Biggeorge Property Nyrt.
Hungary, Business Services

SCOPE B+ STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022P**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	16.1x	net interest	102.9x	10.9x
Scope-adjusted debt/EBITDA	net cash	3.0x	2.4x	3.0x
Scope-adjusted funds from operations/debt	net cash	31%	35%	27%
Scope-adjusted free operating cash flow/debt	net cash	-147%	30%	25%

Rating rationale

The issuer rating of Biggeorge Property (BGP) is supported by the relatively high profitability, although subject to to some volatility depending on the delivery of outstanding projects in the pipeline. Market shares and diversification are detrimental to the rating due to its small size and high concentration. We anticipate credit metrics to remain strong, given the forecasted absence of debt issuance and relatively robust EBITDA, leading to a positive evolution of the leverage (Scope-adjusted debt/EBITDA anchoring close to 3.0x).

Outlook and rating-change drivers

The Outlook is Stable with Scope-adjusted debt/EBITDA expected to remain below 4x, but volatile given the concentrated cash flow sources, the majority of which come from only a few projects that will be finished and realised in 2023 and 2024 (Waterfront City III, Spirit Residence, Westside Garden and Silverbay as well as four smaller logistic projects). It also reflects BGP's limited execution risks in the coming years, as the group's base case plans include only a limited number of new projects to be launched, which subsequently increases its exposure to a shrinking project pipeline. The Outlook also includes the expectation that BGP's structure will not change.

A positive rating action may be taken if Scope-adjusted debt/EBITDA develops in line with our expectations toward levels below 3.5x on a sustained basis; while BGP manages to increase its group size, leading to improved diversification of cash flow sources. This assumes large gain on investments in line with the forecasts and a strong recovery of the BGP's performance-based fund income.

A negative rating action may be warranted if Scope-adjusted debt/EBITDA increases to above 5x on a sustained basis. This would be the consequence of a weaker operating income that results from lower demand, higher inflation or a lack of visibility that limits the launch of new projects.

We note that BGP's senior unsecured bond – akin to most bonds issued under the Hungarian Central Bank's bond scheme - has two accelerated repayment clauses. The clauses require the issuer to repay the nominal amount (HUF 7.0bn) in case of rating deterioration (2-year cure period for B/B- rating, immediate repayment below B-) or change of control at the issuer level.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
17 Feb 2023	Affirmation	B+/Stable
08 Feb 2022	New	B+/Stable

Ratings & Outlook

Issuer	B+/Stable
Senior unsecured debt	BB-

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Related Methodology

Corporate Rating Methodology; July 2022

European Real Estate Rating Methodology
January 2023

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Adequate cash flow visibility from relatively high pre-sale rates for different projects • One of Hungary's largest homebuilders through funds managed • Successful fund manager with a broad group of co-investors and highly levered return on own invested capital • Over HUF 100bn of assets under management spread over 25 funds	• Small size by European standards • Significant development exposure, albeit with a strong project record and effective risk mitigation • High geographic and asset class concentration

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA develops in line with our expectations toward levels below 3.5x on a sustained basis; while BGP manages to increase its group size, leading to improved diversification of cash flow sources	• Scope-adjusted debt/EBITDA increases to above 5x on a sustained basis

Corporate profile

BGP is listed on the Xtend Platform of Budapest Stock Exchange and part of Biggeorge Holding Ltd., a Hungarian vertically integrated real estate group active in real estate development, ownership, fund management, services, financing, and construction. Biggeorge Holding Ltd. was established in 1991 and is owned and managed by Tibor Nagygyörgy.

Financial overview

			Scope estimates		
Scope credit ratios	**2021**	**2022P**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	16.1x	net interest	102.9x	10.9x	11.0x
Scope-adjusted debt/EBITDA	net cash	3.0x	2.4x	3.0x	3.0x
Scope-adjusted funds from operations/debt	net cash	31%	35%	27%	27%
Scope-adjusted free operating cash flow/debt	net cash	-147%	30%	25%	4%
Scope-adjusted EBITDA in HUF m					
EBITDA	977	2,199	4,725	2,130	2,168
Dividend income	584	118	119	165	188
less: disposal gains from fixed assets included in EBITDA	0	0	-1,962[1]	0	0
Scope-adjusted EBITDA	**1,561**	**2,317**	**2,882**	**2,295**	**2,356**
Funds from operations in HUF m					
Scope-adjusted EBITDA	1,561	2,317	2,882	2,295	2,356
less: (net) cash interest paid	-97	88	-28	-212	-215
less: cash tax paid per cash flow statement	-160	-231	-432	-166	-253
Funds from operations (FFO)	**1,304**	**2,174**	**2,422**	**1,918**	**1,889**
Free operating cash flow in HUF m					
Funds from operations	1,304	2,174	2,422	1,918	1,889
Change in working capital	906	-2,721	-72	55	-49
less: capital expenditure (net)	-2,601	-9,720	-250	-250	-1,555
Free operating cash flow (FOCF)	**-391**	**-10,267**	**2,100**	**1,723**	**285**
Net cash interest paid in HUF m					
Net cash interest per cash flow statement	-97	88	-28	-212	-215
Net cash interest paid	**-97**	**88**	**-28**	**-212**	**-215**
Scope-adjusted debt in HUF m					
Reported gross financial debt	366	7,725	7,725	7,725	7,725
less: adjusted cash and cash equivalents[2]	-750	-750	-750	-750	-750
Scope-adjusted debt (SaD)	**-384**	**6,975**	**6,975**	**6,975**	**6,975**
Non-adjusted cash and cash equivalents (for information purpose)[2]	1,679	4,354	8,416	10,139	10,423

[1] The adjustment is related to the exceptional disposal of the land in Seuso
[2] In line with our methodology regarding the treatment of cash for lowly rated companies and in line with related peers, we assume that only a portion of the cash (amounting for a maximum of HUF 750m) is deemed as available with the remainder expected to be deployed over the next couple of years to enable portfolio growth. Nonetheless, BGP is expected to generate a comfortable cash position as highlighted below the SaD calculation.

Table of Content

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)

Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

ESG profile: adequate

BGP has an adequate ESG profile. Business services companies like BGP tend to be especially affected by reputational risk and its impact on long-term income. This risk for BGP is mitigated by its good standing with customers and co-investors. Due to higher public scrutiny in terms of energy savings in new projects, the group adopted strict building standards regarding, for example, geothermal heating, heat pump, green roofs, and AA or AA+ energy-saving ratings.

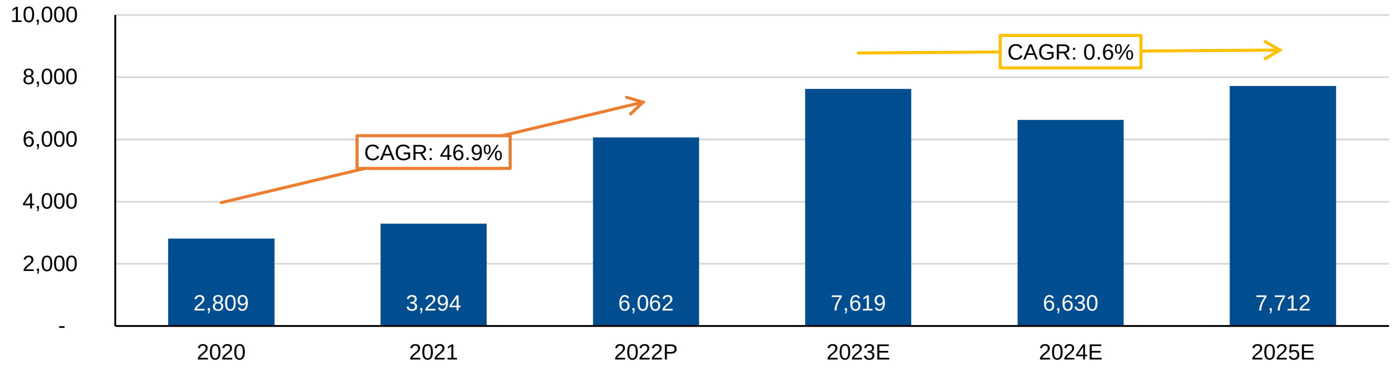
[3] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: B+

Industry risk profile: BBB-

BGP's industry risk profile is blended between business services (mainly fund management) and homebuilding (direct exposure to construction projects). Despite the slowdown in the real estate market due to adverse macro conditions, we maintain our industry risk assessment at BBB- with market recovery expected within the next 12-18 months.

Figure 1: Development of the revenues (HUF m)



Sources: Biggeorge Property Nyrt, Scope estimates

Scale-back of real estate development…

In 2022, the group continued to develop its real estate activities while maintaining its fund management services. However, despite the ambition to launch numerous new projects following both the HUF 7.3bn equity injection and HUF 7.0bn bond issuance in 2022, the group's base case plans have been scaled back. In response to the deteriorating macroeconomy and real estate market in Hungary, BGP is postponing most of its pipeline, which will contain only one new residential project (Silverbay) and two logistics projects to be started in 2023. In 2024 and 2025, more projects are planned to be launched in anticipation of the macro recovery, including Szemesbay Resort, Beke Garden and Lipot Garden in 2024 and Westside Grand I, Arnyas Residence I and Ujbuda Garden in 2025.

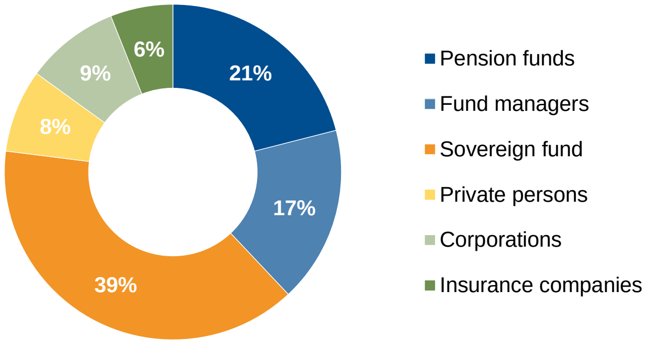
… common to all European developers

Most residential companies in Europe are also scaling back activity. These include large companies such as Vonovia (A-/Stable) as well as asset managers given the required prices or rents are out of line with customers purchasing power. Hungary is no different, with overall number of real estate transaction volumes down by 50% at Q4 2022 (YoY) and a drop in the number of mortgages contracted by households in the second half of 2022, as the state-supported green housing programme (Zöld Otthon Program), which provided cheap retail mortgage loans, stopped in H1 2022.

Market share assessment unchanged

We continue to assess BGP's market shares in Hungary as good. BGP is 3rd or 4th in the number of apartments developed in Hungary, and about 5th or 6th in all real estate segment development value. We anticipate this position to be maintained in the coming years, since the overall market deterioration will force most of the developers to scale back on the launch any new projects. BGP benefits from having already commenced a number of projects, which will help to maintain their market share.

Figure 2: Profile of co-investors as of YE 2022



Sources: Biggeorge Property Nyrt, Scope

Low geographical outreach...

Geographical concentration will remain high, on two neighbouring areas in one country. Geographic diversity is a weakness as BGP is only active in Hungary. All current projects on the balance sheet are in Budapest (Westside Garden, Spirit residence, Waterfront city 3 and Waterfront city 4). Diversification will improve starting in Q3 2023 with the Silverbay residence, which is outside of Budapest and aimed at premium consumers as well as logistics developments starting near Székesfehérvár. Even so, geographical concentration will remain high, on two neighbouring areas in one country.

.. mitigated partly by the granularity of customers

Underlying customer granularity is high given the focus on residential development, despite some gradual diversification notably in industrial assets (logistics) highglighted with the start of a large logistic project in 2022. BGP achieved significant brand awareness in Hungary with regards to its residential developments and has a database of over 30,000 potential customers. Sister company Otthon Centrum (BB-/Stable), a top two real estate and mortgage broker in Hungary, can also help to sell BGP's assets. However, BGP has thus far been able to sell the apartments on its own

.. and of co-investors

The funds business sources its co-investor capital from institutions including pension funds, investment funds, sovereign funds and insurance companies as well as high-net-worth individuals.

High operating margins…

Operating margins are robust and constitute the main support to the business risk profile. However, profitability shows a strong dependency to the development of some key projects and is therefore considered to be more volatile than for larger peers. Beyond the residential real estate related profits, BGP's has decreased its relevance in the last years, with the start of the operation of the Emerald hotel and a large logistic project in 2022. These, added to other income generating assets that provide a slight diversification of the cash flow sources. Nonetheless, due to their current little contribution to the overall EBITDA, we maintain our view that the company's EBITDA will continue to be fully impacted by the weak macroeconomic environment that affects notably the prices of residential real estate and leads to extended disposal periods.

.. expected to plunge in 2023 due to adverse macro conditions

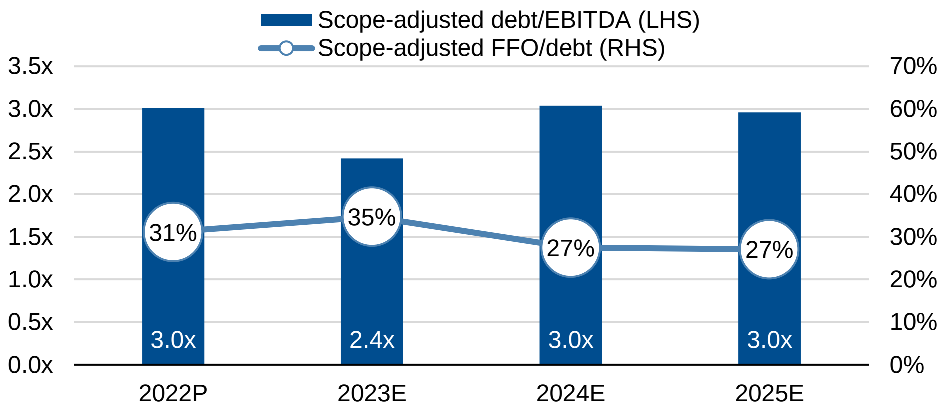
We anticipate an overall deterioration of the operating margin in the coming years, given the negative macroeconomic environment (interest rates, personal costs and weaker consumer demand) which will notably increase the operating costs while pressuring slightly the revenue.

Financial risk profile: BB-

Financial context

Scope-adjusted debt is expected to stay at levels close to HUF 7bn as no debt issuances are planned, notably thanks to its HUF 7.3bn equity injection in 2022, guaranteeing a strong level of funding as well as the expected break-even Scope-adjusted free operating cash flow, as BGP plans with the launch of only one new residential development project (Silverbay) and two logistics projects. Most of the gross debt relates to the bond issued in 2022, with a small amount consisting of intercompany loans.

Figure 3: Leverage



Sources: Biggeorge Property Nyrt, Scope (estimates)

Stable leverage

We anticipate that the credit metrics will remain at levels close to or below 3.0x (Scope-adjusted debt/EBITDA) and near 30% (Scope-adjusted FFO/debt) supported by resilient cash generation in the next 12-18 months, and limited execution risk given the absence of new projects.

Interest cover to benefit from high deposit rates

Scope-adjusted EBITDA/interest cover is expected to improve, helped by the stable debt levels, the fixed rates on existing debt and large financial interest income, related to the non-invested part of proceeds from the 2022 equity injection (HUF 7.3bn) which is positively affected by the Hungarian interest rate environment.

Cash flow cover to improve due to low capex

FOCF generated over 2022 is low, in line with the large investments which were financed by both equity issuance (HUF 7.3bn) and bond issuance (HUF 7.0bn). We expect a high level of the cash flow cover until H2 2024, due to the lower volume of capex. However, the large pipeline of projects to be launched in 2025 will lead to a large increase of CAPEX and consequently lower the metric toward neutral level from 2025 on.

Liquidity is adequate

Liquidity is adequate due to the absence of short-term refinancing needs, BGP's unencumbered asset position and high cash balance thanks to a large equity injection of close to HUF 7.3bn in 2022.

Balance in HUF m	2022P	2023E	2024E
Unrestricted cash (t-1)	1,679	4,354	8,416
Open committed credit lines (t-1)	-	-	-
FOCF (t)	-10,267	2,100	1,723
Short-term debt (t-1)	146	463	463
Coverage	**negative**	**>200%**	**>200%**

Long-term debt rating

Senior unsecured debt rating: BB-

The senior unsecured debt rating has been upgraded to BB-. The upgrade is driven by the above-average recovery rate thanks to the significant unencumbered asset position which provides sufficient headroom against severe market value deterioration. Volatility of the capital structure in a path to default is however weighting negatively on the debt rating.

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