MET Hungary Solar Park Kft (MET HSP)
Hungary, Utilities

SCOPE B+ POSITIVE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	1.0x	2.4x	2.4x	2.6x
Scope-adjusted debt/EBITDA	33.5x	9.0x	7.3x	7.1x
Scope-adjusted free operating cash flow/debt	-39%	1%	6%	8%
Liquidity	Negative	48%	> 200%	185%

Rating rationale

MET HSP's B+ issuer rating is based on the combination of a still solid business risk profile (assessed at BBB) and a much weaker financial risk profile of B+, which is constrained by the company's high indebtedness. The issuer rating also incorporates a negative one-notch adjustment, reflecting the company-inherent weaknesses on governance and structure related to the interaction within the MET Holding AG group.

At the same time, the Outlook change to Positive is based on the strengthening of credit metrics in 2023, confirmed so far also in 2024, which is expected to continue in the coming years following the end of the company's heavy investment phase. Indeed, the foreseen largely positive free operating cash flow and limited dividend payments will likely support a gradual deleveraging, ultimately resulting in a stronger financial risk profile.

Outlook and rating-change drivers

The **Positive Outlook** reflects our expectation that credit metrics will progressively improve in the coming years amid the finalisation of the company's investment phase, resulting in largely positive free operating cash flow and ultimately in a leverage – measured by Scope-adjusted debt/EBITDA – sustained at around or below 7.5x.

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

- Scope-adjusted debt/EBITDA remaining around 7.5x on a sustained basis, supported by consistently positive free operating cash flow.

The **downside scenario** for the rating and Outlook is:

- Scope-adjusted Debt/EBITDA not remaining around 7.5x (reversion of the Outlook to Stable).

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
18 Nov 2024	Outlook change	B+/Positive
20 Nov 2023	Upgrade	B+/Stable
23 Aug 2023	Confirmation	B/Positive
31 Mar 2023	Under-review placement	B/UR for a possible upgrade

Ratings & Outlook

Issuer	B+/Positive
Senior unsecured debt	BB-

Analyst

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Related Methodologies

General Corporate Rating Methodology; October 2023

European Utilities Rating Methodology; June 2024

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Protected business model under current regulatory environment: company operates in the renewables industry with favorable market conditions in Hungary (ESG factor). All solar power plants of the company are eligible for the government-backed Feed-in Tariff (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 FOCF/DCF • Minimum DSCR (and new comfort pertaining to likely covenant compliance) and limitation on additional financial debt within the set of covenants • Significant exposure to subordinated shareholder loans could ease pressure on EBITDA interest coverage • Eliminated execution/construction risks following the completion of all solar parks in Q4 2023	• Very high leverage for a number of years: highly leveraged expansion backed by senior unsecured debt and subordinated shareholder loans • Potential regulatory changes: 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) • Potential negative impact on achievable profitability metrics and operating cash flow in the medium-to-long run pertaining to regulatory risk • No complete independence of the company within the MET Holding with some weak points on governance (ESG factor) • Low diversification: the company only operates in one country (Hungary) and is only exposed to solar power • Still limited track record on operational performance of newly commended power plants

Positive rating-change drivers	Negative rating-change drivers
• Leverage (Scope-adjusted debt/EBITDA) remaining around 7.5x on a sustained basis, accompanied by largely positive FOCF	• Reversion of the Outlook back to Stable: leverage not remaining around 7.5x on a sustained basis

Corporate profile

MET Hungary Solar Park Kft is an operating holding company of a group of companies that own and operate solar power plants in Hungary. The company operates a power plant portfolio of 239 MW. MET HSP is fully owned by MET Renewables Holding AG, a 100% subsidiary of the Swiss energy trading company MET Holding AG.

Financial overview

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**LTM Jun24**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	1.0x	2.4x	2.6x	2.4x	2.6x	2.8x
Scope-adjusted debt/EBITDA	33.5x	9.0x	7.3x	7.3x	7.1x	6.7x
Scope-adjusted free operating cash flow/debt	-39%	1%	2%	6%	8%	9%
Liquidity	negative	48%	n.a.	>200%	185%	182%
Scope-adjusted EBITDA in HUF m						
EBITDA	2,534	9,939	11,626	10,925	10,501	10,391
Gains/losses on disposal and other adjustments	-	(226)	(226)	-	-	-
Scope-adjusted EBITDA	**2,534**	**9,713**	**11,400**	**10,925**	**10,501**	**10,391**
Funds from operations in HUF m						
Scope-adjusted EBITDA	2,534	9,713	11,400	10,925	10,501	10,391
less: (net) cash interest paid	(2,466)	(4,081)	(4,390)	(4,594)	(3,990)	(3,751)
less: cash tax paid per cash flow statement	(160)	(203)	(672)	(618)	(644)	(660)
Other non-operating charges before FFO	-	-	-	(256)	94	94
Funds from operations (FFO)	**(92)**	**5,430**	**6,338**	**5,457**	**5,962**	**6,074**
Free operating cash flow in HUF m						
Funds from operations	(92)	5,430	6,338	5,457	5,962	6,074
Change in working capital	7,536	(1,059)	(4,682)	(416)	266	90
Non-operating cash flow	13	-	54	-	-	-
less: capital expenditure (net)	(40,354)	(3,393)	355	(276)	(141)	(155)
Free operating cash flow (FOCF)	**(32,896)**	**978**	**2,065**	**4,765**	**6,088**	**6,009**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	2,466	4,081	4,390	4,594	3,990	3,751
Adjustments	-	-	-	-	-	-
Net cash interest paid	**2,466**	**4,081**	**4,390**	**4,594**	**3,990**	**3,751**
Scope-adjusted debt in HUF m						
Reported gross financial debt	62,440	59,130	60,415	56,742	52,854	48,966
add: shareholder loan	22,337	28,344	23,098	22,630	21,498	20,423
less: cash and cash equivalents	(629)	(4,573)	(322)	(639)	(595)	(406)
add: non-accessible cash	629	4,573	322	639	595	406
add: pension adjustment	-	-	-	-	-	-
Scope-adjusted debt (SaD)	**84,777**	**87,474**	**83,513**	**79,372**	**74,352**	**69,390**

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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)
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)

Legend

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

Provision of clean energy from solar power plants

MET HSP's business model is entirely focused on the operation of solar power plants in Hungary – a country which still lags behind other European countries related to its energy transition towards "clean" energy sources and which is chronically short of power generation capacity (net importer of electricity) – naturally supporting the rated entity's ESG footprint and robust cash flow streams. This is also demonstrated by the reclassification of the company's HUF 65bn bond (whose proceeds have largely been used to ramp-up the solar power plant portfolio) as a green bond under the company's green-bond framework.

Potential medium-/long-term regulatory issues

While the applicable regulatory framework for the remuneration of the power generation from solar power plants is very supportive for the company's cash flow profile (regarding visibility and robustness), the remuneration scheme theoretically bears regulatory risks of adverse changes albeit this is currently not at the horizon considering market prices for electricity generation (spot and forward prices) and regulated tariffs under the KÁT regime.

Weaknesses on governance and structure

As laid out under supplementary rating drivers section (page 8), we do not deem the rated entity's governance setup as optimal for a risk-averse management approach in the interest of creditors.

[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: BBB

Business risks largely mitigated by regulated power generation at long-term tariffs

The rating remains supported by our view on the rated entity's protected business model after the accomplished ramp-up of the power generation portfolio to 239 MW of photovoltaic plants in Hungary, which benefits from the prioritised feed-in of generated electricity at predictable prices for an extended period under the KÁT regime. The company's business risk profile is still assessed at BBB, reflecting its exposure to a regulated long-term tariff scheme, which guarantees stable and predictable income.

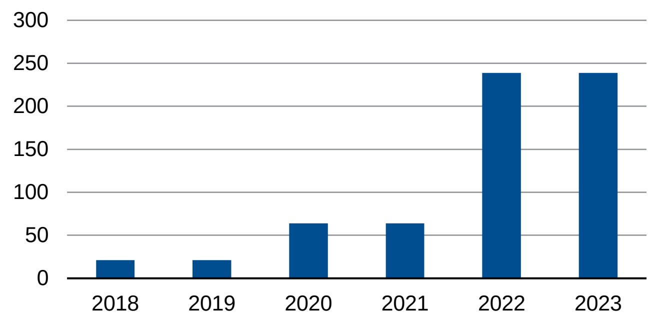
Production of clean energy

With a recurring annual power generation of roughly 300 GWh (load factor of around 15%) the company's business model is entirely focused on the provision of clean and renewable energy in Hungary, benefiting from a very low carbon footprint on power generation. Moreover, the guaranteed feed-in of generated electricity put the company's entire generation capacity into a favourable position within the merit order system. As such, fluctuations in electricity generation and associated remuneration are merely dependent on weather conditions and technical performance of solar modules across the different solar power plants.

Diminished execution risks on portfolio ramp-up

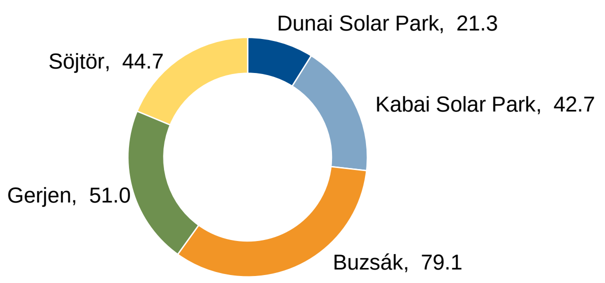
We highlight the diminished execution and construction risks after the successful start of energy production in all three newly erected power plants (Gerjen, Buszák and Söjtör) before YE 2022. While there is still limited track record about sustained electricity generation volumes at these new power plants, operating results from 2023 and H1 2024 signal robust performance. Overall, despite the enlarged generation portfolio provides reduced single asset risk, concentration risks still remain.

Figure 1: Executed capacity ramp-up (MWp)



Sources: MET HSP, Scope

Figure 2: Today's capacity concentration measured by plant capacity (in MWp)



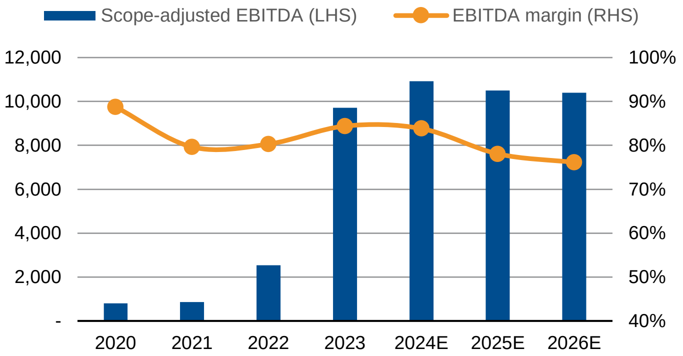
Sources: MET HSP, Scope

Strong profitability supported by regulated tariffs and lean cost structure

MET HSP's Scope-adjusted EBITDA margin stood at around 80% in 2021 and 2022, while peaking 84.4% in 2023, thanks to the favourable irradiation conditions and higher-than-expected generation volume. Based on unaudited H1 2024 results (interim EBITDA margin of 86.3%), profitability is likely to remain above 80% this year, benefitting from overproduction and favourable terms contracted by the company on balancing cost.

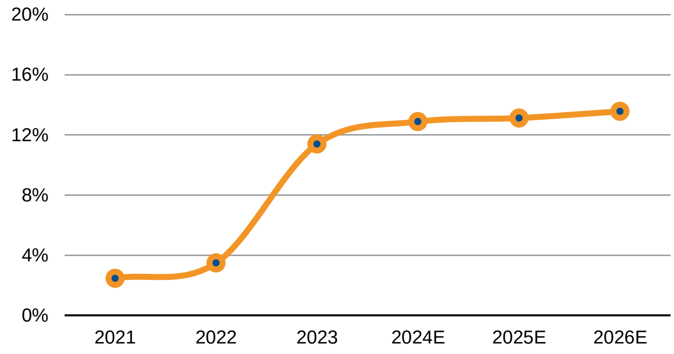
MET HSP is likely to continue to enjoy largely predictable cash flows, as regulated tariffs are also indexed to annual inflation. As such, the company has good chances to retain a Scope-adjusted EBITDA margin of around 80% and Scope-adjusted ROCE of 10-15% thanks to its lean cost structure. We highlight the company's new policy to hedge volatile costs associated with grid balancing which provides higher transparency on achievable margins and reduced overall margin and cash flow volatility.

Figure 3: Scope-adjusted EBITDA (HUF m) and EBITDA margin (%)



Sources: MET HSP, Scope estimates

Figure 4: Scope-adjusted ROCE (%)



Sources: MET HSP, Scope estimates

Regulatory risks remain although this is currently not on the horizon

Whilst the provision of electricity from photovoltaic power plants under the KÁT regime still poses some regulatory risk over the medium to long term, the risk of adverse tariff amendments or extra taxes has decreased for the short term, given the persistently elevated power prices for unregulated electricity generation in Hungary which are even above regulated tariffs. As such, there is little room for politicians and the regulator to impose tariff cuts in the foreseeable future. Still the risk of retroactive tariff cuts or other adverse effects that would curtail the achievable margin level and operating cash flow cannot be ruled out in the medium to long term. Regulatory amendments could effectively burden MET HSP's entire power generation portfolio which exposes material concentration risk around the three biggest power plants.

Financial risk profile: B+

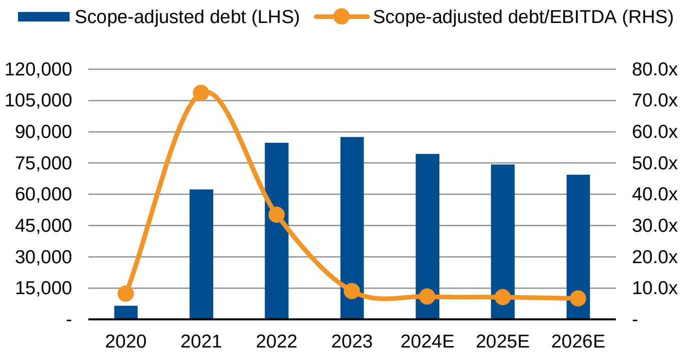
Highly indebted company for an extended period

MET HSP's financial risk profile – albeit expected to improve gradually over time – remains the major rating constraint, primarily due to persistently high leverage. Indeed, the significant investments of around HUF 70bn between 2021 and 2023, earmarked for the acquisition of project development rights and the execution of EPC works, have been largely financed by the proceeds from a bond placement under the MNB scheme and shareholder loans. As such, almost the entire investment was debt-funded, thereby strongly impacting the company's indebtedness.

Leverage expected to gradually improve below 7x over the medium term

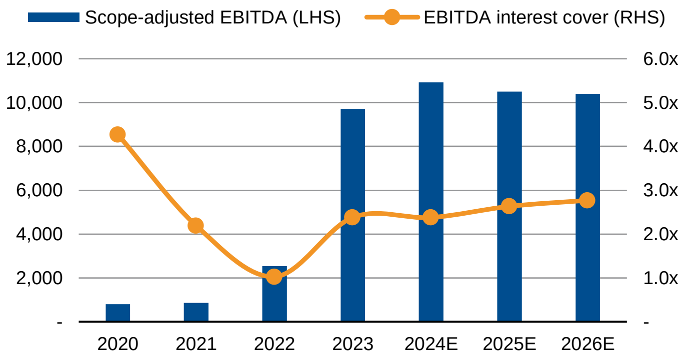
As the debt-funded financing of the significant capacity ramp-up is weighing on Scope-adjusted debt, while operating cash flows from new capacities have not been meaningful until YE 2022, leverage – as measured by Scope-adjusted debt/EBITDA which takes into account the treatment of the shareholder loan (SHL) exposure as debt and no cash netting – remained at a very weak level in 2022 (i.e. Scope-adjusted debt/EBITDA above 30x). MET HSP's indebtedness is expected to remain fairly high over the next few years while progressively deleveraging, as already visible in 2023 and 2024 year-to-date. Indeed, with the full effect on earnings from the inauguration of three power plants, the rated entity's relative indebtedness has improved, testified by a gradual scaling back of debt (repayment of shareholder loans as well as the bond amortisation), which resulted in a leverage of 9x in December 2023 and even lower to 7.3x in June 2024 (based on LTM figures). Given the foreseen positive FOCF, we expect this deleveraging trend to continue in the coming years, with Scope-adjusted debt/EBITDA progressively decreasing until standing below 7.0x in the medium term.

Figure 5: Scope-adjusted debt (HUF m) versus Scope-adjusted debt/EBITDA (x)



Sources: MET HSP, Scope estimates

Figure 6: Scope-adjusted EBITDA (HUF m) versus debt protection

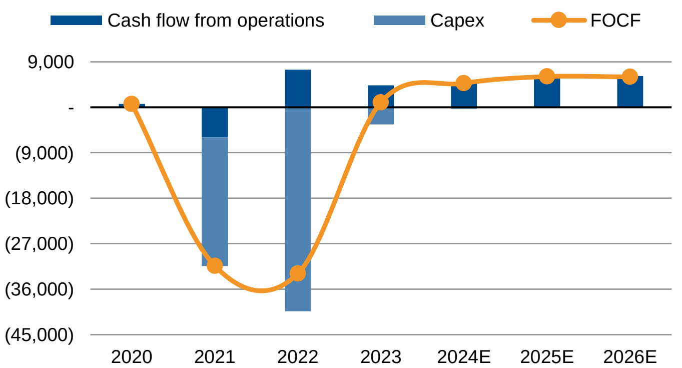


Sources: MET HSP, Scope estimates

Modest EBITDA interest cover while expected to increase

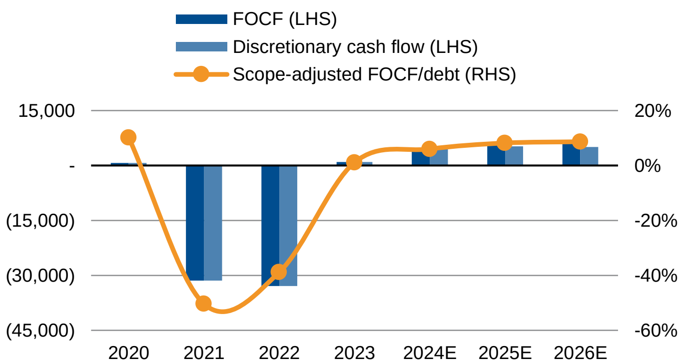
In light of the consistently high leverage, rating support is provided by sufficient interest coverage. Debt protection – as measured by Scope-adjusted EBITDA interest cover – is expected to settle at a moderate level of about 2.5x over the next few years, in line with the value of 2023, helped by the full operation of the company's fully ramped-up power generation portfolio. MET HSP could take advantage of interest deferral on shareholder loan in case operating results would come in significantly lower than expected, thereby providing some cushion on a fully sufficient interest coverage. Still, we flag that any relevant adverse regulatory changes related to feed-in tariffs could negatively affect operating cash flow and hence interest coverage.

Figure 7: Cash flow from operation, capex and FOCF (HUF m)



Sources: MET HSP, Scope estimates

Figure 8: FOCF and DCF (HUF m) versus cash flow cover (Scope-adjusted FOCF/debt)



Sources: MET HSP, Scope estimates

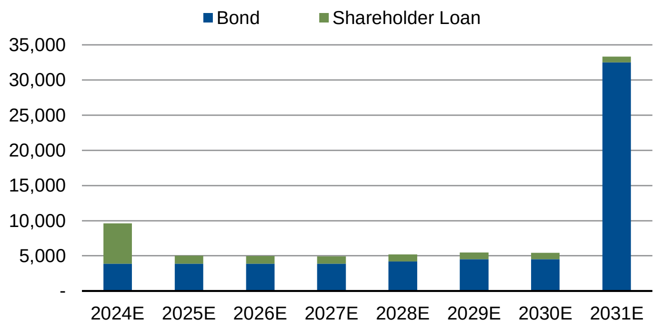
Limited capex burden and FOCF remaining positive allow for a progressive deleveraging

In addition, we highlight the company's reduced dependence on external funding following the completion of its investment phase. Apart from potentially insignificant maintenance capex, no investment needs are likely to occur for the next few years. For this reason, FOCF should remain largely positive from 2024 onwards, as already occurred in 2023, settling also at a very solid level of about HUF 5-6bn. Paired with our assumption of limited dividend payments over the next few years, this grants sufficient headroom for deleveraging.

Adequate liquidity related to ordinary scheduled debt repayment and capex coverage

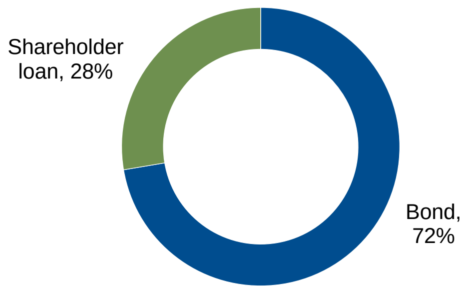
We expect MET HSP's liquidity position to remain adequate over the next few years amid the amortisation period of the MNB bond. Scheduled debt maturities of such bond, amounting to about HUF 3.9bn p.a. in 2024-2026 period, are likely to be primarily covered by FOCF of HUF 5-6bn per annum. This would also allow for a gradual repayment of shareholder loans, whose amortization is indeed assumed to be flexible and linked to the cash cushion the company obtains (no fixed repayment schedule).

Figure 9: Maturity schedule (in HUF m)



Sources: MET HASP, Scope estimates

Figure 10: Funding structure in June 2024 after final drawdown of shareholder debt



Sources: MET HSP, Scope

Balance in HUF m	2023	2024E	2025E
Unrestricted cash (t-1)	629	4,573	639
Open committed credit lines (t-1)	-	-	-
Free operating cash flow	978	4,765	6,088
Short-term debt (t-1)	3,321	3,629	3,629
Coverage	**48%**	**> 200%**	**185%**

Supplementary rating drivers: -1 notch

Negative rating adjustment for governance

The rating continues to incorporate 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, the following point poses some credit risk:

- 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 about 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 take the form of services not being charged in line with the lean management of the rated entity, or profits being distributed to the detriment of creditors' interests.

Credit-neutral financial policy

Despite the rated entity's expansionary business model through largely debt-financed new generation capacities, we deem the company's financial policy to be neutral for the following reasons:

- Highly leveraged investment plans are rather common for companies which operate comparable renewable energy power plants. Such high debt levels are granted due to the stable cash flow generation of power generators eligible for feed-in tariff schemes.
- Based on the company's business plan, it will exclusively focus on the operation and maintenance of the solar parks after the initial expansion plans have been executed, therefore the company will not require further debt in the future.

- Positive element of a minimum DSCR of 1.1x which under normal circumstances provides good creditor protection.
- Dividends payments/distribution of profit to the parent is planned over the next few years but always subject to the contextual reduction of the shareholder loan. Bond covenants include a restriction for dividend pay-out of 75% of consolidated profit and profit reserve (t-1). Management is expected to propose profit distribution based on the financial condition and the business environment of the company.

Shareholder structure is credit-neutral

We consider MET HSP's ultimate 100% shareholder, the Swiss energy trading company MET Holding AG, to have a higher credit quality than MET HSP. However, we assess parent support as credit-neutral given the rated entity's independence from its ultimate shareholder.

Long-term debt rating

Senior unsecured debt rating: BB-

We have affirmed the BB- senior unsecured debt rating, which still stands one notch higher than the issuer rating.

No debt is ranked superior to senior unsecured debt, such as the senior unsecured bond which was placed under the MNB's bond for growth scheme. This is likely until 2031, when the planned bond matures, given the negative pledge.

Recovery expectations are based on a liquidation value reflecting the good recoverability of the company's major unencumbered assets, e.g. the five different solar parks. 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 also believe that such assets would easily find a buyer without significant haircuts to their book values in light of the assets' ESG footprints, their remaining regulatory lifetimes and Hungary's energy market fundamentals. While execution risks on the ramp-up of the asset portfolio have diminished and we expect a 'superior' recovery for senior unsecured debt, reflecting a high advance rate for property, plant and equipment, the debt category rating remains constrained by the lack of operational data on operating assets over an extended period of time. As such, we refrain from granting a two-notch uplift for these recovery expectations.

We acknowledge that MET HSP's senior unsecured bond has an accelerated repayment clause requiring the company to repay the nominal amount if the debt rating pertaining to the bond stood below B+ for more than two years or if the debt rating dropped below B-, which could have default implications. We flag that following the affirmation of the debt category rating for senior unsecured debt, the headroom on covenant compliance remains unchanged at one. We therefore see no significant risk of the rating-related covenant being triggered.

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