

# Communication Technologies Kft.

Hungary, Business Services

## Rating composition

Business risk profile		
Industry risk profile	BBB	B+
Competitive position	B+	
Financial risk profile		
Credit metrics	BB+	BB+
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 credit ratios*	Scope estimates			
	2023	2024	2025E	2026E
Scope-adjusted EBITDA interest cover	40.3x	9.5x	Net interest income	
Scope-adjusted debt/EBITDA	4.0x	4.3x	3.8x	3.3x
Scope-adjusted funds from operations/debt	22%	20%	24%	30%
Scope-adjusted free operating cash flow/debt	2%	-2%	20%	26%
Liquidity	No ST debt	>200%	>200%	>200%

## Rating sensitivities

### The upside scenario for the ratings and Outlook:

- Contract with the Hungarian Police Authority beginning in H2 2025 at the latest and financial and operational targets largely met

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

- A delayed start to the contract with the Hungarian Police Authority beyond 2025 and/or a continued failure to achieve financial and operational targets
- Renewed concerns about covenant compliance with debt/EBITDA moving close to 4.5x

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

Issuer

B+

Outlook

Negative

Senior unsecured debt

B+

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### Related methodologies

General Corporate Rating  
Methodology, Feb 2025  
European Business and Consumer  
Services Rating Methodology,  
Jan 2025

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"><li>• Moderate financial risk profile with a manageable level of debt, a low interest burden, and limited liquidity constraints</li><li>• Good profitability, with an average long-term EBITDA margin of 30%</li><li>• Exclusive distribution contracts in Hungary and established relationships with national agencies</li><li>• Solid position within a small niche and solid service strength</li></ul>	<ul style="list-style-type: none"><li>• Small market share in the IT services market, covering only a small niche in the domestic market</li><li>• Low diversification (geographic, client, and product) and high concentration (client), which makes the company vulnerable to external developments</li><li>• Suboptimal planning and failure to use bond proceeds for their intended purpose</li><li>• Key person risk (ESG factor: credit-negative)</li></ul>

2. Rating Outlook

The **Negative Outlook** reflects the issuer’s suboptimal execution of its plans and delays in using bond proceeds for their intended purpose. These issues have the potential to lead to a deterioration in the company’s financial standing in the long run, either individually or collectively.

3. Corporate profile

Communication Technologies (CT) was established in Budapest in 2002. It distributes high-technology security systems to the Hungarian state administration, including the police, prisons, and intelligence agencies, as well as to corporations. Products and services offered by the company comprise electronic surveillance solutions, primarily for monitoring offenders, cyberspace solutions, digital forensic tools and AI-based video intelligence systems.

High-tech security systems  
solution provider

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
30 JUL 2025	Outlook change	B+/Negative
2 AUG 2024	Affirmation	B+/Stable
22 JAN 2024	Under review placement	B+/Under review for a possible downgrade

## 5. Financial overview (financial data in HUF m)

				Scope estimates	
Scope credit ratios	2022	2023	2024	2025E	2026E
EBITDA interest cover	7.2x	40.3x	9.5x	Net interest income	
Debt/EBITDA	6.9x	4.0x	4.3x	3.8x	3.3x
Funds from operations/debt	10%	22%	20%	24%	30%
Free operating cash flow/debt	-10%	2%	-2%	20%	26%
Liquidity	129%	No ST debt	>200%	>200%	>200%
<b>EBITDA</b>					
Reported EBITDA	288	502	470	506	545
Other items (incl. one-offs)	-	-	-	-	-
<b>EBITDA</b>	<b>288</b>	<b>502</b>	<b>470</b>	<b>506</b>	<b>545</b>
<b>Funds from operations (FFO)</b>					
EBITDA	288	502	470	506	545
less: interest	(40)	(12)	(50)	1	57
less: cash tax paid	(51)	(55)	(21)	(53)	(62)
<b>Funds from operations</b>	<b>198</b>	<b>435</b>	<b>399</b>	<b>455</b>	<b>539</b>
<b>Free operating cash flow (FOCF)</b>					
Funds from operations	198	435	399	455	539
Change in working capital	797	(200)	(392)	(18)	(16)
Non-operating cash flow	(1,198)	-	-	-	-
less: capital expenditures (net)	(0)	(201)	(52)	(52)	(52)
<b>Free operating cash flow</b>	<b>(203)</b>	<b>34</b>	<b>(45)</b>	<b>384</b>	<b>471</b>
<b>Interest</b>					
Interest paid	40	118	105	102	97
Interest received	-	(106)	(56)	(104)	(154)
<b>Interest</b>	<b>40</b>	<b>12</b>	<b>50</b>	<b>(1)</b>	<b>(57)</b>
<b>Debt</b>					
Reported financial (senior) debt	2,000	2,000	2,000	1,900	1,800
less: cash and cash equivalents <sup>1</sup>	-	-	-	-	-
Adjustments to reported financial debt	-	-	-	-	-
<b>Debt</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>1,900</b>	<b>1,800</b>

<sup>1</sup> No netting of cash for the high-yield company with a B category business risk profile.

## 6. Environmental, social and governance (ESG) profile<sup>2</sup>

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

We see two key areas of concern that require close monitoring: CT's execution of its strategic plans and ensuring that bond proceeds are used properly.

- 1) The company has a history of providing overly optimistic financial projections that have repeatedly failed to materialise.
- 2) Furthermore, CT has made limited use of its bond proceeds for acquisitions. Only a small portion was used to acquire BlackCell UK, with delays attributed to underestimated complexities and unfavourable currency movements. Nevertheless, management does not intend to repay the unused funds early, preferring to wait for future acquisition opportunities.

This lack of planning, combined with fixed interest payments on unused debt, could expose CT to financial strain if interest rates shift unfavourably. These issues pose long-term risks to the company's financial health, particularly given that increased debt repayments will begin in 2027.

The company also faces key person risk, as its operations heavily depend on its founder and majority owner, Mr. Péter Neuman.

<sup>2</sup> 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+

We consider CT to be a business services company with medium cyclicity and medium barriers to entry. The company has an asset-light balance sheet and leverages its specialised workforce to produce cash flows. It carries an industry risk rating of BBB.

Industry risk rating: BBB

The electronic offender monitoring segment is CT’s main source of revenue. It involves equipping prisoners outside of prison (e.g. those working or on early release) or pre-trial suspects with a monitoring device that allows some freedom of movement. CT provides the Hungarian state authorities with a solution from Allied Universal (former Attenti), the world’s largest seller of electronic monitoring equipment. CT is Allied Universal’s exclusive reseller and integrator in Hungary and leverages its personnel’s expertise. The market is expected to grow steadily going forward, supplemented by increased demand for domestic violence prevention systems following a recent legislative change. Similarly, in the digital forensics segment, the company’s second-largest revenue generator, CT is the exclusive distributor of Cobweb’s systems to the Hungarian state authorities.

Exclusive distributor of high-tech security solutions in Hungary

In terms of the total domestic IT market, CT’s domestic market share is very small. The company focuses on a niche segment of the IT services market. It has established itself as a strong market leader in the domestic electronic offender monitoring and digital forensics segments. CT is the sole provider of solutions to public administration in these areas.

Weak market position in Europe and in the overall IT market in Hungary

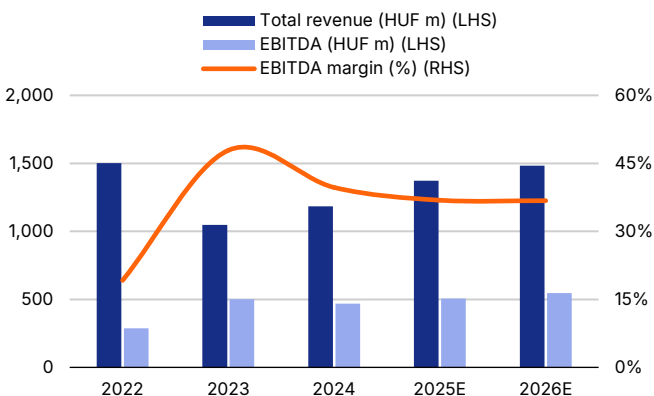
The company’s geographic diversification is weak because it only operates in Hungary. Client diversification is also weak, with most sales generated from a few interconnected state administration entities. CT aims to diversify away from state administration and towards corporate clients; however, the share of revenues from these clients is not yet material. Supplier diversification is relatively good, as CT has several exclusive distribution contracts, but this factor is not of high importance.

Diversification is weak

The EBITDA margin has averaged 30% over the past six years, ranging from 17% in 2019 to 48% in 2023. Despite some EBITDA margin volatility in 2022 and 2023, we anticipate that the 2024 EBITDA margin was at a normalised level. We project a slight decrease in the EBITDA margin over the next two years because we anticipate that revenue growth will come from the lower-yielding segments. Following the issuance of the bond in 2022, the company’s ROCE dropped to the 15%-20% range. In the absence of more pronounced utilisation of the large contract by the police, we estimate there is little likelihood of improvement above 20%.

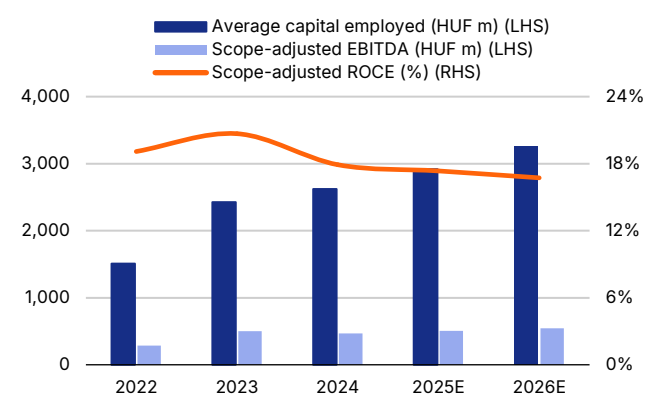
Good operating profitability

Figure 1: EBITDA margin development



Sources: Communication Technologies, Scope estimates

Figure 2: ROCE margin development



Sources: Communication Technologies, Scope estimates

Due to the long-term nature of its relationships with state authorities, CT has a low churn rate. However, this assessment is biased due to the company’s small size and low customer diversification. We consider CT’s service quality to be adequate. However, we deem the brand strength to be relatively low, since the company has not expanded significantly into the private sector.

Moderate service strength

## 8. Financial risk profile: BB+

Despite the delay in executing the contract with the Hungarian Police Authority, we consider the issuer's financial standing to be healthy. This is due to recurring revenues from current contracts and good profitability margins.

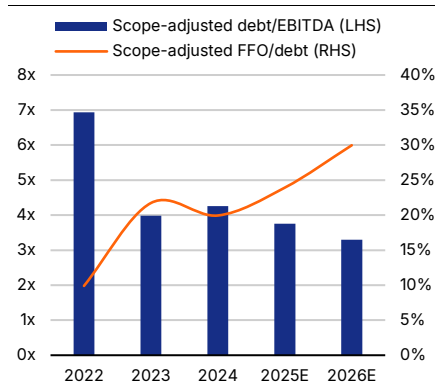
Solid financial risk profile

Volatility in leverage stems from EBITDA changes, as debt was at a stable level post bond issuance in 2022. After a rather one-off EBITDA underperformance leading to a high debt/EBITDA ratio of 7.2x in 2022, this leverage metric has stabilised at a moderate 4.0-4.5x level. We expect that leverage will fall below 4.0x in the next two years post repayment of the first bond maturities in 2025 and thanks to an increase in EBITDA from new and already confirmed contracts.

Interest payments amounting to around HUF 100m annually at present is projected to be fully covered by interest income as soon as the start of 2025. Given the delay in the realisation of the company's acquisition plans, management has decided to place the excess funds from bond proceeds into interest-bearing securities. Coupled with other inflows to also be invested in securities, this will lead to net interest income in 2025 and 2026 as per our estimates.

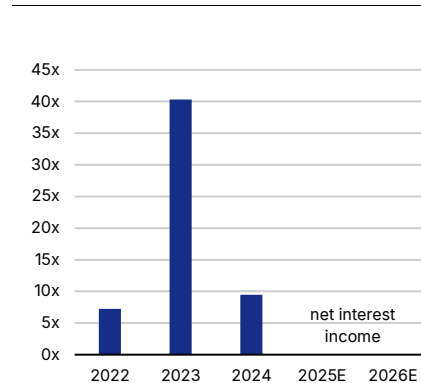
We project an increase in cash flow cover to levels above 20% in 2025 and 2026. This is based on no additional rise in debt (as the financing for potential new investments is already in place) as well as strong projected FOCF generation on the back of stable profitability and no significant capex.

Figure 3: Leverage



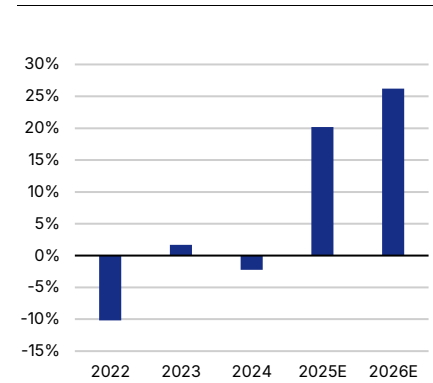
Sources: CT, Scope estimates

Figure 4: Interest cover



Sources: CT, Scope estimates

Figure 5: Cash flow cover (FOCF/debt)



Sources: CT, Scope estimates

We consider liquidity to be adequate. We do not foresee any refinancing issues in 2025 and 2026, considering low refinancing needs (HUF 100m) and a sufficiently high cash buffer (HUF 844m) as well as positive projected free operating cash flow.

Adequate liquidity

We highlight the fact that the senior unsecured bond issued by CT under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant that requires the accelerated repayment of the outstanding nominal debt amount (HUF 2.0bn) if the bond's debt rating remains below B+ for more than two years (grace period) or drops below B-. In the latter case, repayment must be made within thirty days. This could negatively impact the company's liquidity profile. The rating headroom to entering the grace period is zero notches. Furthermore, we expect full compliance with the aforementioned leverage-related covenant over the next two years.

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

	2024	2025E	2026E
Unrestricted cash (t-1)	2,046	1,357	844
FOCF (t)	(45)	384	471
Short-term debt (t-1)	-	100	100
<b>Liquidity</b>	<b>&gt;200%</b>	<b>&gt;200%</b>	<b>&gt;200%</b>

Source: CT, Scope estimates

**9. Supplementary rating drivers: +/- 0 notches**

Supplementary rating drivers are credit-neutral. Despite CT’s relatively small scale and concentration risks, we have not lowered the issuer rating for peer context because we consider the standalone credit assessment to be suitable at present. We have identified some concerns regarding governance, including suboptimal plan execution and key person risk, which could materialise into credit risks over time (ESG factor: credit-negative). Nonetheless, the risks involved are adequately addressed in the company’s standalone credit assessment, thereby eliminating the need for further rating adjustments.

Credit-neutral supplementary rating drivers

**10. Debt rating**

The rating on senior unsecured debt has been affirmed at B+, consistent with the issuer rating. We project an "average" recovery for senior unsecured debt, i.e. the senior unsecured corporate bond, in a hypothetical default scenario in 2026, aligning the debt rating with the issuer rating as a result.

Senior unsecured debt rating: B+

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