SCOPE | Ratings

Bayer Construct Zrt.

Hungary, Construction

Rating composition

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

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	17.5x	Net interest	16.3x	19.9x
Scope-adjusted debt/EBITDA	1.9x	1.8x	1.9x	1.8x
Scope-adjusted funds from operations/debt	47%	55%	47%	50%
Scope-adjusted free operating cash flow/debt	8%	-7%	8%	19%
Liquidity	131%	93%	>200%	160%

Rating sensitivities

The upside scenario for the ratings and Outlook is:

- Significant improvement in Bayer Construct's business risk profile, i.e. improved outreach, geographic diversification and reduced concentration in the order backlog, while maintaining moderate credit metrics

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

- Debt/EBITDA exceeding 3x on a sustained basis
- Worsening of liquidity (deemed remote for the time being)

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

Issuer

BB-

Outlook

Stable

Senior unsecured debt

BB-

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Related methodologies

General Corporate Rating Methodology, Feb 2025

Construction and Construction Materials Rating Methodology, Jan 2025

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Sizeable order backlog of HUF 346bn as of end-March 2025, providing good visibility on future revenues • Moderate diversification across segments with slightly different demand patterns • High vertical integration reducing reliance on external providers and supporting profitability • Good profitability, above that of comparable peers • Strong debt protection and low leverage	• Concentration on domestic Hungarian market, leaving cash flow vulnerable to any prolonged contraction • High customer concentration, mitigated by order size that obliges the use of construction trustee • Moderate exposure to floating-rate debt (28% of total debt as of end-2024) • Free operating cash flow (FOCF) generation weakened by the lumpiness of projects, swings in working capital and heavy investments

2. Rating Outlook

The **Stable Outlook** reflects our view that Bayer Construct will successfully execute on its order backlog while maintaining good credit metrics, with a debt/EBITDA well below 3x on a sustained basis. The Outlook also reflects the good visibility on revenues in 2025-27 stemming from the backlog execution.

3. Corporate profile

Bayer Construct is a Hungarian construction group active in general contracting, structural works, civil engineering, building materials manufacturing, mining, real estate development and services. With operations in Hungary and Romania (to a lesser extent), the group leverages its in-house resources across the value chain – including raw materials, prefabricated modules, machinery and construction equipment. As of end-December 2024, Bayer Construct had 1,032 employees.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
8 Aug 2025	Upgrade	BB-/Stable
8 Aug 2024	Affirmation	B+/Stable
9 Aug 2023	Outlook change	B+/Stable

5. Financial overview (financial data in HUF m)

				Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**
EBITDA interest cover	15.7x	17.5x	Net interest	16.3x	19.9x
Debt/EBITDA	3.0x	1.9x	1.8x	1.9x	1.8x
Funds from operations/debt	30%	47%	55%	47%	50%
Free operating cash flow/debt	21%	8%	-7%	8%	19%
Liquidity	>200%	131%	93%	>200%	160%
EBITDA					
Reported EBITDA	18,034	27,437	30,242	29,805	29,232
add: recurring dividends from associates	-	-	-	-	-
Other items (incl. one-offs)[1]	643	418	(74)	-	-
EBITDA	**18,677**	**27,855**	**30,168**	**29,805**	**29,232**
Funds from operations (FFO)					
EBITDA	18,677	27,855	30,168	29,805	29,232
less: interest	(1,192)	(1,588)	401	(1,829)	(1,471)
less: cash tax paid	(793)	(1,881)	(1,323)	(1,726)	(1,502)
Other non-operating charges before FFO	-	-	-	-	-
Funds from operations	**16,692**	**24,386**	**29,246**	**26,250**	**26,260**
Free operating cash flow (FOCF)					
Funds from operations	16,692	24,386	29,246	26,250	26,260
Change in working capital	26,638	(604)	2,629	7,808	11,037
Non-operating cash flow	-	-	-	-	-
less: capital expenditures (net)	(31,539)	(19,719)	(35,859)	(29,805)	(27,405)
Other items	-	-	-	-	-
Free operating cash flow	**11,791**	**4,063**	**(3,984)**	**4,253**	**9,892**
Interest					
Interest paid as per cash flow statement	3,305	5,392	3,442	4,131	3,680
Interest received	(2,113)	(3,804)	(3,843)	(2,302)	(2,210)
Interest	**1,192**	**1,588**	**(401)**	**1,829**	**1,471**
Debt					
Reported financial (senior) debt	55,509	51,960	53,421	55,286	52,960
less: cash and cash equivalents[2]	-	-	-	-	-
add: other items	-	-	-	-	-
Debt	**55,509**	**51,960**	**53,421**	**55,286**	**52,960**

Figures may not add up due to rounding.

[1] This includes change in provisions.

[2] No cash netting applied.

6. Environmental, social and governance (ESG) profile[3]

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

ESG profile: neutral

The following ESG risks are particularly relevant to construction companies: (i) the costs and sustainability of building materials; (ii) adoption of efficient technologies; (iii) health and safety of employees; and (iv) risks related to litigation and bribery. However, ESG factors have no impact on Bayer Construct's credit rating.

Bayer Construct is progressively embedding ESG principles into its operations, with a stated objective to expand ESG reporting to all subsidiaries and affiliates from 2025 onwards. These efforts enhance Bayer Construct's regulatory preparedness and stakeholder trust, particularly relevant in the context of public procurement and large-scale project development. The company's vertically integrated supply chain and focus on local sourcing also mitigate environmental and cost-related risks, while contributing to operational resilience.

The company's ESG report – provides a credible and transparent framework to monitor progress. Notable targets include: (i) a 20% reduction in greenhouse gas emissions by 2025; (ii) 75% recycling of waste by 2025; and (iii) 15% increased energy efficiency across all operations by 2025.

[3] 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+

Industry risk profile: B+

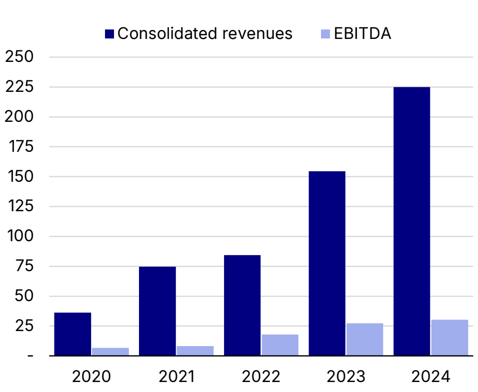
Bayer Construct remains primarily exposed to the construction industry (90% of revenue and 92% of EBITDA in 2024), although we acknowledge the contribution of other sub-sectors (i.e. building materials, mining, real estate development and services). Altogether, we assigned a weighted industry risk assessment of B+.

Small sized construction company in the European context …

Bayer Construct is a small construction player by European standards, though it ranks among Hungary's top 10 contractors. In 2024, the group reported consolidated revenues of HUF 222bn (equivalent to EUR 557m; up 46% YoY) and EBITDA of HUF 30bn (~EUR 76m; up 8% YoY). While the company exhibited sustained growth in recent years, its limited scale constrains to some extent its ability to achieve economies of scale and its capacity to manage multiple large projects simultaneously. This, in turn, results in heightened sensitivity to economic cycles and cash flow volatility.

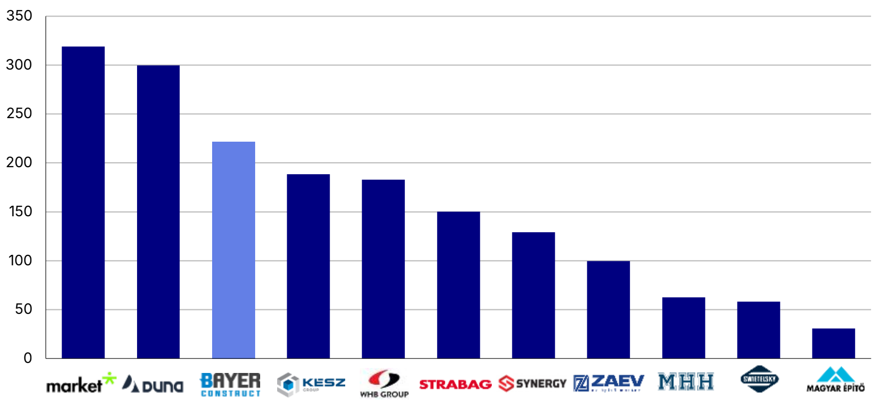
Bayer Construct anticipates revenue growth both in 2025 and 2026, albeit at a more moderate pace, supported by the execution of its order backlog (HUF 346bn as of Q1 2025, up 30% from end-2024) and the continued rollout of large phased-out projects. This contributes to improved cash flow visibility in a still challenging Hungarian construction sector. The company's competitive position is further supported by its high vertical integration, good access to skilled labour, and sound procurement capabilities of building materials.

Figure 1: Total revenue and EBITDA (HUF bn)



Sources: Bayer Construct, Scope

Figure 2: Bayer Construct and selected peers – Total revenue FY 2024 (HUF bn)



Sources: Bayer Construct, Public information, Scope

… although capturing moderate market shares in its domestic market of Hungary

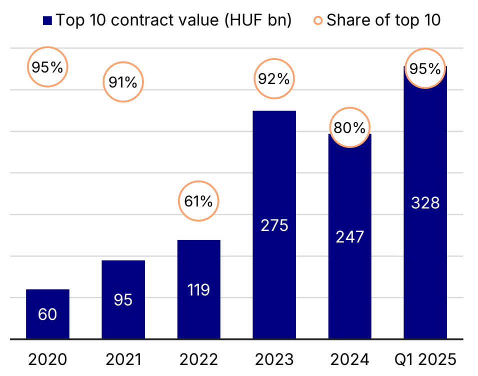
The Hungarian construction market is fragmented, characterised by a competitive landscape largely comprised of numerous medium to small regional and local players. The top-five contractors account for about 20% of the total market. In this context, Bayer Construct ranks among the largest players, with a growing market share estimated at 2%-4%. We expect the company to at least maintain this position, supported by its robust order backlog and proven ability to secure new contracts. By contrast, other Hungarian construction companies – typically with smaller and less contracted order books – have been more exposed to the ongoing challenges in the market environment.

High geographic concentration

Geographical diversification remains weak, with the majority of revenues generated in Bayer Construct's home market of Hungary (82% of consolidated revenues), despite a moderate contribution from Romania (18% in 2024; down from 27% in 2023).

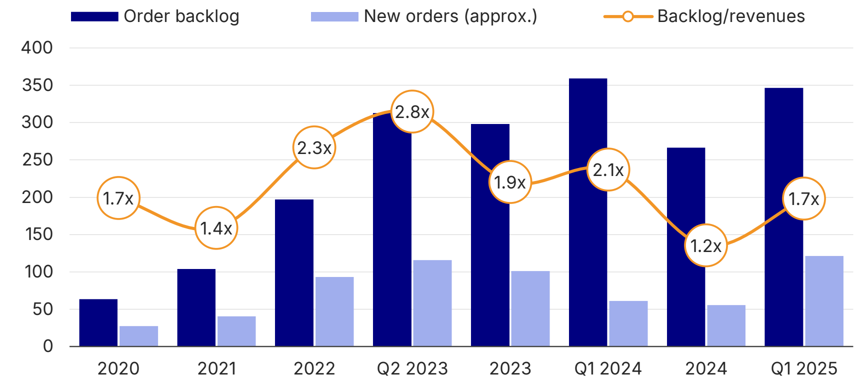
In a cyclical industry such as construction, limited geographical diversification increases exposure to local economic volatility. The company's concentrated exposure to the Hungarian construction sector heightens the risk of cash flow deterioration, particularly as the domestic market has faced acute challenges and weak prospects – notably due to the government's investment freeze (being relaxed only gradually).

Figure 3: Order backlog concentration



Sources: Bayer Construct, Scope

Figure 4: Order backlog and new orders (HUF bn) and backlog to revenues



Sources: Bayer Construct, Scope

High customer concentration

Bayer Construct continues to exhibit a high degree of customer concentration, with the top 10 customers accounting for 95% of the contracted value of the backlog as of end-March 2025. While this concentration poses inherent risks – such as payment delays, customer defaults, or contract cancellations – these are largely mitigated by the nature and size of the contracts: 97% of outstanding work relates to contracts exceeding HUF 1.5bn[4] in value, with an average contract size of HUF 7bn. Moreover, at least half of the outstanding work is ultimately linked to Hungary (BBB/Stable), either as the ordering party or final beneficiary.

We also note that 48% of the backlog as of end-March 2025 involves Bayer Construct's associates and/or affiliates. While this structure offers operational flexibility in project management, it neither eliminates underlying risks related to the end-customers – for whom visibility remains limited – nor potential delays or execution risks.

Backlog concentrated around large-scale projects

In Q1 2025, Bayer Construct was awarded a contract under a consortium agreement for the Hungarian Paks-II NPP project. The ZVK project now accounts for 19% of the order backlog, down from 38% in Q1 2024, as completion nears. Despite the high concentration in these two projects, associated risks are considered largely mitigated by: (i) the purchase agreement covering all office buildings and 99% pre-sold residential units in the ZVK project; and (ii) the state-commissioned Paks-II project, which benefits from strong government backing and contractual guarantees.

Good visibility on future cash flow with backlog exceeding 1.5x of 2025E revenues

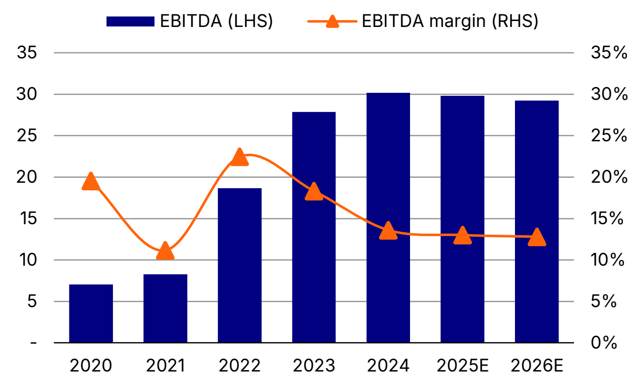
Bayer Construct's backlog stood at HUF 267bn as of end-December 2024 (down 11% YoY), equivalent to 1.8x of the company's three-year average revenue up to 2024. By end-March 2025, the backlog had increased to HUF 346bn, providing solid visibility on future cash flows (2.2x the three-year average revenue) and demonstrating the company's capacity to secure new orders. As of end-March 2025, the book-to-bill ratio stood at approximately 2.4x (compared to around 1.5x a year earlier), still largely supported by the ZVK project.

Good profitability

Bayer Construct's profitability, as measured by the EBITDA margin, stood at 14% in 2024 (down 4.7pp YoY), reflecting higher material, labour and outsourcing costs. The increase also stems from the need to deploy additional resources to manage the growing volume of contracting works.

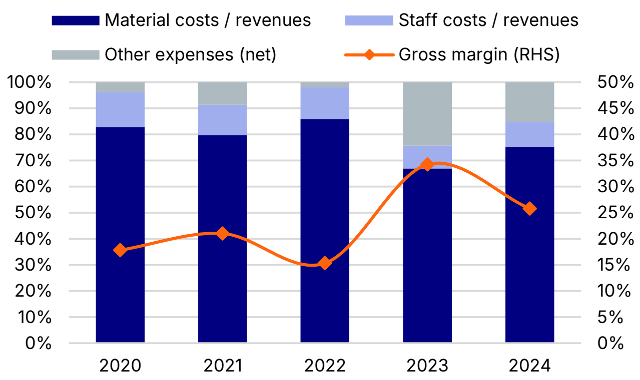
[4] These projects benefit from a law enacted to protect contractors from non or late-payment; customers are required to pay invoiced costs upfront by for the next construction phase on an escrow account to secure timely payment.

Figure 5: Profitability (EBITDA in HUF bn)



Sources: Bayer Construct, Scope estimates

Figure 6: Cost structure



Sources: Bayer Construct, Scope

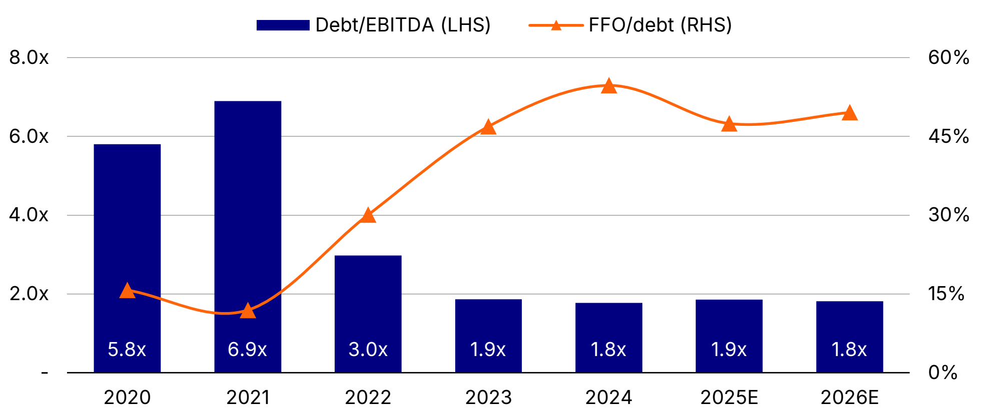
Looking ahead, we expect the company's profitability – which remains above that of comparable peers – to continue benefiting from its vertically integrated business model, lean organisation, and operational efficiency. Previous investments made (e.g. prefabricated structures/modules, mining operations) are likely to support margin stability. These factors are expected to mitigate potential cost volatility, with EBITDA margins projected to remain above 11%, also supported by the stabilisation of building material prices as of late.

8. Financial risk profile: BBB-

Leverage, as measured by debt/EBITDA, remained stable at 1.8x at YE 2024 (YE 2023: 1.9x). This level was supported by steady cash flow generation, which did not prompt further debt needs to support the execution of outstanding works and ongoing investments. This also reflects the company's efforts to maintain its debt levels under control, with total debt amounting to HUF 53.4bn at YE 2024 (up 3% YoY).

We expect leverage to remain below 3x, underpinned by scheduled customer advances that significantly reduce the need for additional debt issuance.

Figure 7: Leverage



Sources: Bayer Construct, Scope estimates

Sound cash flow generation limited reliance on external financing

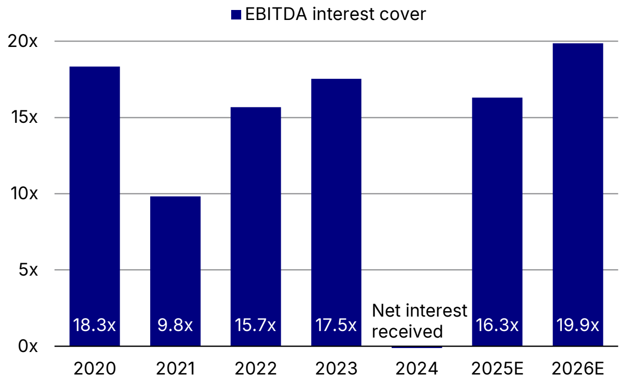
Solid profitability, combined with effective working capital management, enabled Bayer Construct to generate reliable operating cash flows in 2024 – almost fully covering the still elevated level of investments during the year (HUF 35.9bn in 2024, up from HUF 19.7bn in 2023).

Following an intensive investment phase (with capex-to-revenues averaging 22% between 2020 and 2024; 16% in 2024), we expect capex to ease gradually (projected between 5% and 7% over the next few years), thereby supporting FOCF generation and easing the leverage pressure.

Reduced risk from ZVK project

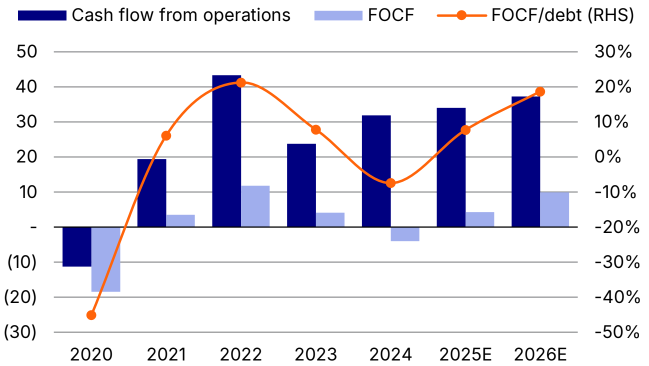
We note that the ZVK project no longer presents a cluster risk. Following the conclusion of a pre-sale agreement for all office buildings, the project is no longer speculative in nature and has acted as a reliable cash flow source. In its capacity as general contractor, Bayer Construct is contractually obliged to complete the handover of the office buildings by June 2026. While we acknowledge that construction is ahead of schedule, limiting execution risks, failure to meet this deadline could have an adverse impact on the company's cash flow.

Figure 8: Debt protection



Sources: Bayer Construct, Scope estimates

Figure 9: Cash flows (HUF bn) and cash flow cover



Sources: Bayer Construct, Scope estimates

Strong debt protection

Debt protection, as measured by the EBITDA/interest cover, remains very strong (net interest received in 2024; 17.5x in 2023). This provides ample headroom against potential cash flow volatility inherent in construction activities. All of the company's debt is denominated in HUF, comprised of numerous bank facilities (mainly investment and working capital loans) and the HUF 30.1bn bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme.

We expect that Bayer Construct will maintain interest coverage well above 7x, driven by assumed stable EBITDA and moderate interest burden, reflecting the high proportion of fixed-rate debt (72% of total debt as of end-2024) at a weighted average interest rate of 4.5%.

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

	2024	2025E	2026E
Unrestricted cash (t-1)	8,390	1,763	1,836
Open committed credit lines (t-1)[5]	-	1,744	-
Other liquidity sources (t-1)	-	-	-
FOCF (t)	(3,984)	4,253	9,892
Short-term debt (t-1)	5,034	3,635	7,326
Liquidity	**93%**	**>200%**	**160%**

Sources: Bayer Construct, Scope estimates

Adequate liquidity

Bayer Construct's liquidity is adequate, with cash sources (unrestricted cash of HUF 1.8bn at YE 2024 and forecasted FOCF of HUF 4.3bn in 2025) fully covering short-term debt of HUF 3.6bn due in the 12 months to end-December 2025. The liquidity assessment is further supported by the company's consistent track record of rolling over or repaying debt, the absence of significant debt maturities in the short term and the availability of undrawn credit limit (HUF 1.7bn unused as of YE 2024 that do not expire before YE 2025). Liquidity and refinancing risks are therefore manageable.

[5] This includes an undrawn working capital facility with tenor exceeding one year.

We highlight that Bayer Construct'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 30.1bn) if the debt rating of the bond stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 15 days). Such development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period has been increased to one notch. We therefore see no significant risk of the rating-related covenant being triggered.

9. Supplementary rating drivers: +/- 0 notch

Supplementary rating drivers have no impact on the standalone issuer rating.

10. Debt rating

Bayer Construct issued a HUF 30.1bn senior unsecured corporate bond in H2 2021. The proceeds have been primarily used to refinance working capital loans and to fund investments in production facilities as well as development projects. The 10-year bond will amortise in years 5-9 in equal instalments with a 50% balloon at maturity (21 October 2031). The coupon is fixed at 3.7% and payable annually.

Senior unsecured debt rating: BB-

We have upgraded the rating on senior unsecured debt issued by Bayer Construct Zrt to BB- from B+. We expect an 'average' recovery (30%-50%) for outstanding senior unsecured debt in a hypothetical default scenario in 2026 based on the company's liquidation value.

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