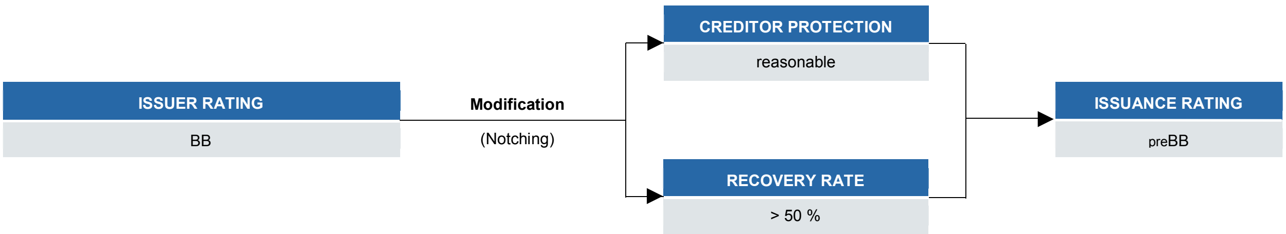
ScopeHamburg

Preliminary Issuance Rating

KÉSZ Holding Zrt. Proposed senior unsecured bond issue (2021/2031)		17 March 2021	preBB
		Issuance rating	
		Outlook	stable
Industry	Construction	Issuance volume	HUF 20bn
		Coupon (% p.a.)	tba.



ISSUER RATING	BB

- 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

- Preliminary bond terms and conditions in preparation
- Reasonable, market standard terms expected, esp. with view to termination rights, covenants and negative clauses

BOND RANKING	senior unsecured

- Non-public placement process planned for 2021
- Bond proceeds shall be utilized for working capital refinancing and business development investments
- Robust senior ranking expected

RECOVERY	> 50 %

- Hypothetical default scenario based on assumed liquidation of assets
- Expected recovery rate: > 50%

KEY DATA		
Listing	Yes	Secondary market listing to follow post initial non-public placement process
Issuance volume	HUF 20bn	Subject to market conditions (target size)
Coupon	fixed (tba.)	Subject to market conditions; based on 10y govt. bond yield + risk spread
Repayment	partially amortizing	Equal annual payments (10%) from 2026 and 50% balloon payment 2031
Term to maturity	10 years	Maturity date in 2031
Collateral	none	Senior unsecured bond

Rating rationale

Scope Hamburg GmbH assigns a preliminary BB issuance rating to the proposed 2021/31 bond issue of KÉSZ Holding Zrt. with a total proposed issuance volume of HUF 20bn. The rating was derived from the current issuer credit rating (BB) of KÉSZ Group, the bond's proposed ranking, assumed reasonable creditor protections and a recovery expectation of > 50% in a hypothetical bond default scenario.

Senior unsecured bond

KÉSZ Group has announced that, subject to market conditions, it intends to issue HUF 20bn of unsecured fixed rate notes ("senior unsecured bonds") with a term of 10 years and governed by Hungarian law. Overall, we expect the proposed bond issue to be subject to a robust senior ranking, as the net proceeds from the offering and internally generated sources of cash shall replace some existing providers of external senior debt financing. Nevertheless, a smaller proportion of effectively higher-ranking secured debt will remain or might increase post issuance. This situation could put future bondholders at risk of relatively low recovery in a default scenario.

Reasonable creditor protection assumed

As outlined above, KÉSZ Group's assets will mainly 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. To ensure equal rights of payment and equal seniority with potentially new debt issues, we therefore assume a standard set of reasonable creditor protection clauses to be included in the proposed bond terms, such as pari passu / negative pledge clauses and financial covenants.

Expected recovery > 50% based on hypothetical default scenario

Our recovery expectation on KÉSZ Group's proposed bond issue 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 recovery rates of at least 50% for the holders of the proposed unsecured senior bond, as the bond shall remain the primary source of external long-term funding. This supports KÉSZ Group to expand into new and modern production facilities and 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 bond issuance rating with the current issuer rating of KÉSZ Group (BB).

Rating History

	17 March 2021
Issuer rating	BB
Issuance rating	preBB
Outlook	stable

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

HUF 20bn issue to fund refinancing and expansion

KÉSZ Group has announced that, subject to market conditions, it intends to issue HUF 20bn of unsecured fixed rate notes ("senior unsecured bonds") with a term of 10 years and governed by Hungarian law. According to the corporate plans the net proceeds from the proposed offering 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 plans to modernise and expand its construction capacities, develop commercial & residential real estate projects and to modernise its corporate infrastructure (e.g. IT, automation, vocational training). As of 31 Dec 2020, the company's capital structure contained long- and short-term bank liabilities in a total amount of HUF 16.3bn (preliminary accounts). Depending on the final utilization of funds and according to the corporate financial plan we expect total bank liabilities of c. HUF 6bn to remain post issuance (31 Dec 2021).

Non-public placement process Q2/2021

KÉSZ Group aims to raise the funds via a non-public placement process in the frame of the Hungarian National Bank's *Bond Funding for Growth Scheme* (BGS). Under the advice of financial services providers, the group plans initiate a book building process over the course of Q2/2021. The coupon rate shall be derived from the 10-year government bond yield of Hungary (15/03/21: 2.69% p.a.; 6-month range: 1.98% - 2.84%) plus a credit risk spread relative to the long-term issuer rating of KÉSZ Group. At a later stage (post issuance) a secondary market registration of the proposed notes at the Budapest Stock Exchange is obligatory. We expect further announcements to be made upon pricing of the offering.

Preliminary issuance rating assigned

During our assessment the actual bond terms and conditions were still in preparation. However, based on current proposals we made assumptions and assigned a preliminary issuance rating to the proposed issue at this stage. Assigning a final issuance rating depends on the provision of firm terms and conditions for the proposed bond issue.

Appendix 1: Execution

Notice

This report represents a supplement to the issuer rating report of 17 March 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

- Dörte Mählmann, Director
- Holger Ludewig, Director

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:
  - Preliminary information on the envisaged bond structure
  - Use of the proceeds - Scenario analysis provided by the issuer
  - Management interview

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 July 2020
- 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	D rated obligations have defaulted, as defined by the rating agency.
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 July 2020

Disclaimer

KÉSZ Holding Zrt. (client and issuer) engaged Scope Hamburg GmbH to conduct a rating of the envisaged bond issuance (rated obligation) on 8 January 2021. A management interview with the issuer was conducted on 9 March 2021.

The Rating Committee of Scope Hamburg GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 17 March 2021. This rating report was given to the client on 22 March 2021, thereby concluding the rating process.

The rating is Scope Hamburg GmbH's opinion of the creditworthiness of a certain obligation. It is not a statement of fact. Scope Hamburg GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

The issuer is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The issuer has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the issuer exercising reasonable and commercial care. The issuer's representatives have issued a written certification of completeness to Scope Hamburg GmbH. However, the issuer cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Scope Hamburg GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

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Please note that summaries of contracts, laws and other documents contained in the rating report cannot replace careful study of the complete texts. Scope Hamburg GmbH cannot guarantee that the information used to prepare this report has not changed since it was collected and is still accurate at the time of publication. Scope Hamburg GmbH is under no obligation to complete the information that it considered when issuing the rating.

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Scope Hamburg GmbH

Hamburg, 22 March 2021

