27 March 2023

Corporates

# Infogroup Holding Kft.
# Hungary, Real Estate

SCOPE BB- STABLE

## Key metrics

| | | | Scope estimates | |
|---|---|---|---|---|
| **Scope credit ratios** | **2020** | **2021** | **2022E** | **2023E** |
| Scope-adjusted EBITDA/interest cover | 7.1x | 6.3x | 3.7x | 3.6x |
| Scope-adjusted debt/EBITDA | 6.9x | 8.6x | 7.8x | 7.9x |
| Scope-adjusted loan/value ratio | 41% | 46% | 41% | 46% |

## Rating rationale

The initial rating is based on the solid credit metrics, even after an expected deterioration of debt protection and leverage and supported by the successful execution of the project pipeline and a high occupancy rate that will lead to predictable profitability. The focus on industrial logistics has ensured resilience through the Covid-19 pandemic, while the cautious development strategy has prevented liquidity being put under strain in the unfavorable macroeconomic environment.

Main rating constraints are the small size and poor geographical diversification, which can translate into cash flow volatility and an inability to benefit from economies of scale. The high tenant concentration, with the top three accounting for 39% of rental income and the exposure to 'C' grade locations that could put pressure on the asset value are other major rating constraints.

## Outlook and rating-change drivers

The Outlook is Stable and incorporates our view that Infogroup will continue to grow at a moderate pace and successfully execute its pipeline while maintaining high occupancy and pre-lease rate. While we expect a deterioration of debt protection and leverage, consistent with the continuation of development projects, we anticipate that both metrics will remain at above 2x (Scope-adjusted EBITDA interest cover) and below 50% (Scope-adjusted loan/value ratio).

A positive rating action is seen remote at present but could be warranted if the company significantly grew in size leading to an improved tenant diversification, while keeping credit metrics at current level.

A negative rating action could occur if the Scope-adjusted loan/value ratio increased above 55% or Scope-adjusted EBITDA interest cover decreased below 2x. An increase in the loan/value could be caused by a decrease in the company's asset value or increased leverage due to delays in pipeline execution. A decrease in debt protection could be caused by a decline in occupancy that causes EBITDA to weaken.

## Rating history

| Date | Rating action/monitoring review | Issuer rating & Outlook |
|---|---|---|
| 27 Mar 2023 | New | BB-/Stable |

### Ratings & Outlook

| | |
|---|---|
| Issuer | BB-/Stable |
| Senior unsecured debt | BB- |

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### Related Methodologies and Related Research

General Corporate Rating Methodology; July 2022

European Real Estate Rating Methodology; January 2023

ESG considerations for the credit ratings of real estate corporates; April 2021

Real Estate Outlook 2023; October 2022


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Bloomberg: RESP SCOP

## Rating and rating-change drivers

| Positive rating drivers | Negative rating drivers |
|---|---|
| • Strong occupancy of above 96% both in office and in industrial logistics<br>• Good profitability thanks to recurring revenues<br>• Good leverage despite expected increase in indebtedness<br>• Adequate liquidity | • Small player in a highly fragmented market with total assets of EUR 128m and moderate expected growth<br>• Concentrated tenant portfolio with top three accounting for 38.5% of rental income, although risk is mitigated by their high credit quality<br>• Poor geographical diversification with portfolio concentrated in Hungary and partially in grade 'C' locations, which poses a risk of asset value decrease<br>• Exposure to interest rate volatility |

| Positive rating-change drivers | Negative rating-change drivers |
|---|---|
| • Remote: Significant growth in size leading to an improved tenant diversification, while keeping credit metrics at current level. | • Scope-adjusted LTV of above 55% or Scope-adjusted EBITDA interest cover of below 2x on a sustained basis |

## Corporate profile

Infogroup Holding Kft (Infogroup) is a real estate development and investment company focused on developing and buying buildings in Hungary to be held on its portfolio. Founded in 1990 as a family office to build residential real estate, the company shifted focus in the 2000s to industrial logistics and commercial properties. Today, it holds around 130,000 sq m of industrial and logistics properties (including 40,000 sq m under development), more than 33,000 sq m of office space and more than 195 hectares of land. Industrial properties are mainly located in eastern Hungary at two locations in Kecskemét, Karcag, Polgár, Miskolc and Tiszaújváros, while the offices and hotels are in Budapest. In addition, the group offers asset and facility management services to its tenants.

## Financial overview

| | | | | Scope estimates | | |
|---|---|---|---|---|---|---|
| **Scope credit ratios** | **2020** | **2021** | **H1 2022[1]** | **2022E** | **2023E** | **2024E** |
| Scope-adjusted EBITDA/interest cover | 7.1x | 6.3x | 8.0x | 3.7x | 3.6x | 2.4x |
| Scope-adjusted debt/EBITDA | 6.9x | 8.6x | 7.0x | 7.8x | 7.9x | 7.7x |
| Scope-adjusted loan/value ratio (%) | 41% | 46% | 43% | 41% | 46% | 47% |
| **Scope-adjusted EBITDA in HUF m** | | | | | | |
| EBITDA | 2,103 | 2,454 | 2,998 | 2,655 | 3,638 | 3,889 |
| Operating lease payments | 0 | 0 | 0 | 0 | 0 | 0 |
| **Scope-adjusted EBITDA** | **2,103** | **2,454** | **2,998** | **2,655** | **3,638** | **3,889** |
| **Funds from operations in HUF m** | | | | | | |
| Scope-adjusted EBITDA | 2,103 | 2,454 | 2,998 | 2,655 | 3,638 | 3,889 |
| less: (net) cash interest paid | -296 | -388 | -375 | -722 | -1,005 | -1,621 |
| less: cash tax paid per cash flow statement | -30 | 0 | -30 | -53 | -36 | -29 |
| Change in provisions | 0 | 0 | 0 | 0 | 0 | 0 |
| **Funds from operations (FFO)** | **1,777** | **2,066** | **2,593** | **1,880** | **2,597** | **2,239** |
| **Net cash interest paid in HUF m** | | | | | | |
| Net cash interest per cash flow statement | -296 | -388 | -375 | -722 | -1,005 | -1,621 |
| Change in other items | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net cash interest paid** | **-296** | **-388** | **-375** | **-722** | **-1,005** | **-1,621** |
| **Scope-adjusted total assets in HUF m** | | | | | | |
| Total assets | 39,839 | 50,900 | 58,718 | 59,631 | 65,779 | 67,790 |
| less: cash and cash equivalents | -4,520 | -5,559 | -10,026 | -8,692 | -3,674 | -4,717 |
| **Scope-adjusted total assets** | **35,319** | **45,341** | **48,692** | **50,939** | **62,105** | **63,073** |
| **Scope-adjusted debt in HUF m** | | | | | | |
| Reported gross financial debt | 17,027 | 23,247 | 25,412 | 24,675 | 30,170 | 31,746 |
| less: cash and cash equivalents | -4,519 | -5,559 | -10,026 | -8,692 | -3,674 | -4,717 |
| add: non-accessible cash | 2,014 | 2,836 | 5,013 | 4,346 | 1,837 | 2,358 |
| add: operating lease obligations | 88 | 497 | 498 | 498 | 498 | 498 |
| Other items | 0 | 0 | 0 | 0 | 0 | 0 |
| **Scope-adjusted debt** | **14,610** | **21,021** | **20,897** | **20,827** | **28,831** | **29,885** |

[1] Last twelve months to end-June 2022 for cash flow related metrics

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## Environmental, social and governance (ESG) profile[2]

| 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)

Ownership and management roles are separated into different corporate bodies. Decision-making is organised into three separate functions, ensuring low key person risk: i) the board, which defines the long- term strategy and cost plan; ii) operational management, tasked with project implementation and the management of key accounts; and iii) further corporate governance elements, with an investment committee (project plan approval), cooperation with authorities and the auditor, risk management and finance).

Regarding sustainability, Infogroup established a green committee who selects and monitors green projects and supports the company's commitment to the ESG policy. Furthermore, in 2022 the group published its first green bond framework, under which proceeds from issuances will be used to finance existing and future buildings with the aim to increase energy efficiency and reduce the carbon footprint.

We note that Infogroup has a community engagement strategy applied to its development projects, through its involvement in various social initiatives and the allocation of around EUR 0.2m of profits to local non-governmental organisations (childcare, local communities, social programmes, and in-kind contributions). We believe this helps the company with obtaining a competitive edge in the markets in which operates.

[2] 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+

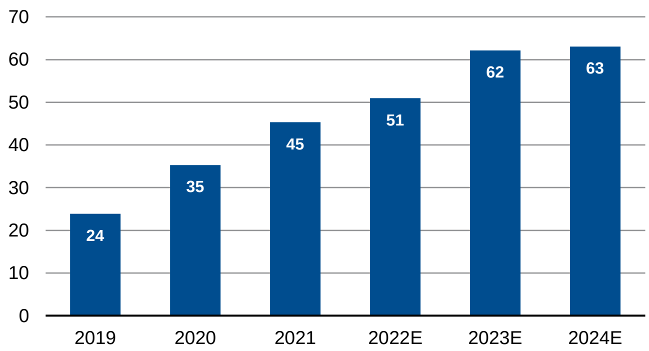
**Industry risk profile: BB-**

Infogroup's main activity consists of developing commercial real estate properties to hold in its portfolio, with a focus on logistics. Most of the revenues come from rental income, which translates to a BB industry risk profile; the blended industry risk profile of BB- reflects the higher industry risk of real estate development.

**Small market player but established within logistics**

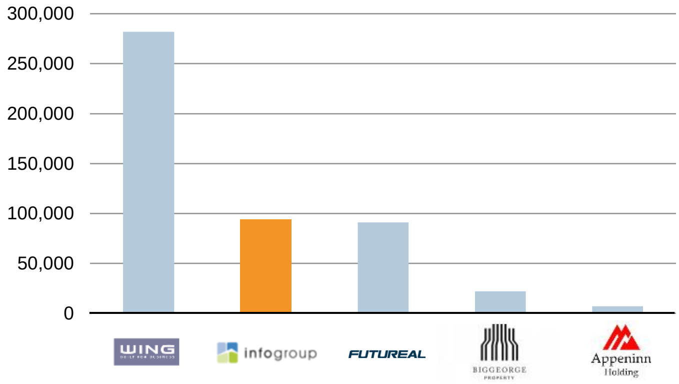
As at 30 June 2022, Infogroup had EUR 128m of Scope-adjusted total assets, which makes it a small real estate company in a European context. In 2021, Scope-adjusted assets increased significantly to HUF 45bn from HUF 35bn in 2020, due to a new warehouse development in Polgar (5,500 sq m) and the acquisition of 10,900 sq m of offices. Value increases also came from general industrial market yield compression, which resulted in higher asset values in the industrial and logistics segments. The group has remained small, however, exposing it to competition risk and an inability to benefit from economies of scale. Nonetheless, Infogroup is an established name in industrial logistics and its focus on the less competitive eastern (centre and north) regions of Hungary, has ensured good growth, as most of the biggest players focus on Budapest.

**Figure 1: Scope-adjusted total assets (HUF bn)**




Sources: Infogroup Kft, Scope estimates

**Figure 2: Infogroup and Scope-rated peers industrial space assets (sq m) as at YE 2022**




Sources: Infogroup Kft. Scope estimates

**National presence only limits diversification**

Infogroup's portfolio is exclusively located in Hungary, namely in Budapest (offices and hotels) and in the eastern region (logistics). The absence of international outreach exposes the company fully to the economic trend of one country and limits potential growth in asset value. Nonetheless, the presence in both Budapest and suburban areas ensures a degree of diversification.

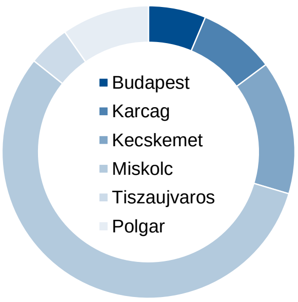
**High tenant concentration**

The weak tenant diversification, with top three representing 39% of rental income and the top 10 representing 75% (both as at December 2022), is a negative driver for the business risk profile. The quality and granularity of the tenant base has become even more crucial as economic conditions continue to worsen. The associated risk is partially mitigated by the good credit quality of the largest tenants such as Jabil, Lidl and Freudenberg, as well as no significant SME exposure, which reduces the risk of payment delays.

**Revenues benefit from presence in three different segments**

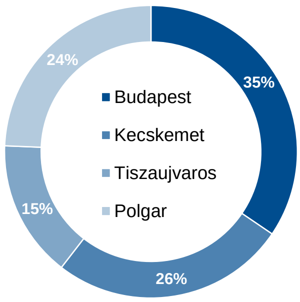
The company's active investment covers three sectors: office, hospitality and industrial/logistics. These sectors are subject to slightly different demand trends, making the group less sensitive to cash flow volatility. For instance, during the peak of the Covid-19 pandemic, demand for tourism and office spaces suffered significantly but industrial/logistics units produced stable income and even prospered. Based on projects in the pipeline, rental income from industrial/logistics properties is expected to grow to 62% in 2022 from 59% in 2021, reaching 72% in 2025. As such, we believe Infogroup will focus on retaining solid income sources in Budapest while seeking opportunities in line with market trends. The logistics segment in fact shows the most favourable trends today due to i) the increased use of e-commerce; ii) supply chain optimisation strategies; and iii) Hungary's ambition to become a global hub for electric vehicles parts (which explains Infogroup's strategy to develop units close to BMW in Debrecen-Polgar and Mercedes in Kecskemet).

**Figure 3: Geographical diversification by gross lettable area (sq m) as at YE 2022**




Sources: Infogroup Kft., Scope

**Figure 4: Geographical distribution by rental income as at YE 2022 (developed portfolio only)**




Sources: Infogroup Kft., Scope

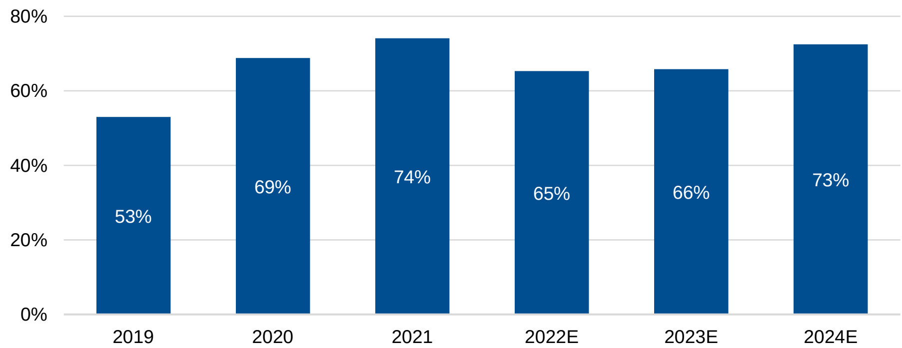
**Moderate asset quality but strengthened by important partners**

Infogroup's current and future investments target the eastern (centre and north) region of Hungary in suburban areas (Miskolc, Kecskemét, Polgar) that host major multinational companies, while maintaining the office and hotel portfolio in Budapest. While these areas have high potential for logistics developments, they are unfavourable for asset quality, being more exposed to changes in demand and less appealing to investors than properties in Budapest. However, the company has built a strong reputation in the segment, as evidenced by the involvement in large built-to-suit solutions for multinational companies in Miskolc and Tiszaujvaros. We believe the proximity of the assets to highways, airports and large corporations such as BMW in Debrecen-Polgar and Mercedes-Benz in Kecskemet partially offsets re-letting risk and the risk of asset devaluation related to suburban areas.

**Strong profitability boosted by high occupancy and like-for-like rental growth**

Profitability, measured by the Scope-adjusted EBITDA margin, is the major support for the business risk profile. The industrial logistics portfolio has ensured stable recurring cash flows over the years, even during the Covid-19 pandemic, compensating in part for the decreased demand for hotel and office rental. Going forward, we expect profitability to range between 65% and 75%, supported by i) strong rental growth induced by rising inflation (CPI linked lease contracts); ii) a successful pipeline execution; iii) cost pressure for developments being partially mitigated by the strategy to work with contractors that are local small to medium-sized companies (around HUF 20m-50m in turnover), ensuring more flexibility and negotiation power.

**Figure 5: Scope-adjusted EBITDA margin**



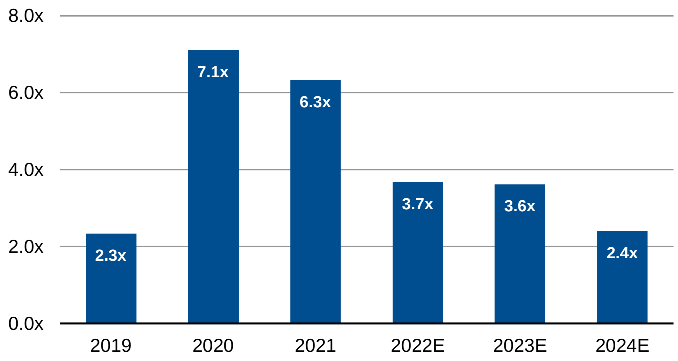

Sources: Infogroup Kft., Scope estimates

## Financial risk profile: BB

**Adequate debt protection but threatened by new debt**

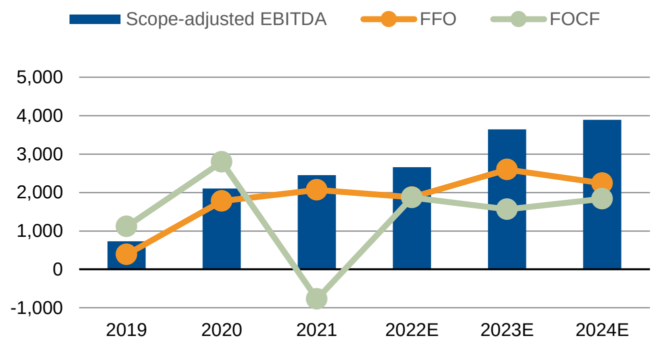
The Scope-adjusted EBITDA/interest cover weakened in 2021 (6.3x) following the placement of a HUF 4.5bn bond under the MNB's bond funding for growth scheme. Going forward, we expect the ratio to deteriorate further and sustain between 2.0x-4.0x, driven by i) new debt funding needed to cover increasing capex in 2023 and; ii) the drastically different interest rate environment, which significantly increases funding costs. Nevertheless, we are confident that Infogroup can fulfil its interest payment obligations as we expect Scope-adjusted EBITDA to remain at current or higher levels (thanks to the strategy of moderate growth, which is expected to ensure at least stable cash flows). We see limited impact of the changed interest rate environment on existing debt as 92% of current loans have either a fixed interest rate (3.4% weighted average cost of debt) or benefit from interest rate swaps.

**Figure 6: Scope-adjusted EBITDA/interest cover (x)**




Sources: Infogroup Holding Kft., Scope estimates

**Figure 7: Cash flow (HUF m)**



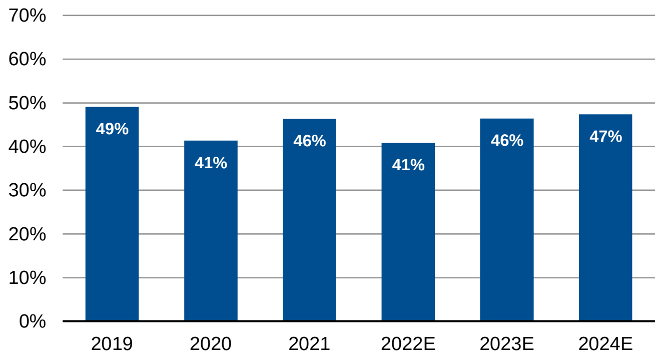

Sources: Infogroup Holding Kft., Scope estimates

**Leverage to increase in line with new debt-financed development**

Leverage, measured by the Scope-adjusted loan/value ratio, has been slightly volatile over the years but remained moderate. Following a slight increase to 46% in 2021 (up 5pp YoY), driven by the bond issuance, the ratio is expected to decreased to 41% in 2022. However, we anticipate the ratio to increase again in 2023, driven by increasing indebtedness to finance moderate development activity and investment in landbanks, coupled with increased pressure on the fair value of the portfolio as we anticipate some yield widenings for Infogroup's core markets.

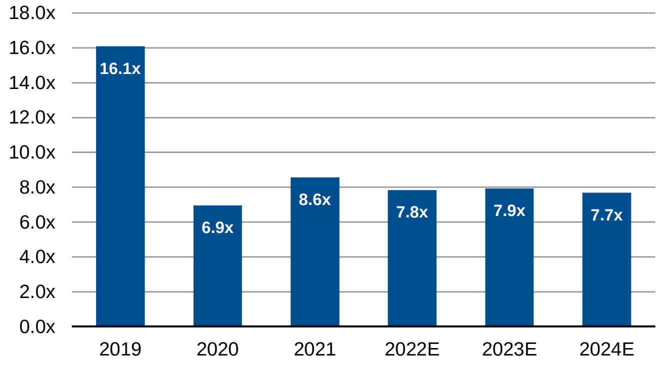
The Scope-adjusted debt/EBITDA ratio is also expected to increase but to be sustained around 8x (Infogroup's general target is to keep debt to EBITDA at a maximum of 7x, with exceptions in cases of heavy acquisitions or developments). We believe current and forecasted leverage still provides headroom against market value decreases and supports access to additional financing, thanks to the high pool of unencumbered assets.

**Figure 8: Scope-adjusted loan/value (%)**




Sources: Infogroup Holding Kft., Scope estimates

**Figure 9: Scope-adjusted debt/EBITDA (x)**




Sources: Infogroup Holding Kft., Scope estimates

**Adequate liquidity**

Liquidity is adequate with unrestricted cash fully covering short-term debt obligations and no significant debt maturing before 2026. Despite around 50% of cash being restricted to guarantee for development loans, liquidity has remained well above 100% since 2019.

We recognise a debt maturity concentration in 2026 (around HUF 7.4bn), but in view of the company's established relationships with a large pool of banks, liquidity and refinancing risks are seen manageable.

| Balance in HUF m | 2021 | 2022E | 2023E |
|---|---|---|---|
| Unrestricted cash (t-1) | 2,505 | 2,723 | 4,346 |
| Open committed credit lines (t-1) | 0 | 0 | 0 |
| Free operating cash flow | -773 | 1,872 | 1,564 |
| Short-term debt (t-1) | 1,143 | 1,238 | 1,505 |
| **Coverage** | **152%** | **>200%** | **>200%** |

## Long-term debt ratings

**Senior unsecured debt rating: BB-**

In May 2021, Infogroup issued a HUF 4.5bn senior unsecured bond (ISIN: HU0000360433) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond proceeds were used for refinancing financial debt (HUF 0.8bn) and for acquisitions (HUF 3.7bn). The bond has a tenor of 10 years and a fixed coupon of 3.0%. Bond repayment is in six tranches starting from 2026, with 5% of the face value payable yearly, and 50% balloon payment at maturity. We note that Infogroup's senior unsecured bond issued under the Hungarian Central Bank's bond scheme has an accelerated repayment clause. The clause requires Infogroup to repay the nominal amount (HUF 4.5bn) in case of rating deterioration (2-year cure period for a B/B- rating, repayment within 5 days after the bond rating falls below B-, which could have default implications). In addition to the rating deterioration covenant, bond covenants include a cap on the dividend payment (maximum 50% of profit after tax and if loan/value ratio does not exceed 50%) and loan to value ratio not exceeding 60%.

We expect the recovery on the senior unsecured debt class to be 'excellent', based on a hypothetical default scenario in FY 2024.

However, we have not applied the possible uplift to the issuer rating due to risk, that senior secured debt will increase in the path to default (volatility of capital structure and share of senior unsecured debt) and the recovery's sensitivity to the advance rate. We have therefore kept the debt class rating at the issuer level.

Senior unsecured debt benefits from an unencumbered asset ratio of above 300%, providing a decent pool of collateral to debt holders.

## Appendix: Peer comparison

| | Infogroup Holding Kft. | Futureal Holding B.V. | CORDIA International Zrt. | MG RE Invest S.A. | Euroboden GmbH |
|---|---|---|---|---|---|
| | BB-/Stable | BB/Negative | BB/Negative | BB/Stable | B+/Negative |
| Last reporting date | 31 December 2021 | 31 December 2021 | 31 December 2021 | 31 December 2021 | 30 March 2022 |
| **Business risk profile** | | | | | |
| Scope-adjusted total assets (EUR m) | 115 | 762 | 660 | 400 | 600 |
| Gross lettable area (thousand sq m) | 163 | 318 | 845 | na | na |
| Countries active in | 1 | 3 | 5 | 6 | 2 |
| Top 3 tenants (%) | 39% | 18% | na | na | na |
| Top 10 tenants (%) | 75% | 40% | na | na | na |
| Office (share NRI) | 40% | na | na | na | na |
| Retail (share NRI) | na | na | na | na | na |
| Residential (share NRI) | na | na | na | na | na |
| Hotel (share NRI) | 1% | na | na | na | na |
| Logistics (share NRI) | 59% | na | na | na | na |
| Others (share NRI) | 0.3% | na | na | na | na |
| Property location | 'B' and 'C' | 'B' | 'B' | 'A' and 'B' | 'A' |
| EPRA occupancy rate | na | na | na | na | na |
| WAULT (years) | 3.1 | 6.0 | na | na | na |
| Scope-adjusted EBITDA margin | 51% | 19% | 17% | 43% | 21% |
| **Financial risk profile** | | | | | |
| Scope-adjusted EBITDA/interest cover | 6.3x | 1.1x | 3.6x | 10.3x | 1.4x |
| Scope-adjusted debt/EBITDA | 8.6x | 61.2x | 4.8x | 2.8x | 20.8x |
| Scope-adjusted loan/value ratio | 46% | 43% | 30% | 48% | 50% |
| Weighted average cost of debt | 3.4% | 2.7% | na | na | 2.1% |
| Unencumbered asset ratio | >100% | >100% | >100% | >100% | >100% |

Sources: Public information, Scope

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