MET Hungary Solar Park Kft (MET HSP)

Hungary, Utilities

Issuer
BB-

Outlook
Stable

Senior unsecured debt
BB

Rating composition

Business risk profile		
Industry risk profile	A	BBB
Competitive position	BBB-	
Financial risk profile		
Credit metrics	B+	BB-
Cash flow generation	Good	
Liquidity	+/-0 notches	
Standalone credit assessment		**BB**
Supplementary rating drivers		
Financial policy	+/-0 notches	-1 notch
Governance & structure	-1 notch	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BB-**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	2.4x	2.8x	2.7x	2.9x
Scope-adjusted debt/EBITDA	9.0x	6.6x	6.9x	6.5x
Scope-adjusted free operating cash flow/debt	1%	7%	8%	9%
Liquidity	48%	279%	181%	197%

Rating sensitivities

The upside scenarios for the ratings and Outlook (collectively), albeit deemed remote for the time being:

- Debt/EBITDA of close to 6.0x on a sustained basis
- Free operating cash flow (FOCF)/debt increasing towards 10%

The downside scenario for the ratings and Outlook:

- Debt/EBITDA of well above 7.5x on a sustained basis

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

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Related methodologies

General Corporate Rating Methodology, February 2025

European Utilities Rating Methodology; June 2024

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Protected business model under current regulatory environment: company operates in renewables industry, with favourable market conditions in Hungary (ESG factor); all its solar plants are eligible for the government-backed feed-in tariff (KÁT) scheme • Strong profitability and cash conversion: company benefits from highly subsidised prices under the KÁT scheme for the next 20 years, resulting in stable cash flow and a high EBITDA margin of around or even above 80% in the long run • Sound liquidity and deleveraging potential after ramp-up of new solar plants, bolstered by solidly positive FOCF and discretionary cash flow • Minimum debt service coverage ratio and covenant limiting additional financial debt • Eliminated execution/construction risks following the completion of all solar parks in 2023	• High leverage for several years (expansion financed by senior unsecured debt and subordinated shareholder loans) but decreasing to around 7.0x debt/EBITDA from 2024 • Potential regulatory changes, such as retroactive tariff cuts or lower tariffs for larger power plant units, as already seen in January 2025 (ESG factor) • Potential negative impact from regulation on achievable profitability metrics and operating cash flow in the medium to long run • Partial dependence on group, with some governance-related weaknesses (ESG factor) • Low diversification, operating in one country (Hungary) and one energy sub-sector (solar) • Limited operational record on newly completed power plants

2. Rating Outlook

The **Stable Outlook** reflects our expectation that credit metrics will remain stable or even improve slightly amid the finalisation of the investment phase, with debt/EBITDA sustained at around or even below 7.0x over the next few years, benefitting from largely positive FOCF.

3. 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.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
20 May 2025	Upgrade	BB-/Stable
18 Nov 2024	Outlook change	B+/Positive
20 Nov 2023	Upgrade	B+/Stable
23 Aug 2023	Confirmation	B/Positive

5. Financial overview (financial data in HUF m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	1.0x	2.4x	2.8x	2.7x	2.9x	3.1x
Debt/EBITDA	33.5x	9.0x	6.6x	6.9x	6.5x	6.1x
Free operating cash flow/debt	-39%	1%	7%	8%	9%	10%
Liquidity	32%	48%	>200%	181%	197%	194%
EBITDA						
Reported EBITDA	2,534	9,939	12,018	10,700	10,598	10,542
Gains/losses on disposal and other adjustments	-	(226)	11	-	-	-
EBITDA	**2,534**	**9,713**	**12,028**	**10,700**	**10,598**	**10,542**
Funds from operations (FFO)						
EBITDA	2,534	9,713	12,028	10,700	10,598	10,542
less: interest	(2,466)	(4,081)	(4,310)	(3,988)	(3,612)	(3,385)
less: cash tax paid	(160)	(203)	(997)	(743)	(744)	(736)
Other non-operating charges before FFO	-	-	-	(139)	101	101
Funds from operations	**(92)**	**5,430**	**6,722**	**5,831**	**6,343**	**6,522**
Free operating cash flow (FOCF)						
Funds from operations	(92)	5,430	6,722	5,831	6,343	6,522
Change in working capital	7,536	(1,059)	(1,053)	95	7	5
Non-operating cash flow	13	-	-	-	-	-
less: capital expenditures (net)	(40,354)	(3,393)	(112)	(110)	(100)	(100)
Free operating cash flow	**(32,896)**	**978**	**5,557**	**5,816**	**6,249**	**6,427**
Interest						
Net cash interest per cash flow statement	2,466	4,081	4,310	3,988	3,612	3,385
add: other items	-	-	-	-	-	-
Interest	**2,466**	**4,081**	**4,310**	**3,988**	**3,612**	**3,385**
Debt						
Reported financial (senior) debt	62,440	59,130	55,544	52,656	48,768	44,880
add: shareholder loans (net of equity credit)	22,337	28,344	24,118	21,620	20,567	19,566
less: cash and cash equivalents	(629)	(4,573)	(810)	(949)	(669)	(405)
add: non-accessible cash	629	4,573	810	949	669	405
add: pension adjustment	-	-	-	-	-	-
Debt	**84,777**	**87,474**	**79,662**	**74,276**	**69,335**	**64,446**

6. 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)

ESG factors: credit-positive credit-negative credit-neutral

Provision of clean energy from solar power plants

MET HSP's business model supports its ESG footprint and robust cash flow, thanks to its full focus on the operation of solar plants in Hungary, a country which still lags behind others in Europe for the clean energy transition and is chronically short of power generation capacity as a net importer of electricity. The credit-supportive business model is also demonstrated by the reclassification of the company's HUF 65bn bond (whose proceeds have largely been used to ramp up the solar portfolio) as a green bond under the company's green-bond framework.

Potential medium/long-term regulatory issues

While the regulatory framework for the remuneration of solar power generation is very supportive for the visibility and robustness of cash flows, it also bears regulatory risks of adverse changes, albeit this is not currently at the horizon considering the 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 the 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.

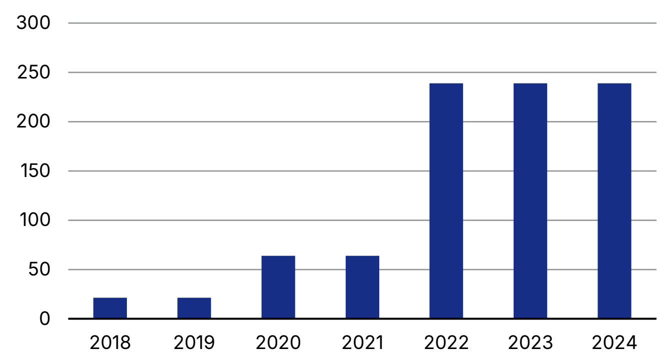
[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BBB

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

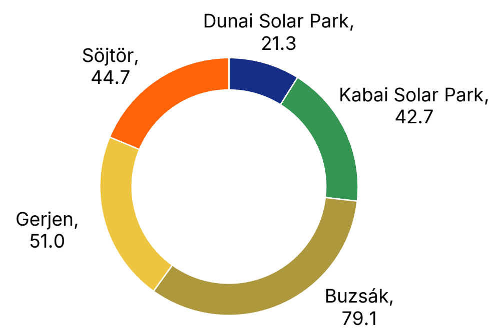
The rating remains supported by the issuer's protected business model after the completed ramp-up of the generation portfolio to 239 MW of photovoltaic plants in Hungary, which benefits from the prioritised feed-in of generated electricity at predictable prices for an extended period under the KÁT regime.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

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

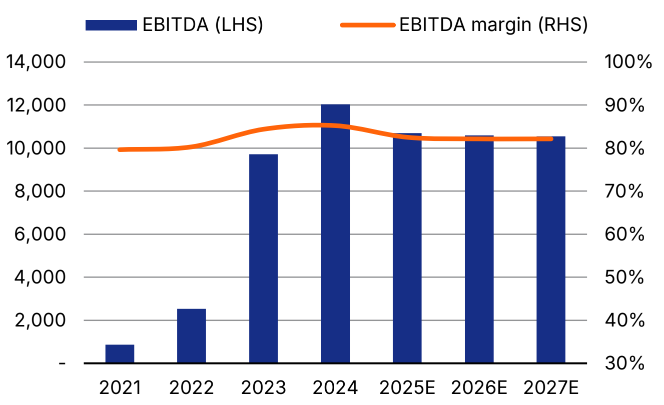
Production of clean energy

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 puts the company's entire generation capacity into a favourable position within the merit order system. As such, fluctuations in electricity generation and the associated remuneration are merely dependent on weather conditions and technical performance of solar modules across the different plants.

Lower execution risks on portfolio ramp-up

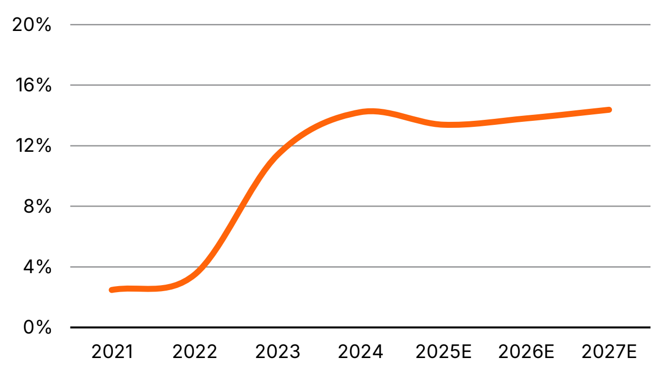
We highlight the diminished execution and construction risks after the successful start of energy production at three new power plants (Gerjen, Buszák and Söjtör) before YE 2022, with the completion of all solar parks in 2023. While there is still a limited record on sustained electricity generation volumes at these new power plants, operating results from 2023 and 2024 signal robust performance. However, concentration risks remain, even though the larger generation portfolio reduces single asset risk.

Figure 3: EBITDA (HUF m) and EBITDA margin (%)



Sources: MET HSP, Scope estimates

Figure 4: Return on capital invested (%)



Sources: MET HSP, Scope estimates

MET HSP's EBITDA margin stood at around 80% in 2021 and 2022, peaking at about 85% in both 2023 and 2024. This was thanks to favourable irradiation conditions and higher-than-expected generation volume. Based on unaudited Q1 2025 results, profitability is likely to remain above 80% this year, benefitting from overproduction and favourable terms contracted by the company on balancing costs.

Strong profitability supported by regulated tariffs and lean cost structure

The regulator previously adjusted feed-in-tariffs for inflation. However, from 2025 a regulatory amendment removed indexation for 2025-2029 unless inflation exceeds 6%. While the lower tariffs will affect MET HSP's turnover, the overall impact on profitability will be contained by the company's lean cost structure and increasing cost efficiency. In this context, we highlight that the company's new policy to hedge volatile costs associated with grid balancing provides higher transparency on achievable margins while reducing volatility of margins and cash flow. As such, MET HSP is likely to continue to enjoy largely predictable cash flows, while retaining its EBITDA margin around 80% and a return on capital invested of 10-15%.

Limited impact from recent regulatory amendment

8. Financial risk profile: BB-

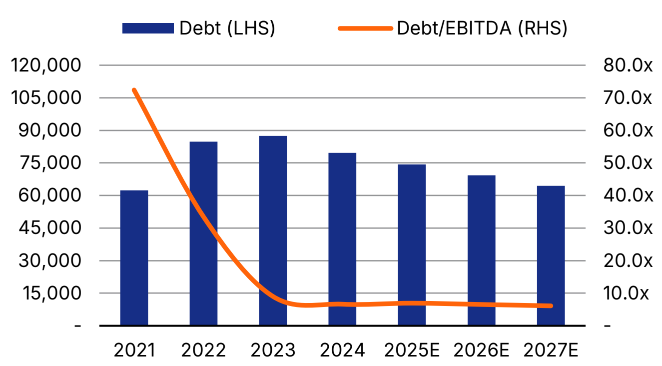
MET HSP's financial risk profile – despite significantly improvements over the last two years – remains the major rating constraint, primarily due to persistently high leverage. Indeed, the significant investments of around HUF 70bn between 2021 and 2023, earmarked for the acquisition of project development rights and the execution of engineering, procurement and construction works, have been largely financed by proceeds from a bond placed under the Hungarian bond scheme as well as shareholder loans. As such, almost the entire investment was debt-funded, strongly impacting indebtedness.

Highly indebted company for an extended period

With this significant capacity ramp-up weighing on debt and a meaningful effect of new capacities on operating cash flows not seen until YE 2022, debt/EBITDA in 2022 (which accounts for the shareholder loan as debt and no cash netting) remained very weak at above 30x. After the three power plants opened and had a full effect on earnings, relative indebtedness improved, shown by a gradual scaling-back of debt (repayment of shareholder loans as well as the bond amortisation), which resulted in leverage falling to 9x in December 2023 and even to 6.6x at YE 2024. Given the largely positive FOCF expected, we expect deleveraging to slowly continue in the coming years, with debt/EBITDA remaining below 7x.

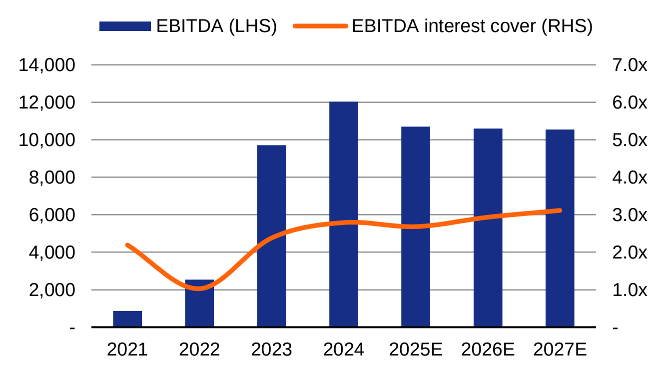
Significantly improved leverage, expected to remain below 7x in the coming years

Figure 5: Debt (HUF m) versus debt/EBITDA (x)



Sources: MET HSP, Scope estimates

Figure 6: EBITDA (HUF m) versus debt protection

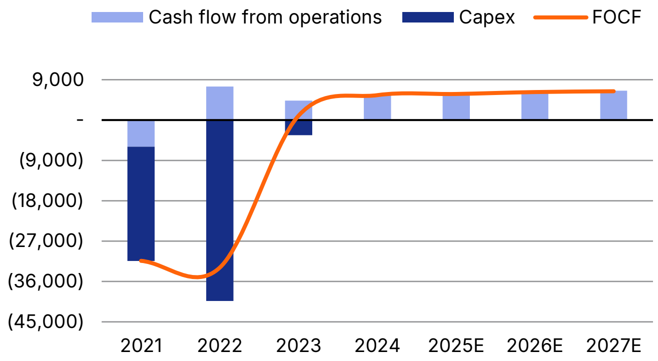


Sources: MET HSP, Scope estimates

In light of the consistently high leverage, the rating had been supported by the sufficient interest coverage. Debt protection – as measured by EBITDA interest cover – is expected to settle at a moderate range of 2.5x to 3.0x over the next few years, in line with 2024 values, helped by the full operation of the fully ramped-up power generation portfolio. MET HSP can opt to defer interest on the shareholder loan in case operating results are significantly lower than expected, providing some cushion on interest coverage. Still, we flag that adverse regulatory changes related to feed-in tariffs (excluding the recent amendment of indexation, which has a limited impact) could negatively affect operating cash flow and hence interest coverage.

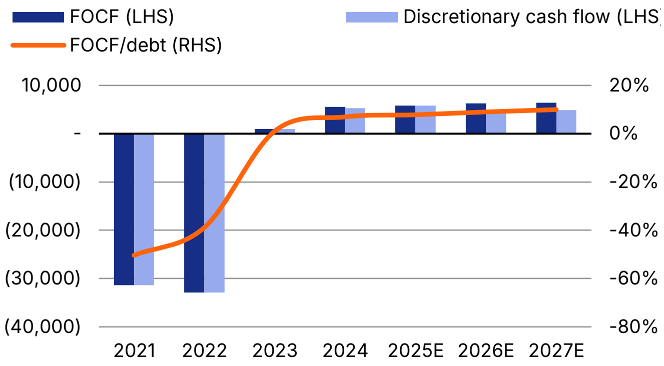
EBITDA interest cover expected to remain moderate

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



Sources: MET HSP, Scope estimates

Figure 8: FOCF, discretionary cash flow (HUF m) against FOCF/debt



Sources: MET HSP, Scope estimates

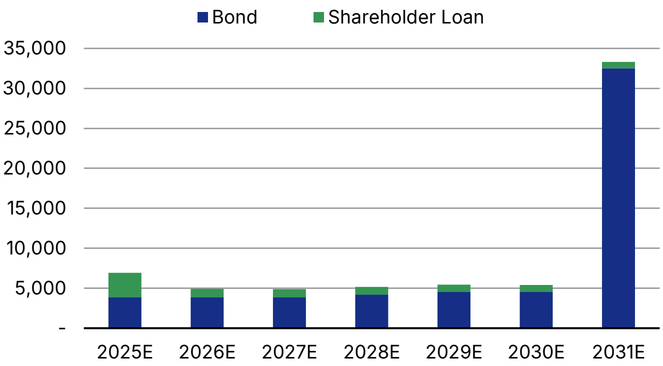
We highlight the company's reduced dependence on external funding following the completion of its investment phase. Apart from potentially insignificant maintenance capex, further investment is unlikely for the next few years. For this reason, FOCF should remain largely positive in the coming years, as had already occurred in 2023 and 2024, settling at a very solid level of about HUF 6bn a year. This should grant sufficient headroom for deleveraging, given also the relatively limited dividends expected to be distributed from 2026 (i.e. about HUF 1.5bn per year).

Limited capex burden and FOCF remaining positive allow for progressive deleveraging

We expect MET HSP's liquidity to remain adequate over the next few years amid the amortisation period of the bond placed under the Hungarian scheme. Scheduled debt maturities of this bond, amounting to HUF 3.9bn a year in 2025-2027, are likely to be primarily covered by FOCF (about HUF 6bn yearly forecasted). This would also allow for a gradual repayment of shareholder loans, whose amortisation is assumed flexible and linked to the cash cushion (no fixed repayment schedule).

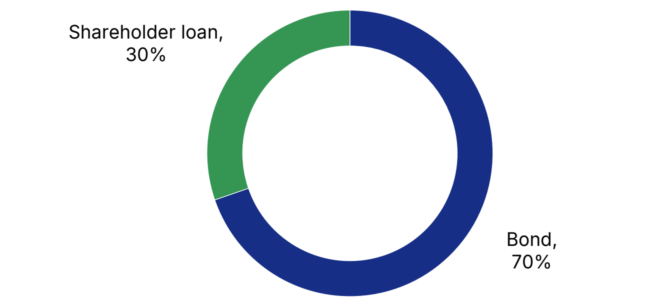
Adequate liquidity related to ordinary scheduled debt repayment and capex coverage

Figure 9: Maturity schedule (in HUF m)



Sources: MET HSP, Scope estimates

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



Sources: MET HSP, Scope

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

	2024	2025E	2026E
Unrestricted cash (t-1)	4,573	810	949
Open committed credit lines (t-1)	-	-	-
FOCF (t)	5,557	5,816	6,249
Short-term debt (t-1)	3,629	3,663	3,663
Liquidity	**> 200%**	**181%**	**197%**

Sources: MET HSP, Scope estimates

9. Supplementary rating drivers: -1 notch

Negative rating adjustment for governance

The rating continues to incorporate a negative adjustment of one notch to reflect governance and structure weaknesses (negative ESG factor related to governance).

While the issuer's management determines strategy, finances (budget) and operations, credit risks remain in two areas. First, the rated entity also holds management functions at sister companies and the parent company, which could cause a misalignment of interests with creditors and/or the management of group companies. For example, MET HSP may not bill services (in line with its lean management strategy) or it may distribute profits (to the detriment of creditors). Second, while transfer pricing covers all services that the rated entity sources from MET Holding AG, MET HSP has little control over provided services because it outsources almost all its operations.

Credit-neutral financial policy

Despite the rated entity's expansionary business model through largely debt-financed new generation capacities, its financial policy is credit-neutral based on the following:

- Highly leveraged investment is common for comparable companies operating renewable energy plants. Such high debt levels are granted due to the stable cash flow of power generators eligible for feed-in tariff schemes.
- The company plans to focus exclusively on the operation and maintenance of the new solar parks and therefore will not require further debt in the future.
- The minimum debt service coverage ratio of 1.1x provides good creditor protection under normal circumstances.
- Planned dividend payments and/or the distribution of profits to the parent over the next few years (except in 2025) will always be subject to the contextual reduction of the shareholder loan. Bond covenants restrict dividend payouts to 75% of consolidated profits and profit reserves (t-1). Management is also expected to propose that profit distribution be based on the company's financial condition and business environment.

Shareholder structure is credit-neutral

MET HSP's ultimate 100% shareholder, the Swiss energy trading company MET Holding AG, has a higher credit quality. However, parent support is credit-neutral given the rated entity's independence from its ultimate shareholder.

10. Long-term debt rating

Senior unsecured debt rating: BB

We have upgraded the rating on senior unsecured debt to BB from BB-, which still stands one notch higher than the issuer rating.

We have assessed senior unsecured debt to have 'superior' recovery, reflecting the high advance rate for property, plant and equipment. The analysis is based on a liquidation value reflecting the good recoverability of major unencumbered assets, which include the company's five solar parks. Although the ultimate parent could bail out the rated entity in a hypothetical insolvency, liquidation is a more likely scenario, primarily through the sale of various power plants. This is because such assets can easily be sold without significant haircuts to book value, in light of their ESG footprints and remaining regulatory lifetimes, supported by Hungary's energy market fundamentals. However, we have not granted the full two-notch uplift for a 'superior' recovery expectation given the lack of operational data on operating assets over an extended period and despite the lower execution risks on the ramp-up of the asset portfolio.

No debt is ranked above senior unsecured debt, which includes the senior unsecured bond placed under the Hungarian National Bank's scheme. This is likely to remain so until 2031, when the planned bond matures, given the negative pledge.

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 upgrade of the debt category rating for senior unsecured debt, the headroom on covenant compliance further increased to two. We therefore see no significant risk of the rating-related covenant being triggered.

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