KÉSZ Holding Zrt.
Hungary, Construction

SCOPE BB- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover	10.5x	11.8x	5.8x	4.8x
Scope-adjusted debt/EBITDA	2.3x	3.1x	4.8x	4.2x
Scope-adjusted funds from operations/debt	43%	28%	16%	18%
Scope-adjusted free operating cash flow/debt	38%	-1%	-45%	-26%

This publication does not constitute a rating action. For the most recent rating action on the issuer taken on 28 Sep 2022 please click **here**.

Rating rationale

The company's issuer rating is driven by the risk that credit metrics are expected to come under pressure amid mounting headwinds including inflationary supply-side pressures, decreasing gross profit margins, rising leverage (third bond) and an overall unsupportive macroeconomic mid-term outlook for the construction sector. Nevertheless, KÉSZ business risk-profile remains backed by KÉSZ' strong market position, a solid order backlog and robust order intake. The assessment of KÉSZ' issuer rating puts more emphasis on the business risk profile than the financial risk profile due to the group`s limited size and outreach on a European scale, which ultimately hinders it to exceed the current rating level, even if credit ratios were to improve.

Outlook and rating-change drivers

The stable outlook reflects Scope's expectation that the group is able to maintain a solid operational track record backed by an overall adequate contracted backlog in accordance with the business plan. The outlook also incorporates Scope's expectation that the group will maintain a prudent financial policy, notably in terms of dividend payments and expansionary investments, helping to move Scope-adjusted debt/Scope-adjusted EBITDA towards 4.0x over the next two years.

A negative rating action could occur if short-term liquidity were to worsen or if Scope-adjusted debt/Scope-adjusted EBITDA exceeds 4.0x on a sustained basis. This could be triggered by i) adverse developments in net working capital tying up more liquidity than anticipated; ii) an operational development leading to a substantial reduction of contracted backlog, profitability and cash flow levels; or iii) continued debt-funded business expansion activities.

A positive rating action is seen remote at present but may be warranted in the case of significant growth in KÉSZ Group's size, improved geographic diversification and an extended contracted backlog to more than 2x of annual sales. At the same time, we would expect an improvement in profitability to >10% Scope-adjusted EBITDA while Scope-adjusted debt/EBITDA stays below 2x on a sustained basis, which could be due to much lower working capital needs at the end of the current debt-funded investment cycle.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
28 Sep 2022	Downgrade	BB-/Stable
26 Oct 2021	Affirmation	BB/Stable
17 Mar 2021	Affirmation	BB/Stable

Ratings & Outlook

Issuer	BB-/Stable
Senior unsecured debt	BB

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Related Methodologies

Corporate Rating Methodology; July 2022

Construction and Construction Materials Rating Methodology; January 2022

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Positive rating drivers	Negative rating drivers
• Long-established market position in domestic markets with independence from external subcontractors due to a high degree of own resources covering the whole construction and civil engineering supply chain • Solid contracted backlog exceeding expected 2022 sales by 1.2x (2021 sales by 1.4x) while book-to-bill ratio developed favourably (orderbook +28% YoY) • Highly reputable project portfolio and long track-record of stable project executions indicated by fairly constant gross margins • Adequate financial flexibility demonstrated by currently firm liquid sources and good standing in credit markets • Pursued vertical integration strategy provides barriers to entry and creates strategic benefits in tender processes	• Inherent exposure to cyclical and competitive construction industry in Hungary and higher-risk CEE countries with currently dampened near-term construction sector outlook • Limited geographical diversification and notable concentration among domestic customers in view of the currently contracted volumes (top 10 >80%; top3 >60%) • Significant increase in leverage mainly caused by rising number of large development projects and linked build-up in working capital (real estate / energy) • Overall high dependence on external financing driven by accelerated expansionary investments (negative FOCF) • Market-wide increasing costs for building materials and labour are likely to stress profit margins looking forward

Positive rating-change drivers	Negative rating-change drivers
• Higher geographical diversification with reduced reliance on domestic markets; contracted backlog to exceed 2x annual revenues • SaD/EBITDA sustainably below 2.0x and Scope-adjusted EBITDA margin sustainably >10%	• SaD/EBITDA sustainably above 4.0x • Contracted backlog to fall substantially below 1x annual revenues

Corporate profile

KÉSZ Group (KÉSZ) is among the largest construction companies in Hungary whose story started as a family business in 1982. As an independent Hungarian group of companies KÉSZ aims to become one of the leading construction companies in the CEE region through investments and project developments in domestic and international markets. As one of the leading domestic players in building constructions KÉSZ has built numerous prominent industrial facilities, office buildings, shopping and logistic centres, sports venues or hotels and housing facilities (e.g. Kossuth Lajos Square, Mercedes-Benz factory, LEGO factory, Budapest Airport Sky Court, Sheraton Hotel, Duna Arena Swimming Complex). Besides building construction KÉSZ Group had early extended its portfolio into steel structure manufacturing and design, which resulted in a steady growth of export trade based on its own domestic manufacturing capacities (c. 15,000 tons/year). As of today, KÉSZ has implemented more than 3,100 projects and has 5 million m2 references in more than 12 countries. The group employs more than 1,500 people and reported revenues of HUF 166.6bn for 2021 (2020: HUF 117.2bn). For 2022 and the years ahead KÉSZ Group expects annual revenues to grow to a level of around HUF 200bn based on currently contracted backlog of c. 1.4x annual sales.

KÉSZ Holding Zrt., the group's holding company, was formed in 2007 to provide a clearer company structure and to professionalise the investment and asset management activities within Hungary and abroad. By today, the group comprises >60 consolidated subsidiaries. The operational function of KÉSZ Holding is to implement, adjust and monitor corporate strategic and financial goals for KÉSZ Group in line with the long-term targets of the corporate owner. The assets of KÉSZ Group are held and managed through a trustee management ownership structure: In 2018 Mr Mihály Varga, the founder of KÉSZ Group, entrusted a professional asset management organization to ensure the long-term preservation of the managed assets in accordance with a formal trust agreement. The shares of the managing trustee (PRIORI Vagyonkezelő PLC.) were ultimately transferred to an Austrian-based private foundation (VITALIS Privatstiftung), which will remain the long-term owner of the trustee.

Financial overview

				Scope estimates		
Scope credit ratios	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	8.9x	10.5x	11.8x	5.8x	4.8x	6.0x
Scope-adjusted debt/EBITDA	3.7x	2.3x	3.1x	4.8x	4.2x	3.3x
Scope-adjusted FFO/Debt	28%	43%	28%	16%	18%	24%
Scope-adjusted FOCF/Debt	8%	38%	-1%	-45%	-26%	-4%
Scope-adjusted EBITDA in HUF m						
EBITDA	4,790	8,120	16,716	12,189	13,474	16,237
Other (exceptional) items	0	0	-2,532	0	0	0
Scope-adjusted EBITDA	**4,790**	**8,120**	**14,184**	**12,189**	**13,474**	**16,237**
Funds from operations in HUF m						
Scope-adjusted EBITDA	4,790	8,120	14,184	12,189	13,474	16,237
less: (net) cash interest paid	-541	-772	-1,204	-2,092	-2,800	-2,700
less: cash tax paid per cash flow statement	-356	-610	-1,858	-1,487	-1,429	-1,921
add: dividends received from @equity	1,153	1,151	1,042	1,042	1,042	1,042
Funds from operations	**5,046**	**7,889**	**12,164**	**9,652**	**10,287**	**12,658**
Free operating cash flow in HUF m						
Operating cash flow after changes in WC[1]	6,484	9,932	15,518	-13,708	-897	15,498
less: capital expenditure (net)	-5,008	-2,865	-16,047	-13,018	-13,695	-17,587
Free operating cash flow	**1,476**	**7,067**	**-529**	**-26,726**	**-14,592**	**-2,089**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	-541	-772	-1,204	-2,092	-2,800	-2,700
Other items	0	0	0	0	0	0
Net cash interest paid	**-541**	**-772**	**-1,204**	**-2,092**	**-2,800**	**-2,700**
Scope-adjusted debt in HUF m						
Reported gross financial debt	16,127	17,196	47,213	68,059	65,359	62,660
less: cash and cash equivalents	-7,250	-12,840	-45,680	-43,035	-23,681	-16,830
add: non-accessible cash[2]	0	0	32,541	28,004	8,832	1,298
add: debt-like liability (advances from customers)	8,858	14,162	9,484	5,951	6,000	6,000
Scope-adjusted debt	**17,735**	**18,518**	**43,558**	**58,979**	**56,510**	**53,128**

[1] Reported operating cash flow after changes in working capital has been adjusted by dividends received (added) and dividends paid (excluded)

[2] Netting of cash: generally, only applicable to ratings in the BB category or higher, and only if the cash is permanent and accessible. KÉSZ's substantial cash sources (bond proceeds) are not fully considered as permanently accessible when calculating SaD as most of these proceeds are earmarked for investments into PPE, working capital expansion and real estate development. As part of a considerate financial policy, Scope assumes that a cash amount equal to c. 8% of total assets will remain permanently accessible (equal to the volume reported 2017-2020 before attraction of growth financing via bonds in 2021).

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 analysis is credit neutral

We did not identify any ESG-related rating driver which would have a relevant impact on our overall assessment on credit risk (neither positively nor negatively).

In particular, we acknowledge the established corporate governance set-up where business area directors and a management board make operational business decisions in compliance with the board of directors of the managing trustee and an independent supervisory board. In our view, the trustee managed ownership structure strongly supports a positive alignment of interests, where long-term business viability and corporate sustainability goals are dominant, and where the risk of disruption of these structures is very low. The positive alignment of interest is in our view further supported by the minority ownership of corporate shares among certain senior employees and executives (altogether < 10%). We also value efforts to keep up with business ethics trends by launching the “Clean Hand” compliance programme.

Given the extensive environmental impact of the construction industry, we see that medium to large companies, including KÉSZ Group, increasingly seek to reduce the use of energy and non-renewable materials as well limiting their environmental footprint of construction projects along the supply chain. This all as an effort to mitigate climate-related risks in line with the Paris Climate Agreement. The social aspect is also relevant, especially regarding practices that could severely impair reputation and financial performance (e.g. corruption, stakeholder management). KÉSZ Group plans to publish its first concise ESG report by 2023 and has mandated KPMG as advisor

The following ESG risks are the most relevant for construction companies: i) rising costs and sustainable building materials; ii) efficient technologies; iii) health and safety of employees; and iv) litigation and bribery.

[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: BB-

Industry risk profile: BB-

KÉSZ Group's business risk profile is mainly driven by the inherent exposure to the cyclical and competitive construction industry in Hungary and higher-risk CEE countries. This is especially true for less complex (residential/office) building activities where the market is highly fragmented and characterised by a strong link to economic cycles and low entry barriers. Nevertheless, we consider the entry barriers for specific segments such as infrastructure / civil engineering or large-scale industrial construction (main share of KÉSZ' activities) as medium to high. Reasons for this are in particular high capital requirements to enter large scale projects, technologic requirements (raw materials, equipment, prefabricated structures) and a reputable track record in project execution. As KÉSZ is active in various segments of the construction industry (including residential buildings) with a focus on large to medium-sized construction projects subject to rather high entry barriers, Scope's blended industry risk assessment scores BB-.

Damped macroeconomic mid-term outlook

A currently expected slowdown in the construction industry follows a dynamic, in our view unsustainable, 2021/22 post-COVID recovery where marked-wide contracted volumes had increased substantially due to catch-up effects, but also fuelled by state-incentives (subsidy schemes, VAT cuts, public procurement). KÉSZ's record high revenues were up by 40% YoY in 2021 (HUF 166.6bn) and are forecast to reach c. HUF 190bn (+14% YoY) in 2022. Side-effects of the Russia-Ukraine war such as building materials shortages, rising costs for materials, labour, energy or for prefabricated structures, capital outflows (HUF devaluation) or rising interest rates all contribute to the expected slowdown in our view. GDP growth is projected to slow to 2.5% in 2023 while the labour market is expected to remain tight, continuing to put upward pressure on real wages. A major risk is that a combination of stronger wage growth and continued high energy/commodity prices could aggravate inflation expectations and tighten monetary policy in our view.

Established market position among top 4 domestic constructions companies

KÉSZ's issuer rating is strongly supported by the long-established market position. Belonging to the group of domestic leaders in building construction, KÉSZ is among the top-four well-known Hungarian construction companies with a highly reputable project portfolio and international presence in the CEE region. The leading domestic peers include companies such as Market Építő, Duna Aszfalt or Strabag. Scope sees several specific advantages in respect of the competitive landscape which support the credit rating, most importantly the independence from external subcontractors due to a high degree of own resources within the group, covering almost the whole construction and civil engineering sector (e.g. steel structure manufacturing, facades, hydraulic or electrical engineering). This long-pursued vertical integration strategy provides barriers to entry in Scope's view and creates strategic benefits for the access to raw materials, new markets and large-scale tenders.

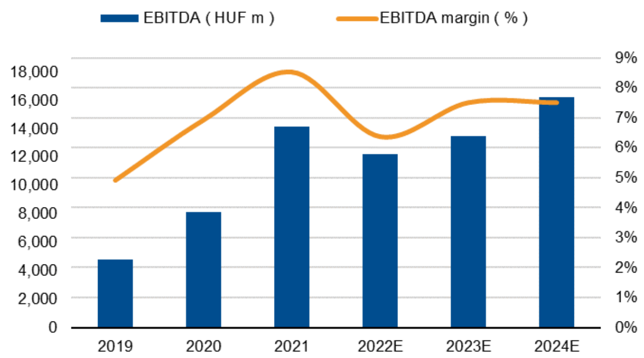
Weak diversification profile with notable concentration risks

Although KÉSZ has developed a fairly diverse business model since the early 90's, which proved its robustness even under challenging economic conditions, Scope thinks that KÉSZ is subject to some notable concentration risks with view to general construction activities in domestic markets: Around 95% of the total 2020/2021 group revenues were generated in Hungary and 5% outside (neighbouring CCE countries such as Romania), providing for only limited geographical diversification. Furthermore, the current order backlog (until 2024) indicates a notable revenue concentration among the top 10 customers as these account for more than 80% of contracted volume (top 3: > 60%), predominantly due to two large scale domestic projects (LEGO factory, BMW factory). We see this effect as only temporary as the remaining project pipeline (also including projects not yet part of contracted backlog) features more than 20 different projects with no such a heavy revenue concentration on a specific customer.

Efforts to reduce existing concentration risks

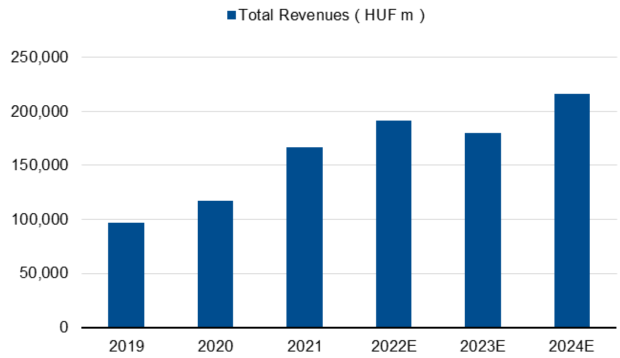
With view to the existing concentration risks, Scope notes KÉSZ' core achievements in mitigating these dependencies which include growing export trade volumes (segment steel structures), a growing CEE market share (real estate Romania/Serbia) and a wide portfolio of complementing activities next to general construction such as design, electrical implementation, hydraulic engineering, building structures, industrial technologies, energy generation, real estate management or logistic solutions. According to KÉSZ' internal segmentation, the company emphasizes that concentration of domestic general construction has decreased to around 60% (2021: 80%) within the current order book, while the total contracted volume increased by 28% (YoY).

Figure 1: Scope-adjusted EBITDA in HUF m



Sources: KÉSZ, Scope (estimates)

Figure 2: Total revenues in HUF m



Sources: KÉSZ, Scope (estimates)

Stable but rather weak operating profitability compared to peers; Solid contracted backlog

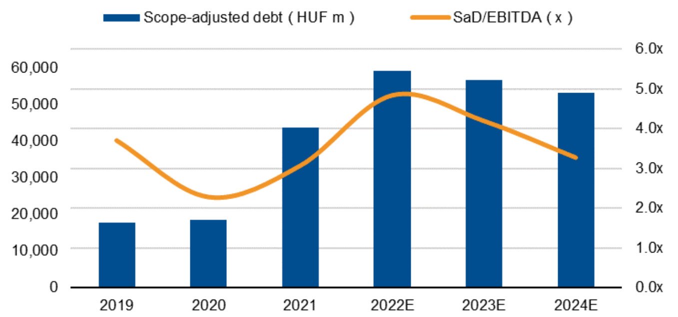
Operating profitability, as measured as the Scope-adjusted EBITDA margin (historic and estimated average sustainably below 10%), is assessed as rather weak but seen as fairly stable, especially in comparison to the other Hungarian construction peers, which keep exceeding KÉSZ' individual profitability range, some of which on a non-recurring basis. Scope expects that mounting inflationary pressures, building material supply disruptions and the currently dampened macroeconomic mid-term outlook will contribute to shrinking profit margins within the construction sector, keeping our expectation for KÉSZ' operating profitability at a low range between 6.5% and 7.5% (2022-24). In addition, Scope notes that KÉSZ's recurring operations rest on a solid contracted backlog which currently exceeds the expected 2022 group revenues by 1.2x (2021 revenues by 1.4x), while the book-to-bill ratio developed favourably (orderbook +28% YoY).

Financial risk profile: BB-

Business expansion to go along with rising debt levels

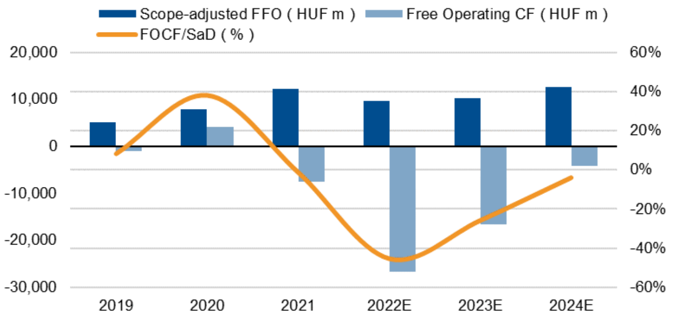
KÉSZ Group's financial risk profile mainly reflects our expectation that the amount of Scope-adjusted debt is set rise in order to finance the significant investment budget and build-up of working capital ahead. Overall, KÉSZ has a history of solid credit metrics and fairly stable current- and turnover ratios. After the 2021 first-time issuance of two corporate bonds (HUF 22bn+11bn), however, Scope-adjusted debt more than doubled, but KÉSZ Group could keep Scope-adjusted debt/Scope-adjusted EBITDA at around 3x (2020: 2.3x) thanks to a surge in operating profits. The proceeds are mainly earmarked to accelerate the group's expansion into real estate development (residential, office, industrial), to fund the expected build-up in inventories (construction work in progress), to refinance parts of bank debt and to invest into other activities (e.g. renewables, facade construction).

Figure 3: Scope-adjusted debt in HUF m



Sources: KÉSZ, Scope (estimates)

Figure 4: Free operating cash flow in HUF m



Sources: KÉSZ, Scope (estimates)

Gross financial debt expected to have more than tripled by end of year 2022

Financial liabilities comprise short-term (31/12/21: HUF 1.7bn; 30/06/22: HUF 3.7bn) and long-term (31/12/21: HUF 45.5bn; 30/06/22: HUF 45.3bn) liabilities. Since the second half of 2021 long-term financial liabilities mainly comprise long-term bonds (HUF 38.7bn), of which two were issued by KÉSZ Holding Kft. (HUF 22bn+11bn) and one by the 51% subsidiary 'Greenergy Holding Vagyonkezelő Zrt' (HUF 5.7bn; fully consolidated; stake acquired 2020). For Q4 2022 KÉSZ Holding Kft. is planning to issue a third bond in the amount of HUF 16.0bn and to attract additional debt financing of up to HUF 4bn which would increase total group financial liabilities to around HUF 68.0bn by 31/12/2022 (from HUF 17.2bn on 31/12/2020). Although EBITDA increased substantially since 2020 compared to historic levels, and is expected to remain high mainly fuelled by record high levels of contracted business, the rapid increase in gross financial debt by more than three times has an adverse impact on our assessment of leverage as Scope-adjusted debt/EBITDA is likely to exceed factor 4x by the end of year 2022.

Leverage ratio to temporally exceed 4x

We expect the substantial impact on ratios as only temporary and we don't expect SaD/EBITDA to exceed 4x substantially for a prolonged period of time. This seems especially true for the year 2022 (cut-off date effect) and for as long as EBITDA is not reflecting a decent return on the substantial investments funded by the bond proceeds (expected from 2024/25). Nevertheless, Scope will closely monitor the development during the next two years, as an unwanted operational development (leading to a substantial reduction of contracted backlog or profitability) may quickly lead to a longer than expected deterioration of KÉSZ's leverage ratio, which would create further downgrade pressure should KÉSZ's financial risk profile approach the B-category. Risks can emerge from the market side (prolonged cooldown), but also from the substantial investments into real estate development (esp. residential projects) which pose increasing development risk and cluster risk for profit generation in our view. To account for cash restrictions we have adjusted KÉSZ's currently very high cash sources (bond proceeds) which also had an adverse impact on the leverage ratio (see page 3). Without this adjustment the expected leverage ratio would remain well below 3.5x.

Interest coverage to fall below 7x sustainably

Interest coverage ratios were historically at exceptionally high levels (only little interest-bearing debt levels), but will decrease to still solid levels of around 6x EBITDA/interest due to the recent bond issues and their respective full year recognition of interest payments from 2022. In light of the rapid increases of the Hungarian base rate (28 Sep. 2022: 13.0%) to fight inflation and currency devaluation, we note that KÉSZ could secure its 2021/31 long-term funding at comparatively low fixed bond coupon rates of 2.8% and 4.1% respectively, supporting the maintenance of very solid interest coverage ratios looking forward.

Cash flow generation affected by huge working capital build-up

Regarding operating cash flow we notice that throughout the construction industry cash flow generation is often heavily driven by seasonal swings which stems from larger-scale projects with a higher concentration of cash flow sources and their higher pre-financing (working capital) requirements. Nevertheless, from 2017-2021 KÉSZ managed to grow its cash flow from operations in line with its rising business activities through efficient working capital management, improving its cash flow to turnover ratio from c. 3% (2017) to c. 9% (2021). For the years 2022 and 2023, however, we are expecting a huge build-up in working capital (already indicated by the half year financials 2022), which will direct cash flow generation into negative territory. This is mainly due to a sharp increase of construction work in progress volumes and the related increase in inventory levels caused by accelerated investments into real estate developments (e.g. two large residential real estate projects in Romania and Serbia). The expansion shall be funded by the bond proceeds 2021 and the planned bond proceeds in Q4 2022.

Free operating cash flow to turn negative from 2022 due to accelerated investments

Besides working capital expansion, future free cash flow generation will be affected by investments into KÉSZ`s fixed asset base: Backed by the bond proceeds 2021/22, KÉSZ plans to invest into the modernization of its construction technologies and (IT-) infrastructure (e.g. automation, implementation of eco-friendly technologies) to expand its own construction capacities, and to invest into new specialised construction activities (e.g. fire protection, facades: 2022 acquisition 90% of FRONTAL Group) or other industries (e.g. logistics, health, renewable energies: project portfolio of Greenergy). During the investment cycle (2022-2024) FOCF will remain negative, while positive working-capital effects from the release of cash of finished construction projects should help to counterbalance this effect from 2024 in our expectation.

Adequate liquidity

Liquidity is expected to remain adequate as available cash sources cover all short-term debt maturities (maturing within one year). We also see that the expected negative FOCF caused by the planned working capital build-up and capex expansion 2022/23 is well covered by the 2021/22 bond proceeds which benefits Scope's near-term liquidity assessment. Overall, KÉSZ currently has solid liquidity sources (bond proceeds) and a good standing in credit markets, demonstrated by solid relationships with its banks, prudent financial policies and a decent investor appetite for the 2021/31 corporate bonds. For 30/06/22 KÉSZ reported HUF 24.9bn in cash while stating that on 31/07/22 c. HUF 3.0bn of unutilised overdraft facilities were available, of which c. 65% were EUR denominated (overall utilization rate: 52%). For Q4 2022 the company plans to attract further bond financing. Including this new proceeds, liquid sources are likely to exceed HUF 40bn by the end of 2022.

Balance in HUF m	2022E	2023E	2024E
Unrestricted cash (t-1)	45,680	43,035	23,681
Open committed credit lines (t-1)	3,000	3,000	3,000
Free operating cash flow	-26,726	-14,592	-2,089
Short-term debt (t-1)	1,705	2,700	2,700
Coverage	**12.9x**	**11.6x**	**9.1x**

Supplementary rating drivers: +/- 0 notches

Financial policy: neutral

Scope believes that KÉSZ pursues a moderately balanced financial risk policy with stringent investment criteria underpinned by a positive alignment of owner's interests with long-term business viability (trustee ownership structure). Historically, KÉSZ' capital structure was subject to rather low leverage ratios and modest investment activities, mainly funded by internally generated funds. Since 2021/2022, however, the substantial debt-funded investment program, initiated with the help of MNB's bond funding for growth scheme (2021 bonds: HUF22bn + HUF11bn), has changed the picture. Despite new substantial debt-funded expansionary investments are currently being planned by the company (mainly real estate funded by Q4/2022 HUF 16bn secured bond), the management is committed to keep net debt/EBITDA below 4.0x in the medium term.

Overall, Scope will closely observe how financial policy evolves over time and how this affects management's 'risk appetite' for discretionary spending (such as for acquisitions or dividends). Other corporate targets are to maintain a cash buffer, sufficient liquidity for operations and the ability to invest in growth opportunities. Furthermore, annual dividends of c. HUF 2.0bn are planned according to business plan (c. 20% of EBT).

Long-term debt ratings

Senior unsecured debt rating: BB

In 2021 KÉSZ Holdings Zrt. has issued two series of senior unsecured bonds (total amount: HUF 33bn) under the Hungarian National Bank's Bond Funding for Growth Scheme (BGS) to support the group's working capital financing needs and to secure long-term funding for group wide expansion plans. The bonds are structured as partially amortising balloon notes with a term of 10 years. Repayment begins from 2026 with a rate of 10% annually. The balloon payment (50%) is due at maturity in 2031. The bonds are listed on the Budapest Stock Exchange (ISIN: HU0000360466; HU0000360870). For Q4 2022, the group plans to issue a third (secured) bond (HUF 16bn, 7 years) collateralised by a 80% public surety guarantee provided by the state of Hungary.

Scope's recovery analysis for senior unsecured debt follows a hypothetical default scenario and is based on an assumed liquidation of KÉSZ Group's assets, as Scope assumes the sum of the companies subsidiaries, assets and project pipeline to be of a higher value than the group as a whole. Scope's view is driven by the relatively high level of vertical integration represented by individual companies that form part of the group. Overall, Scope expects an 'above average recovery' for the holders of KÉSZ' senior unsecured debt. The bonds shall remain the primary source of external long-term funding. KÉSZ Group is expanding into new and modern production facilities and the development of real estate projects and renewable energy projects ('Greenergy'), backed by a solid contracted order backlog and a valuable project pipeline, which we expect to maintain higher values in distressed situations. Scope's recovery assessment results in a BB debt instrument rating for KÉSZ's series of senior unsecured bonds (one notch above the underlying issuer rating).

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