in the FIT balancing circle • No complete independence of the company within MET Holding with some weak points regarding governance (ESG factor) • Low diversification: the company only operates in one country (Hungary) and is only exposed to solar power • Execution/construction risks but more risks related to potential delays in the ramp-up of new power plants

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• SaD/EBITDA trending to below 9x and EBITDA interest cover moving closer to 3x	• SaD/EBITDA remaining substantially above 9x over a prolonged time period and EBITDA interest coverage staying at 2x or below

Financial overview

		Scope estimates			
Scope credit ratios	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
EBITDA/interest cover	1.8x	3.0x	1.2x	2.0x	2.1x
Scope-adjusted debt (SaD)/EBITDA	22.2x	31.8x	25.7x	11.7x	11.2x
Scope-adjusted funds from operations/SaD	2%	2%	1%	4%	5%
Free operating cash flow/SaD	-52%	-13%	-35%	5%	5%
Liquidity	Negative	Negative	>200%	>200%	>200%
Scope-adjusted EBITDA in HUF m	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
EBITDA	838	2,252	3,589	7,610	7,579
Adjustments	-	-	-	-	-
Scope-adjusted EBITDA	**838**	**2,252**	**3,589**	**7,610**	**7,579**
Scope-adjusted FFO in HUF m	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
EBITDA	838	2,252	3,589	7,610	7,579
less: (net) cash interest as per cash flow statement	-452	-755	-2,893	-3,767	-3,625
less: cash tax paid as per cash flow statement	-10	-45	-124	-25	-16
other adjustments	-13	-	-	-	-
Scope-adjusted funds from operations	**362**	**1,452**	**572**	**3,818**	**3,938**
Scope-adjusted debt in EUR m	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
Gross financial debt including shareholder loans	18,318	71,545	92,295	88,720	84,820
less: hybrid debt	-	-	-	-	-
less: cash and cash equivalents	-1,476	-19,561	-12,231	-12,121	-11,664
add: cash not accessible[1]	1,476	19,561	12,231	12,121	11,664
add: pension adjustment	-	-	-	-	-
add: operating lease obligations	-	-	-	-	-
Other	-	-	-	-	-
Scope-adjusted debt	**18,318**	**71,545**	**92,295**	**88,720**	**84,820**

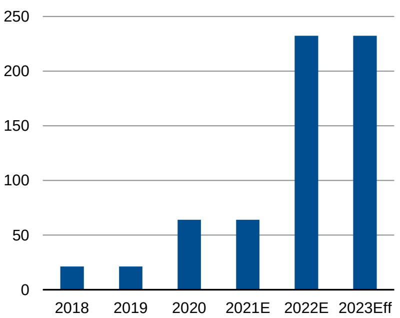
[1] Netting of cash is generally applicable to ratings in the BB category or higher, and only if cash is permanent and accessible. Moreover, cash until 2022E is largely earmarked for investment related to the company's portfolio ramp-up.

Business risk profile

Quasi-monopolistic position backed by guaranteed feed-in and regulated tariffs under the KÁT regime for all power plants

We regard MET HSP's business risk profile (assessed at BBB-) as strongly supportive of the rating, primarily based on its widely protected business model under the current regulatory framework. The company is currently in the ramp-up phase, boosting its power generation portfolio of solar power plants from 64 MW to about 230 MW across five locations in Hungary (ESG factor: credit positive environmental risk factor). This results in robust cash flow generation owing to the prioritised feed-in of generated electricity at regulated tariffs under the KÁT system of the HEA (Hungarian Energy and Public Utility Regulatory Authority), with a regulatory asset life expected at about 20 years. This framework strongly supports an achievable EBITDA margin of around 80% and the conversion of cash into robust operating cash flows. However, we flag that potential adverse changes related to the KÁT feed-in tariffs or increased costs for balancing could negatively impact the company's profitability and operating cash flows.

Figure 1: Expected capacity ramp-up (MWp)



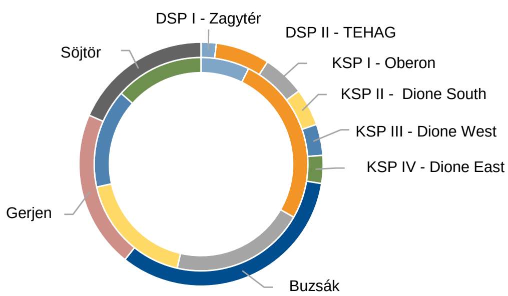
Source: MET HSP, Scope expectations

Figure 2: Regulatory lifetime of envisioned generation portfolio of more than 20 years

Power plant	Capacity (MWe)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
PV Solar																												
DSP I - Zagytér	4.7	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓								
DSP II - TEHAG	16.6	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓								
KSP I - Oberon	13.0	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓						
KSP II - Dione South	11.5	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓						
KSP III - Dione West	9.6	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓						
KSP IV - Dione East	8.6	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓						
Buzsák	77.0			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Gerjen	48.5			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Söjtör	42.8			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Other renewables																												
-	-																											

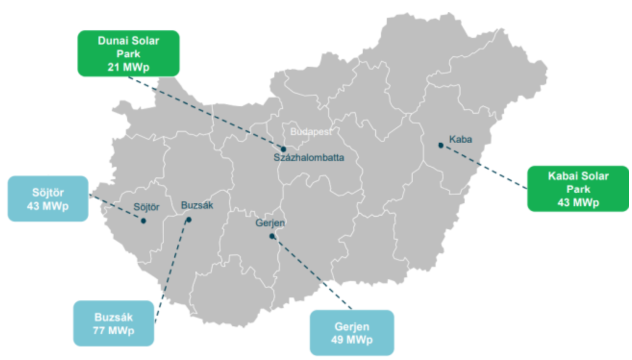
Source: Scope expectations

Figure 3: Inner circle: Today's capacity concentration measured by plant capacity – outer circle: Expected capacity concentration after full ramp-up of portfolio by YE 2022



Source: MET HSP, Scope

Figure 4: Five different power production sites across Hungary



Source: MET HSP

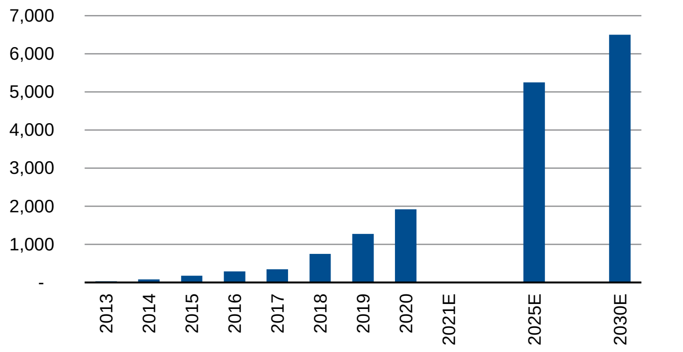
Small scale and entire exposure to Hungarian regulations constrain the rating

The company's very limited diversification, with only a handful of regulated power generation assets, would generally not strongly constrain the rating given its considerable business protection and quasi-monopolistic position. However, MET HSP's entire exposure to regulations in Hungary is deemed credit-negative. Whereas adverse regulatory changes related to prioritised electricity feed-in and fixed prices are currently not on the horizon, potential future amendments could negatively affect the company's profitability, operating cash flow and, ultimately, credit metrics.

Full exposure to Hungarian regulations poses risks in light of ongoing boom for solar energy and rising end-consumer prices

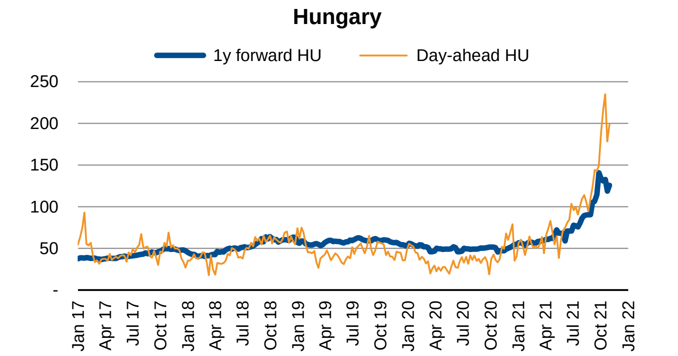
Examples of adverse regulation include retroactive tariff adjustments and the aggregation of smaller production units into a consolidated solar park. We have incorporated these concerns in the rating, based on: i) Hungary's current boom in subsidised solar power generation assets (set to reach the 2030 targets under the country's National Energy Strategy 2030); and ii) similar adverse tariff adjustments for subsidised renewable energy assets in other markets such as France, Romania, the Czech Republic or Spain.

Figure 5: Capacity ramp-up of pv solar in Hungary bolstered by the 'National Energy Strategy 2030'



Source: Argusmedia, Scope

Figure 6: Day-ahead electricity prices and 1y baseload forwards (EUR/MWh) (weekly averages)



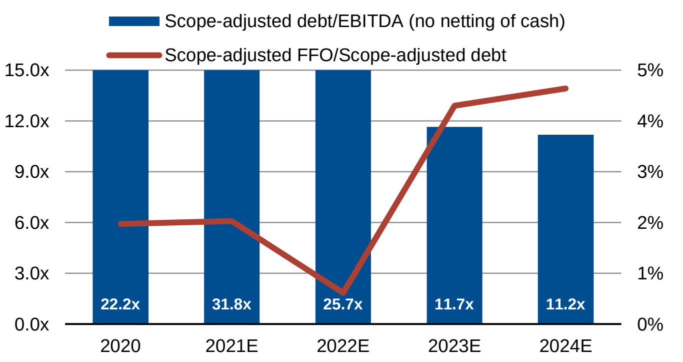
Source: Bloomberg, Scope

Financial risk profile

Highly indebted company for an extended period

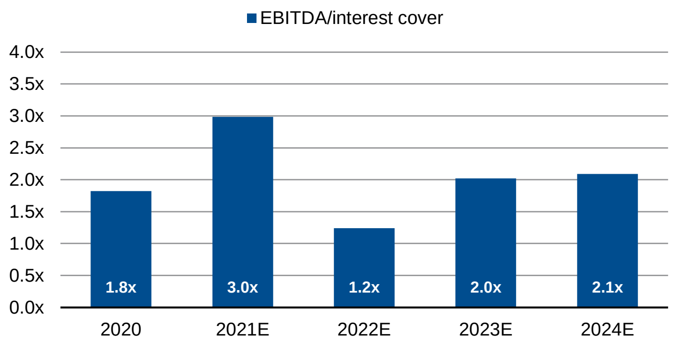
The rating is strongly constrained by MET HSP's financial risk profile (assessed at B), primarily related to its very high gearing. This is because of the full debt funding of existing and future power generation assets, through a HUF 65bn bond and interest-bearing shareholder loans, with no non-recourse project funding. In the course of the current capacity ramp-up we expect leverage – as measured by SaD/EBITDA – to remain very high as the full debt burden until YE 2022 from the prefinancing of new assets will have no corresponding cash inflows from operating assets. We estimate SaD/EBITDA of above 20x and funds from operations/SaD of below 5% until YE 2022, improving to around 9x and 5% respectively once all solar parks are contributing operating cash flow in 2023 and beyond. For the medium term, deleveraging is possible through the scaling-back of debt, backed by solid free operating cash flow after the envisioned power plants are operational. This, however, assumes that no material cash amounts are distributed to shareholders.

Figure 7: Leverage (SaD/EBITDA and FFO/SaD)



Source: MET HSP, Scope estimates

Figure 8: Debt protection



Source: MET HSP, Scope estimates

Modest EBITDA interest cover

Debt protection – as measured by Scope-adjusted EBITDA interest coverage – is not expected to strengthen before the new power plants start to contribute to earnings in YE 2022. We expect the figure to reach a modest level of 2.0-2.5x by YE 2024, assuming interest on shareholder loans is not deferred (which is not at the discretion of the rated entity).

Debt service coverage ratio provides some creditor protection

We highlight the company's intention to provide a debt service coverage ratio of above 1.1x related to the external debt position for the lifetime of the planned HUF 65bn bond, which provides a degree of creditor protection. However, the fulfilment of this covenant could be jeopardised by a material underperformance of the future asset portfolio, adverse regulatory changes relating to eligible feed-in tariffs or material costs arising from balancing.

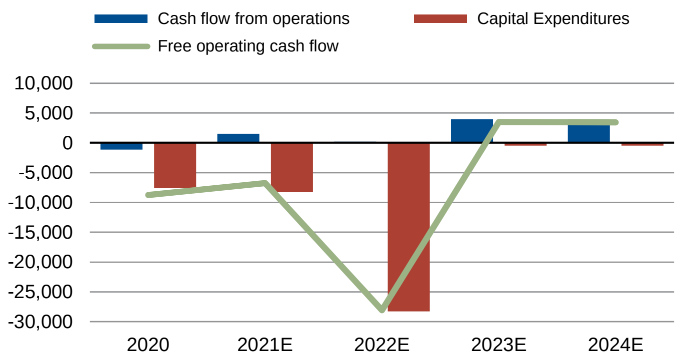
Exposure to subordinated debt provides debt coverage cushion but no equity credit granted

While we recognise that a significant portion of the company's expected funding relates to subordinated debt provided by the shareholder (see Figure 12), we have not granted an equity credit to this debt exposure. Our rating case assumes the pay-out of interest over the next few years as well as an amortisation of shareholder debt over the next ten years. The deferability of interest and amortisation on such subordinated debt would clearly provide a certain buffer in the event of lower-than-expected operating cash flow generation. Nonetheless, any equity credit given to outstanding shareholder loan exposure would not alter our rating case, given the company's high overall indebtedness.

Positive free operating cash flow expected by 2023E after portfolio ramp-up

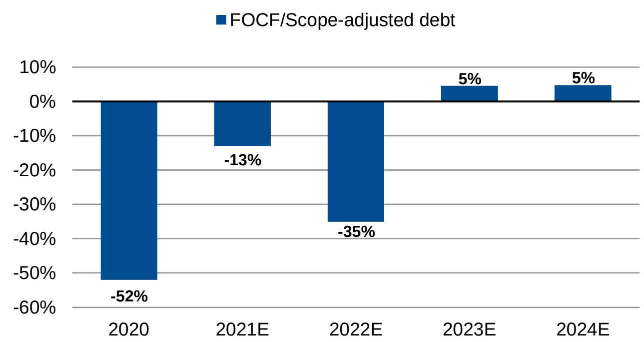
The rated entity's expected expansion will weigh greatly on its financial risk profile, with capex scheduled at more than HUF 36bn until YE 2022 (only relating to planned engineering, procurement and construction works). This will result in heavily negative free operating cash flows until YE 2022E. From 2023, free operating cash flow should turn positive, reflecting management's plan to maintain a steady state from when the new solar power plants are operational until the bond matures in 2031 and keep maintenance capex very low.

Figure 9: Cash flow profile (HUF '000s)



Source: MET HSP, Scope estimates

Figure 10: Cash flow cover

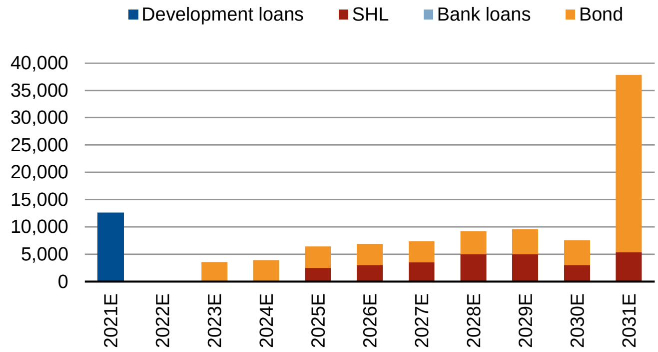


Source: MET HSP, Scope estimates

Adequate liquidity after full ramp-up of generation portfolio

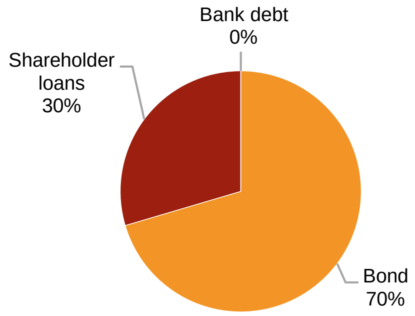
We regard MET HSP's liquidity position as adequate over the next few years. Available cash sources such as the company's expected cash buffer and free operating cash flow should cover all expected debt repayments related to the amortisation of the HUF 65bn bond (starting in 2023) but also shareholder loans without significant refinancing needs until YE 2027E. Debt repayments thereafter would likely require significant refinancing, particularly the repayment of the remaining bond volume of HUF 32.5bn in 2031. A delay in the repayment of shareholder loans could somewhat relax the pressure on refinancing.

Figure 11: Expected maturity schedule after bond placement (in HUF '000s)



Source: Scope estimates

Figure 12: Expected funding structure after completion of portfolio ramp-up at YE 2022E



Source: Scope estimates

Supplementary rating drivers

Negative rating adjustment for governance

The rating incorporates a negative adjustment of one notch, reflecting governance and structure weaknesses (negative ESG factor related to governance). While management determines strategy, finances (budget) and operations, several points pose credit risks:

- The rated entity's management also holds functions within MET Holding AG, meaning that they hold management positions at sister companies or the parent company. This raises concerns over the alignment of management's interests with those of stakeholders, which include creditors of the rated entity and the management of group companies. This could materialise as services not being billed in line with the lean management of the rated entity or profit being distributed to the detriment of creditor interests.
- While transfer pricing covers all the services that the rated entity sources from within MET Holding AG, outsourced services are basically used for almost all of MET HSP's operations, which gives the rated entity little control over provided services.

Shareholder structure is credit-neutral

We consider MET HSP's ultimate 100% shareholder to have higher credit quality than MET HSP. However, we assess parent support as credit-neutral, based on the parent's assumed limited willingness to provide support on a sustained basis.

Long-term debt rating

Following the expected recapitalisation through a HUF 65bn bond issuance under the MNB Bond Funding for Growth Scheme (maturity of 10 years; principal repayment starting in 2023, with a 50% bullet at the end of maturity; fixed interest rate; bond proceeds earmarked for refinancing of existing bank loans [~20% of expected proceeds], acquisition and investment cost related to the capacity ramp-up of solar plants [~80% of expected proceeds]), no debt will rank superior to senior unsecured debt. This is likely until 2031, when the planned bond matures, given the negative pledge.

Average recovery expectations for senior unsecured debt

Our recovery expectations are based on liquidation value. Although a bailout by the ultimate parent in a hypothetical insolvency of the rated entity is not ruled out, we believe an insolvent company would be liquidated, primarily through the sale of various power plants. We do not expect these liquidation proceeds to fully cover outstanding senior unsecured debt in the year of a hypothetical default (2023) because gearing is high relative to the envisioned funding of the power plants. Reflecting a sufficiently high advance rate of 85% for property, plant and equipment, recovery expectations for senior unsecured debt are 'above-average' (with significant headroom on advance rates before reaching just 'average' recovery expectations). Consequently, we have applied a one-notch uplift to senior unsecured debt, considering the large exposure to valuable unencumbered assets.

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