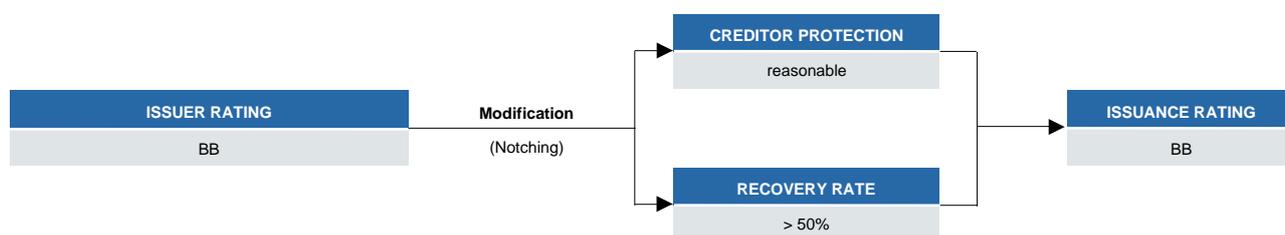


Issuance Rating

KÉSZ Holding Zrt. Senior unsecured bonds 2021/31				26 October 2021		
				Issuance rating		BB
				Outlook		stable
Issue	ISIN	Issue Amount	Coupon	Term	Amortisation	
KÉSZ 2031	HU0000360466	HUF 22bn	2.80% fix	17/06/21 – 17/06/31	partially	
KÉSZ 2031 II	HU0000360870	HUF 10bn	4.10% fix	17/11/21 – 17/11/31	partially	



ISSUER RATING	BB
<ul style="list-style-type: none"> Slightly increased business risks due to inherent exposure to cyclical and competitive construction industry Moderate financial risks due to stable earnings, moderately strong credit metrics and prudent financial policies No modification for operational risks or external influence 	

CREDITOR PROTECTION	reasonable
<ul style="list-style-type: none"> Partially amortising bond structure Reasonable, market standard terms esp. with view to termination rights, covenants and negative clauses 	

RANKING	senior unsecured
<ul style="list-style-type: none"> Robust senior ranking Joint and several payment guarantee provided by three main group companies Bond proceeds to be utilized for working capital refinancing and business development investments 	

RECOVERY	> 50%
<ul style="list-style-type: none"> Hypothetical default scenario based on assumed liquidation of assets Expected recovery rate: > 50% 	

Rating rationale

Scope Hamburg affirms the BB issuance rating of the first series of senior unsecured bonds (KÉSZ 2031; HUF 22bn) issued by KÉSZ Holding. At the same time Scope Hamburg assigns a BB issuance rating to the upcoming second issue of senior unsecured bonds (KÉSZ 2031 II; HUF 10bn). The ratings were derived from KÉSZ' current issuer credit rating (BB), the bond's structural ranking, reasonable creditor rights and adequate recovery expectations of > 50% in a hypothetical bond default scenario.

***Robust senior ranking
 within post issuance
 capital structure***

KÉSZ Holding's senior unsecured bonds are governed by Hungarian law and structured as partially amortising balloon notes with a term of 10 years. Overall, we assess the bonds to be subject to a robust senior ranking, as parts of the net proceeds from the offerings shall be used to replace parts of existing senior debt financing. Nevertheless, a smaller amount of effectively higher-ranking secured debt remains post issuance.

***Reasonable creditor
 protection rights***

As outlined above, KÉSZ Group's assets remain pledged as collateral to the existing portfolio of (secured) bank loans/guarantees or trade credit. For holders of unsecured debt it is important to mitigate the risk of becoming significantly disadvantaged in the event of additional debt issues, when permitted. For private businesses we generally expect higher risks, as they are usually forced to raise new debt against any unencumbered assets should their credit quality deteriorate for some structural reasons. Nevertheless, a set of reasonable creditor protection clauses has been included into the final bond terms. In our view, the applied clauses such as pari passu, negative pledge (bond market securities), rating deterioration, dividend policy, group-level net debt/EBITDA or cross default will keep the issuers capital structure under control while ensuring equal rights of payment and equal seniority with any new debt issues. We also acknowledge the joint and several payment guarantees issued by the three main group companies KÉSZ Építő ZRT., KÉSZ Ipari Gyártó Kft. and Matech Magyar Technológiai Kft. as an additional element to enhance creditor rights.

***Expected recovery > 50%
 based on hypothetical
 default scenario***

Our recovery expectation for KÉSZ' senior unsecured bonds follows a hypothetical default scenario based on an assumed liquidation of assets. At present, KÉSZ Group's overall creditworthiness is driven by an only slightly increased probability of default mainly as a result of its operations in the construction sector which we assess as highly competitive and inherently exposed to economic cycles on the one hand, but KÉSZ' robust financial profile on the other hand (cp. BB issuer rating). In a hypothetical default scenario, however, we assume a further deterioration of the issuer's overall creditworthiness as a cause of prolonged market stress leading up to depressed long-term profit prospects, overcapacities (e.g. real estate, production sites, workforce) and stressed net asset values (e.g. shrinking valuation multiples). We also assume that ranking and size of debt claims could change prior to default, and that the issuer could be forced to pledge more assets to raise debt as its credit quality deteriorates. As a consequence, loss given default usually rises disproportionately the higher the probability of default is. This is especially true for unsecured debt. Nevertheless, we still expect adequate recovery rates of at least 50% for the holders of KÉSZ' senior unsecured bonds, as the bonds shall remain the primary source of external long-term funding. KÉSZ Group is expanding into new and modern production facilities or real estate projects, which we expect to maintain higher values in distressed situations while being exempt from any unfavorable pledge agreements via reasonable credit protections (pari passu/negative pledge). Our assessment leads to the equalization of the senior bond's issuance rating with the current issuer credit rating of KÉSZ Group (BB).

Rating History

	17 March 2021	9 June 2021	26 October 2021
Issuer rating	BB	BB	BB
Outlook	stable	stable	stable
Issuance rating – KÉSZ 2031	preBB	BB	BB
Issuance rating – KÉSZ 2031 II			BB

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

- Upgrade of KÉSZ Group's issuer credit rating
- Lasting improvement of the bond's expected recovery rate

Factors that could lead to a Downgrade

- Downgrade of KÉSZ Group's issuer credit rating
- Lasting deterioration of the bond's expected recovery rate

Issuance

2021/31 series of senior unsecured bonds to fund refinancing and expansion

KÉSZ Holding's 2021/31 series of senior unsecured bonds are governed by Hungarian law and are structured as partially amortising balloon notes with a term of 10 years. Repayment begins from 2026 with a rate 10% annually. The balloon payment (50%) is due at maturity in 2031. According to the corporate plans the net proceeds from the 2021 offerings KÉSZ2031 (June: HUF 22bn) and KÉSZ2031 II (November: HUF 10bn) shall be used to refinance parts of the existing bank liabilities (e.g. working capital financing) and to fund the group's business development and expansion projects. More precisely KÉSZ Group plans to modernise and expand its construction capacities, develop/realise commercial & residential real estate projects and to modernise its corporate infrastructure. As of 31 Dec 2020 the group's consolidated capital structure contained long- and short-term bank liabilities in a total amount of HUF 15.6bn. After successfully issuing the first series of bonds in June 2021 (HUF 22bn) reported bank liabilities as of 30 June 2021 stood still at HUF 14.3bn. Following the second issue of bonds in November 2021 (HUF 10bn), and depending on the final utilization of funds according to the corporate financial plan, we expect total (secured) bank liabilities to remain at c. HUF 6.0bn at the end of the year 2021.

Non-public auctions June and November 2021

KÉSZ Holding Zrt. (issuer) applied for MNB's "Bond Funding for Growth Scheme" (BGS) and initiated a non-public placement process under the advice of OTP Bank (issuing agent) in Q2 2021 (KÉSZ2031) and Q4 2021 (KÉSZ2031 II). Besides the Central Bank of Hungary (MNB) a further 15 institutional investors are invited to place their purchase orders. Allocation of the first series of senior unsecured bonds (HUF 22bn) and settlement with the paying agent took place on 17 Jun 2021. Allocation and settlement of the second series of senior unsecured bonds (HUF 10bn) will take place on 17 Nov 2021. At a later stage (90 days post issuance) a secondary market listing of the notes at the Budapest Stock Exchange is obligatory (BÉT Xbond).

Issuance rating assigned

The issuance rating is linked to KÉSZ Group's current issuer credit rating (BB; rating report 17 Mar 2021). The issuer rating is subject to an ongoing monitoring process and already takes account of the capital structure post issuance (rating affirmation 26 October 2021). Furthermore, the issuance rating is assigned based on the final bond documentation as of 8 June 2021 (KÉSZ 2031 / I) and the final bond documentation as of 26 October 2021 (KÉSZ 2031 / II).

Appendix 1: Execution

Notice

This report represents a supplement to the issuer rating report of 17 Mar 2021 and the rating affirmation of 26 Oct 2021. The issuance rating is derived from the current issuer rating. The full rationale for the issuer rating notation can be found in the issuer rating report.

Analysts

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Rating committee (Chairperson)

- Dörte Mähmann

Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

Solicited Rating

Unsolicited Rating

No participation of the rated entity or related third party

With participation of the rated entity or related third party

Access to internal documents

Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
 - Final bond documentation KÉSZ 2031 (3 Jun 2021) and KÉSZ 2031 II (26 Oct 2021)
 - Business plan provided by the issuer
 - Management interviews

Rating methodologies and definitions

- [Scope Hamburg GmbH Issue Rating Methodology as of December 2014](#)
- [Basic Principles for Assigning Credit Ratings and Other Services as of October 2021](#)
- [Guidance Regarding the Consideration of ESG Factors in Scope Hamburg Credit Ratings as of March 2020](#)

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Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of Scope Hamburg, AAA rated obligations demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of Scope Hamburg, AA rated obligations demonstrate a very high credit quality with a very low default risk.
A	In the opinion of Scope Hamburg, A rated obligations demonstrate a high credit quality with a low default risk.
BBB	In the opinion of Scope Hamburg, BBB rated obligations demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of Scope Hamburg, BB rated obligations demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of Scope Hamburg, B rated obligations demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of Scope Hamburg, CCC rated obligations demonstrate a very low credit quality with a high default risk.
CC	In the opinion of Scope Hamburg, CC rated obligations demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of Scope Hamburg, C rated obligations demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated obligations have defaulted, as defined by the rating agency. The rated obligation is assigned an SD rating (Selective Default) if the issuer only defaulted on certain debt obligations.
PLUS (+) MINUS (-)	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

* For more explanations and definitions please refer to:

[Basic Principles for Assigning Credit Ratings and Other Services as of October 2021](#)

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Hamburg, 26 October 2021