ScopeHamburg

Issuer and Issue Rating

Infogroup Holding Kft. **HUF 4.5 bn Bond 2021/2031 – "Infogroup 2031/A"**		**27 April 2022** **Issuer rating**	**BB-**
		Issue rating	**BB**
		Outlook	**stable**
Industry	Real estate business; development, ownership and management of commercial real estate	Revenues 2021	HUF 4.6 bn

BUSINESS RISK		ANCHOR RATING	Modification	ISSUER RATING	Derivation	ISSUE RATING
slightly increased	→	BB-	Operational risks and external influences →	BB-	Creditor protections and recovery analysis →	BB
FINANCIAL RISK						
slightly increased						

BUSINESS RISK	**slightly increased**

- Moderate to slightly increased market risk: robust market conditions for logistics properties; lower demand for office space with expected supply surplus from new construction activity and structural changes in demand as a consequence of the COVID-19 pandemic; political risks
- Slightly increased strategic risk: project development risks; improvement of diversification profile; establishment of own portfolio in order to reduce risk

MODIFICATION	**± 0**

- Management of operational risks viewed to be generally consistent with rating
- No rating-relevant external influences

FINANCIAL RISK	**slightly increased**

- Rising rental income with increasing diversification; profitability at a satisfactory level
- Stable cash flows and good financial flexibility thanks to liquidity held and saleable assets; dependencies on individual tenants
- Leverage ratios on a satisfactory level; high funding needs for ongoing investments in new warehouse development projects weigh on deleveraging potential in the next years

ISSUE RATING	**+1**

- Adequate creditor protections through negative pledges and termination rights for creditors
- Group companys guarantee for payment obligations under the bond
- Expected recovery rate for bondholders very satisfactory in a range of 70% – 90% (rating case); in the worst case scenario at only a weak level

Financial ratios *	2019 actual	2020 actual	FC 2021	2022 planned	2023 planned
EBITDA margin (%)	40.4	54.1	52.3	53.5	56.3
ROCE (%)	1.9	5.1	5.0	4.5	4.7
Loan-to-value market value (%)	44.1	39.3	48.4	41.7	43.5
Net debt / EBITDA	16.1	5.9	7.3	7.4	7.3
EBITDA interest coverage	7.5	9.8	4.2	4.4	4.8
EBIT interest coverage	4.3	7.8	3.4	3.5	3.8

* adjusted on the basis of Scope Hamburg's analytical principles

Rating Rationale

Scope Hamburg GmbH affirms the BB- rating of Infogroup Holding Kft. (issuer rating) and the BB issue rating of the Infogroup 2031/A bond. The outlook for the rating is stable.

Slightly increased business risk due to focus on development projects and associated project development risks, with good diversification strategy in the existing portfolio

According to our assessment, Infogroup Holding has a slightly increased business risk. The decisive factor for our valuation is the slightly increased strategic risk, which arises particularly from the focus on project development activities. We take a positive view of the planned further development of the company's own property portfolio, which we believe will improve the diversification profile in terms of regionality and tenant structure in the medium term. We assess the overall market risk as moderate to slightly increased. In our opinion, risks particularly exist in relation to future demand for office properties, possible structural changes in working environments, and the simultaneously expected surplus of the supply of office space in Budapest. We take a positive view of the still robust market conditions for logistics real estate. Here we anticipate, inter alia, higher demand due to the overall increase in e-commerce volumes. We also see political risks that could negatively affect demand, especially from international investors.

Slightly increased financial risk due to stable rental income and satisfactory leverage ratios

We assess the group's financial risk slightly increased. We take a positive view of the comfortable liquidity position and the financial reserves in the existing land portfolio with numerous reserve plots (approximately 200 ha land bank), which could be divested if required. Rental income is highly stable thanks to long-term leases in conjunction with a vacancy rate that has been very low for several years, and nearly no rent losses. Profitability stands at a satisfactory level in our view with EBITDA margins of > 52 %. The bond issue of HUF 4.5 billion in 2021 was primarily used to finance an acquisition (share increase) and warehouse development projects. Leverage ratios are expected to remain on an increased level (net debt/EBITDA of around 7.4) in the next years due to ongoing investments in new warehouse development projects (2022 to 2025: 20.000 to 23.000 m^2 p.a.). In our view, risks to profitability exist from longer and higher vacancy rates as well as an appreciation of the Hungarian Forint against the Euro as most of the rental income is denominated in Euro. In addition, opportunistic new development projects/acquisitions may weaken the financial ratios.

No modifications applied to anchor rating

We believe that the group of companies has appropriate structures, processes and systems to successfully implement its strategic objectives. We consider the operational risks to be in line with the anchor rating. We do not see any rating-relevant external influences. Therefore, the anchor rating has not been adjusted.

Issue rating +1 notch

Based on the bond documentation, we regard the creditor protections as appropriate. We take a positive view on the guarantees from two group companys for the payment obligations under the bond. In our view, the expected recovery rate for bondholders stands at a very satisfactory level, as a consequence of which we rate the issue rating one notch higher than the issuer rating.

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

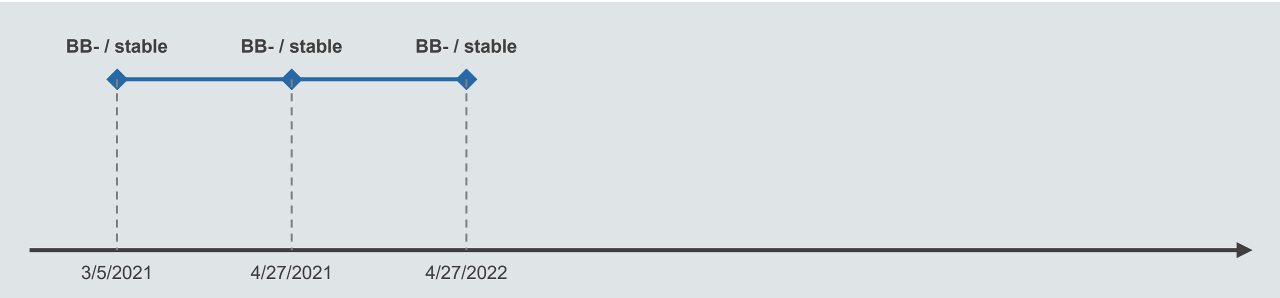
- Sustainable increase of earnings margins (EBITDA margin excluding property disposals >~60 %)
- Sustainable improvement of deleveraging potential (LTV < 40 %, net debt/EBITDA < 4.0)
- Sustainable improvement of diversification of rental income (e.g. no single tenant > 5% share)
- Issue rating: sustained increase of real estate values leading to a higher expected recovery rate for bondholders

Factors that could lead to a Downgrade

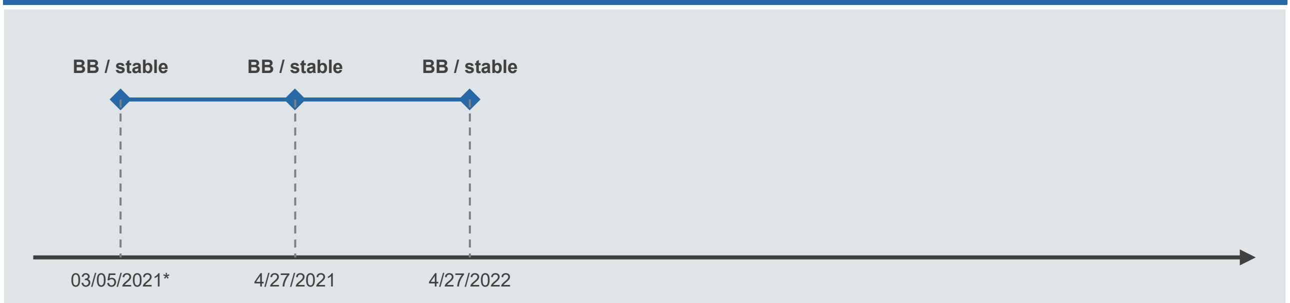
- Declining trend in profit margins (EBITDA margin excluding land disposals < 40 %)
- Deterioration of deleveraging potential (LTV > 60 %, net debt/EBITDA > 8.0)
- Greater concentration of rental income on individual tenants or on sectors
- Issue rating: sustained drop in real estate values, leading to a weaker expected recovery rate for bondholders

Rating History

Infogroup Holding Kft. – Issuer Rating



Infogroup Holding Kft. – Issue Rating



*preliminary Issue Rating

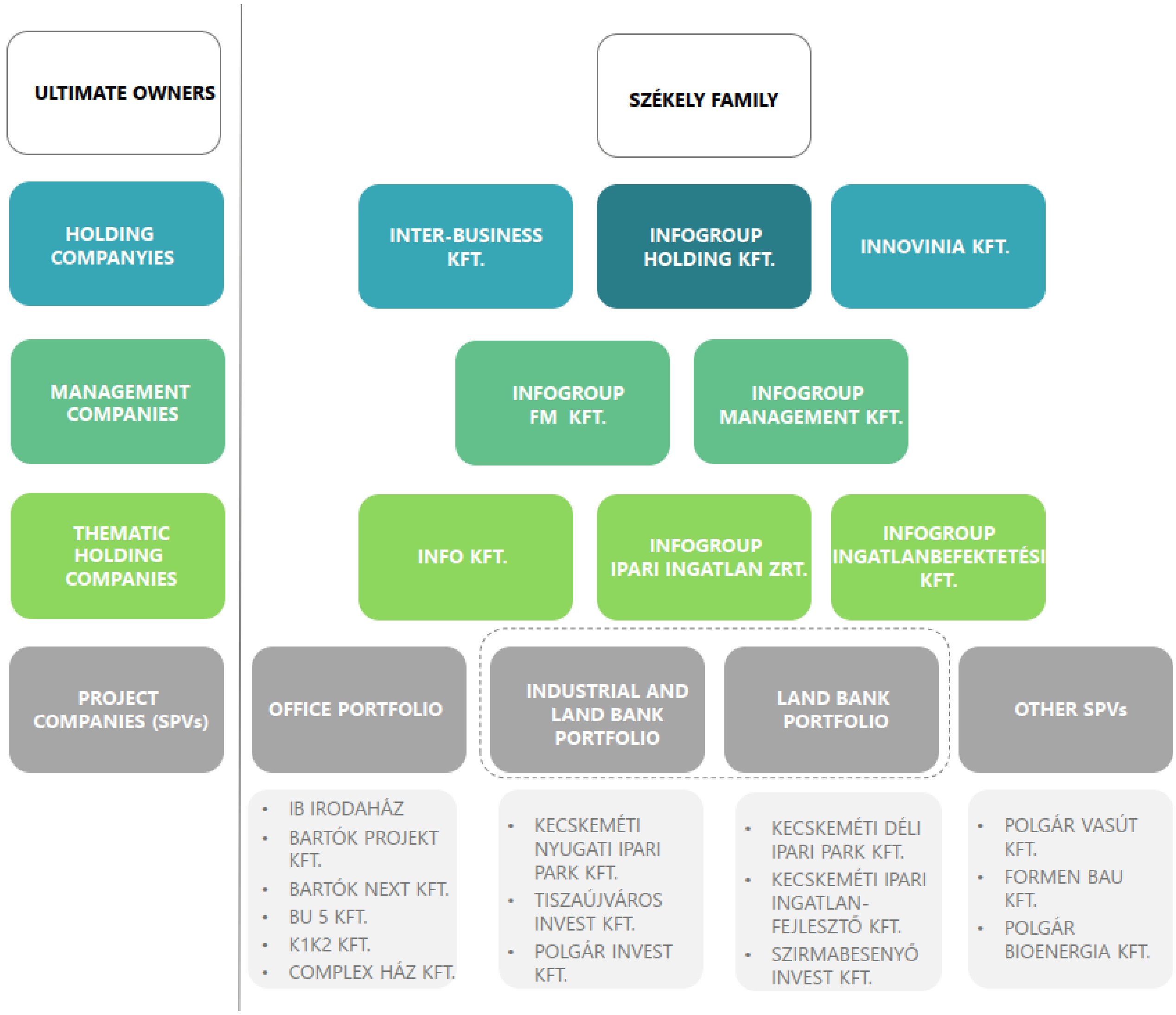
Company

Infogroup is a Hungarian project developer for commercial real estate

Infogroup was founded in 1990 as a family office, and originally focused on development projects for residential construction. The group has focused on the development of commercial real estate since 2000. The company ranks today as one of the larger national real estate developers in Hungary, having built more than 100,000 m² of industrial and logistics real estate as well as more than 33,000 m² of office space. Infogroup develops real estate mainly for its own portfolio, although it also provides project development as well as asset and facility management services for third parties.

Family-managed Infogroup Holding Kft. is the rating subject.

Infogroup Holding Kft. is the rating subject (also referred to below as "Infogroup" or "Infogroup Group"), which performs the holding function for the entire group. Infogroup Holding Kft. is owned by the Székely family. Founder Dr. István Székely and his son Ádám Székely form the management. The management team also includes four division heads.



Terms of the issuance

	Bond Infogroup 2031/A
Issuer	Infogroup Holding Kft.
Disbursement	April 2021
Term	10 years
Issue amount	HUF 4,500,000,000
Interest Rate	3.0 %
Repayment	10 % beginning in year 5, remaining amount due upon maturity (HUF 2.25 bn)
Guarantors	Inter-Business Kft.; Innovinia Holding Kft.

Rank

Senior bond, but structurally subordinated to real estate companies' liabilities

The bond is an unsecured senior bond of the holding company Infogroup Holding Kft., and ranks pari passu with all other non-subordinated liabilities of the holding company including future liabilities. Within the group structure, the bond is structurally and effectively subordinated to the liabilities of the respective subsidiaries (real estate holding companies), in particular to their mortgage-backed real estate loans.

Collateral

No collateral

No collateral or personal securities are provided.

Creditor protections

Assessment of creditor protections as appropriate overall

In principle, the clauses in regard to the creditor protection rights should apply pari passu. Furthermore, the creditor protections include regulations and/or consequences in the event that the rating is reduced below B+.

The goup companys Inter-Business Kft. and Innovinia Holding Kft. guarantee for the payment obligations under the bond especially interest payments and repayment of principal.

The Issuer undertakes not to encumber its assets to secure its obligations arising out of the issuance of other future debt instruments.

With regard to termination rights, both a change of control clause and a third party default clause are implemented. The third party default clause is limited to debt instruments issued by the issuer.

The issuer implemented as a financial covenant a maximum LTV of 60%. We consider the envisaged limit of 60% to be appropriate.

We assess the envisaged creditor protections as appropriate overall.

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Appendix 1: Execution

Lead Analyst

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Rating Committee Chair

- Werner Stäblein

Rating, Solicitation, Principal Sources of Information

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

[x] 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:
  - Consolidated financial statements for 2019, 2020
  - Internal reporting (e.g. Business Plan FC 2021-2025)
  - Market analyses
  - Information on strategy and company planning
  - Information on real estate portfolio
  - Documents on the corporate structure
  - Interviews with the management
  - Bond documentation (23.04.2021)

Rating Methodologies and Definitions

- Scope Hamburg GmbH Issuer Rating Methodology as of May 2016
- 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

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

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Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of Scope Hamburg, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of Scope Hamburg, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of Scope Hamburg, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of Scope Hamburg, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of Scope Hamburg, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of Scope Hamburg, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of Scope Hamburg, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of Scope Hamburg, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of Scope Hamburg, C rated entities demonstrate a very low credit quality, an event of default is immi-nent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has 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

Appendix 3: Definition of financial ratios

Earnings power

EBITDA margin

EBITDA margin
Numerator
EBITDA
Denominator
Total revenues

Returns

ROCE
Numerator
Adjusted operating result (= EBIT)
Denominator
Net debt + economic equity (= capital employed)

Return on total assets
Numerator
Adjusted operating and financial result + interest expense
Denominator
Adjusted total assets

Cash flow return on investment

Cash flow return on investment (Cash flow ROI)
Numerator
EBITDA
Denominator
Adjusted total assets

Capital structure

Indebtedness

Equity-to-total assets ratio
Numerator
Adjusted equity (= economic capital)
Denominator
Adjusted total assets

Leverage
Numerator
Net debt
Denominator
Net debt + economic equity (= capital employed)

Loan to value
Numerator
Net Debt
Denominator
Real Estate Market Value

Net debt

Net debt
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS/factoring transactions
- Cash and cash equivalents

Deleveraging potential

Total liabilities / EBITDA
Numerator
Total assets - economic capital (= total liabilities)
Denominator
EBITDA

Net debt / EBITDA
Numerator
Net debt
Denominator
EBITDA

Interest coverage

EBIT interest coverage
Numerator
Adjusted operating result (= EBIT)
Denominator
Interest expenses

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expenses

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