Szinorg Universal Zrt.

Hungary, Construction

Issuer
B

Outlook
Stable

Senior unsecured debt
B+

Rating composition

Business Risk Profile		
Industry risk profile	B+	B
Competitive position	B	
Financial Risk Profile		
Credit metrics	B+	B+
Liquidity	+/-0 notches	
Standalone credit assessment		**B**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Parent/government support	+/-0 notches	
Governance & structure	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**B**

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024P**	**2025E**
Scope-adjusted EBITDA interest cover	Net Cash	Net Cash	Net Cash	Net Cash
Scope-adjusted debt/EBITDA	3.8x	2.2x	4.5x	10.7x
Scope-adjusted funds from operations/debt	30%	58%	28%	9%
Scope-adjusted free operating cash flow/debt	-67%	62%	-42%	-27%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenarios for the rating and Outlook (collectively):

- Improved business risk profile, with a significantly larger development pipeline including a backlog of more than one year and improved diversification (by customer and project)
- Scope-adjusted debt/EBITDA remained at around 4x, enabled by a higher-than-anticipated recurring EBITDA contribution from the issuer's investment properties

The downside scenarios for the rating and Outlook (individually):

- Backlog of below 1x
- Liquidity worsens, for example, through significant delays in customer payments or non-recoverable cost overruns in projects

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Related methodologies

General Corporate Rating Methodology LINK, Oct 2023

Construction and Construction Materials Rating Methodology LINK, Jan 2025

Table of content

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Good regional position translating into local visibility and moderate access to third-party financing sources and guarantees • Strong liquidity with about HUF 9.9bn in cash further supported by available undrawn overdrafts totalling HUF 2.2bn as of December 2024 • Healthy debt protection despite sharp anticipated increase in interest-bearing debt	• Small construction group in Europe and lack of geographic and segment diversification, somewhat mitigated by the strong position in a niche market • Concentrated contracted backlog with the top three projects accounting for 64% of the backlog, partially mitigated by the real estate properties that provide recurring income • Negative free operating cash flow, which translates into increased indebtedness due to Szinorg's investment phase

2. Rating Outlook

The Stable Outlook reflects the improved share of contribution of real estate asset in the group's EBITDA, which strengthens the company's recurring income base and partially mitigates the volatility related to the strained construction business. The real estate assets deliver higher profitability margins, which should also counterbalance the margin of construction activities that are expected to remain under pressure. Additionally, the Outlook incorporates the one-time exit revenue from a real estate asset, a new accommodation project, and the expansion of the group's industrial halls. The Outlook also assumes ongoing adequate access to external financing to finance the company's business plan.

3. Corporate profile

One of the largest construction groups in eastern Hungary

Szinorg Universal Zrt. (Szinorg), headquartered in Debrecen, is one of the largest construction groups in eastern Hungary. Its activities include the construction, development, and property and facility management of real estate assets. The group's largest construction subsidiary by revenues is Hunép Zrt. Note that in 2024, the company completed the merger of its other main construction subsidiary, HC Építő Kft, into Hunép Zrt. Other large subsidiaries include Hajdu-Alu Zrt. (producer of curtains walls, doors and windows) and Bajcsy Invest Kft. (hotel management).

In 2024, the contribution of other business lines, through activities in accommodation and letting of industrial assets, generated 32% of the group's EBITDA.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
28 Jan 2025	Affirmation	B/Stable
1 Feb 2024	Outlook change	B/Stable
1 Feb 2023	Outlook change	B/Negative

5. Financial overview (financial data in HUF m)

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024P**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	Net Cash	Net Cash	Net Cash	Net Cash	9.6x
Scope-adjusted debt/EBITDA	3.8x	2.2x	4.5x	10.7x	11.1x
Scope-adjusted funds from operations/debt	30%	58%	28%	9%	8%
Scope-adjusted free operating cash flow/debt	-67%	62%	-42%	-27%	-29%
Liquidity	>200%	>200%	>200%	>200%	>200%
Scope-adjusted EBITDA					
EBITDA	1,675	2,532	2,085	1,561	1,616
Change in provisions	(17)	517	(398)	-	-
Scope-adjusted EBITDA	**1,658**	**3,049**	**1,687**	**1,561**	**1,616**
Scope-adjusted funds from operations					
Scope-adjusted EBITDA	1,658	3,049	1,687	1,561	1,616
less: Scope-adjusted interest	387	1,346	665	29	(168)
less: cash tax paid	(165)	(439)	(232)	(103)	(64)
Other non-operating charges before FFO	-	-	-	-	-
Scope-adjusted funds from operations (FFO)	**1,880**	**3,956**	**2,120**	**1,487**	**1,384**
Scope-adjusted free operating cash flow					
Scope-adjusted FFO	1,880	3,956	2,120	1,487	1,384
Change in working capital	(1,255)	(1,828)	(2,429)	1,331	(3,816)
Non-operating cash flow	3,043	3,357	(160)	-	-
less: capital expenditures (net)	(7,877)	(1,233)	(2,750)	(7,343)	(2,722)
Other items	-	-	-	-	-
Scope-adjusted free operating cash flow (FOCF)	**(4,209)**	**4,252**	**(3,218)**	**(4,525)**	**(5,154)**
Scope-adjusted net cash interest paid					
Net cash interest per cash flow statement	(387)	(1,346)	(665)	(29)	168
Scope-adjusted net cash interest paid	**(387)**	**(1,346)**	**(665)**	**(29)**	**168**
Scope-adjusted debt					
Reported financial (senior) debt[1]	6,247	6,850	7,670	16,720	17,900
Scope-adjusted debt (SaD)	**6,247**	**6,850**	**7,670**	**16,720**	**17,900**

[1] No netting of cash: generally, only applicable to ratings in the BB category or higher, and only if the cash is permanent and accessible.

6. 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)

ESG factors: credit positive credit negative credit neutral

ESG considerations

ESG factors remain neutral for the rating. We acknowledge, however, the group's implemented sustainability measures and issued its first sustainability report. These include: i) strengthening sustainability efforts regarding the Mercure Hotel, achieving the Green Key Certificate and a BREEAM Excellent rating in the In-Use category; ii) the signature of a subsidy agreement for the energetic development of Hajdu-Alu Zrt.; and iii) the continued participation in the Sustainable Debrecen Program.

[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.

7. Business risk profile: B

Industry risk: B+

Szinorg's activities remain primarily exposed to construction, real estate development and the facility management of some group properties. Construction accounts for most of the business: Hunép contributed around 77% of revenues in 2024.

It is worth noting that, as expected in previous years, revenue and EBITDA from the real estate business – negligible until 2022 – started to contribute in 2023. In 2024, the EBITDA contribution from hotel operations and rental income from warehouses represented approximately 32% of the group's EBITDA.

We applied weights based on the EBITDA contribution of each business line based on the 2024 figures (see Figure 1). The result was a group-weighted average industry risk of B+.

Table 1. Expected EBITDA split by business line

Business line	Activities	EBITDA contribution (2024P)	Industry risk
Construction	Buildings	68%	B
Real Estate	Development – Residential units	0%	BB
	Commercial activities	10%	BB
Leisure and Entertainment	Hotel operations	22%	BB
Weighted average industry risk			**B+**

Construction activity driving revenue decline

Preliminary figures for the end of December 2024 indicate that Szinorg's revenues reached approximately HUF 22bn, representing a 12% YoY decline. This decrease can be primarily attributed to reduced construction activity, aligning with the broader economic downturn. Despite the overall stressed construction market, the industrial boom in Debrecen has partially offset the impact, resulting in a higher volume of local projects. However, these opportunities have also attracted increased competition. Over the past few years, Szinorg's core market of Debrecen has experienced substantial growth driven by strong foreign investment, with a significant portion concentrated in Debrecen[3]. This influx of investment has provided a counterbalance to the delays in EU-funded government projects, which have been postponed due to ongoing rule-of-law concerns and disputes with the European Union.

The group has developed a strategic business plan to enhance its revenue streams by expanding its real estate portfolio, aiming to generate both recurring income and sales proceeds. This plan focuses on two key projects: constructing a new logistics hall in 2025 and refurbishing and operating a new hotel.

Small player in both a European context and domestically

However, Szinorg's market share in Debrecen's real estate market is negligible. Since the group's small portfolio is split across multiple asset classes, it does not have significant market power or visibility in the markets in which it operates. The group is targeting some further growth, including various residential projects, one of which is located in the Balaton Lake region. Targeted growth does not materially affect our assessment of Szinorg's market positioning or market shares, as this pipeline remains subject to heightened risks, including lower demand for residential developments and potential delays in project execution and handover. Small size is a negative rating driver as it limits the group's ability to benefit from economies of scale and to offset the impact of economic cycles.

Recurring income to partially mitigate cyclicality form the construction sector

The group has mitigated cyclicality risks in the construction sector by developing a diverse real estate portfolio that generates both recurring income and sales proceeds. In 2024, the group's EBITDA saw improvement due to increased occupancy rates and rental income from its compact yet strategic portfolio of industrial assets, which contributed approximately 32% to the overall

[3] Debrecen has successfully attracted EUR 12bn in foreign investment over 2018-2023.

EBITDA. Looking ahead, the combined contribution from these real estate and rental operations is projected to expand significantly, potentially accounting for over two-thirds of the group's EBITDA by 2026. This shift reflects a strategic rebalancing of the business model, compensating for an anticipated decline in construction sector contributions.

Limited diversification

Geographical diversification remains limited. Activities are concentrated in eastern Hungary, with more than 80% of revenues from projects in Debrecen and the surrounding areas. Szinorg intends to maintain this focus as it defines itself as a specialist and prefers to benefit from its good local knowledge and networks. While this seems prudent given its small size, it fully exposes the group to the macroeconomy of one region.

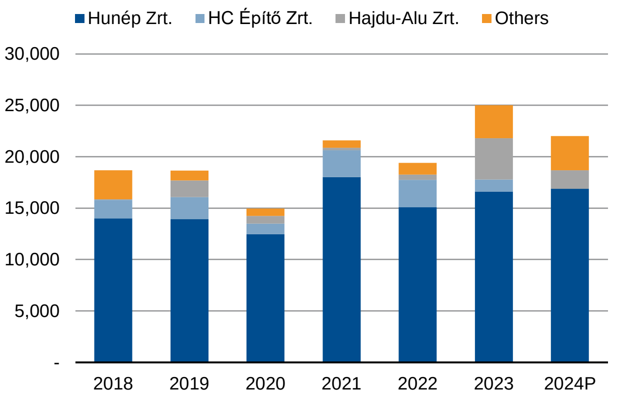
Concentrated but balanced customer mix

Szinorg's limited size results in high customer concentration, as the company can only manage a limited number of projects simultaneously, exposing it to significant risk if a single project fails. To mitigate this vulnerability, the company has strategically diversified its client base. While it previously maintained a balanced ratio of public to private customers, demonstrating proficiency in both sectors, since 2023 Szinorg has shifted its focus towards the private sector to protect revenue from potential government spending slowdowns. Consequently, private sector clients now constitute over 70% of Szinorg's 2024 revenues, helping to partially insulate the company from public sector fluctuations and potentially leading to more stable income streams, albeit with new challenges such as increased private sector competition.

Real estate activities slightly improving diversification

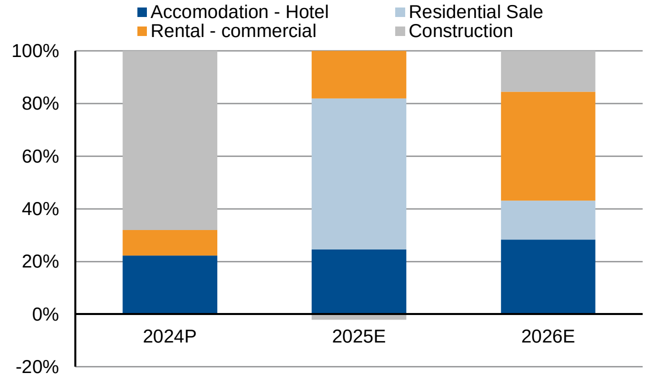
Szinorg has made progress in diversifying its portfolio with the addition of three real estate properties: two industrial assets and one hotel, which now provide recurring income. However, the portfolio's limited size still results in high tenant concentration, with each asset being single-tenant. The industrial properties are fully leased with long-term contracts, boasting a weighted average unexpired lease term of 9 years as of December 2024. The Mercure Hotel, benefiting from its prime location and lack of direct competition in its business segment, has seen increasing demand. This is evidenced by the hotel's average occupancy rate which improved significantly above 70% in 2024 from 63% in 2023, surpassing the company's initial projections of over 65% for the coming years.

Figure 1: Revenue breakdown by company[4] (HUF m)



Sources: Szinorg, Scope

Figure 2: EBITDA breakdown by activities (%)



Sources: Szinorg, Scope

Backlog still concentrated

The backlog, however, remains concentrated, with the top three and ten projects accounting for 64% and 95% of future contracted revenues, respectively. There is a persistent cluster risk in the order backlog, as the most significant project related to the residential development in the Balaton Lake region which the company plans to start construction of the project in late 2025, with a planned handover by year-end 2027. Such concentration carries the risk of considerable cash flow volatility if projects are delayed or cancelled.

[4] HC Építő Zrt. was merged into Hunép Zrt. in 2024.

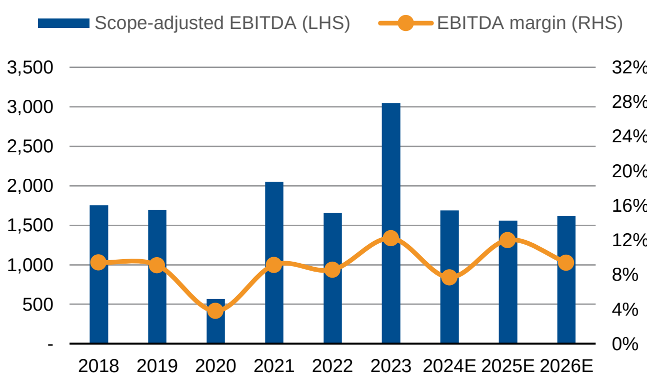
The backlog as of January 2025 amounts to HUF 40bn (including signed construction and real estate projects, as well as close to be signed real estate projects developments), resulting in a backlog of 1.8x. However, a significant portion of the backlog (35% or HUF 14bn) relates to own real estate projects, notably the above-mentioned development in the Balaton Lake region.

Stabilized profitability supported by one time event and high margin recurring activities

Profitability as measured by the Scope-adjusted EBITDA margin is forecasted to decrease in 2024, primarily due to changes in provisions between 2023 and 2024 resulting in a margin deterioration of almost 5 percentage points to 7.7% in 2024 from 12.2% in 2023.

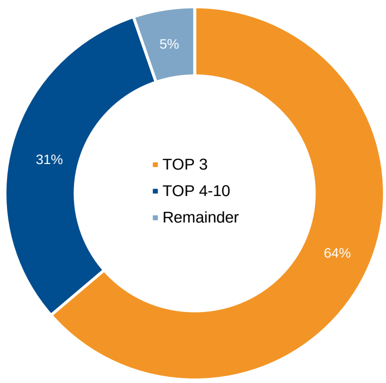
Szinorg's profitability margin is expected to exceed 12% in 2025, driven by a one-time real estate asset exit. Without this, the EBITDA margin would drop to around 5%, constrained by challenges in the low-margin construction segment. However, higher-margin recurring businesses, such as hotel operations and letting activities, will support profitability, with the latter ensuring cash flow visibility through long-term leases. In 2024, industrial leasing achieved a 75% margin, and hotel operations reached 27%, resulting in a combined margin of 34% for these segments.

Figure 3: Scope-adjusted EBITDA (HUF m) and Scope-adjusted EBITDA margin



Sources: Szinorg, Scope

Figure 4: Top projects in the construction backlog, 2024 (%)



Sources: Szinorg, Scope

8. Financial risk profile: B+

Growth strategy at the expense of increased leverage

The financial risk profile is constrained by our expectation of higher leverage and negative FOCF. This is attributed to increased working capital needs and the substantial investment in the real estate portfolio. We expect that while the real estate portfolio, along with the construction backlog, will continue to strengthen revenues and cash flow, credit metrics will come under pressure over the next few years.

Increasing financial debt to finance real estate development

As of December 2024, the bank loans totalled HUF 2.7bn. The group plans to add further loans of about HUF 8.6bn in the period to 2026. This increase in loans stems from the planned Mercure Debrecen refinancing (HUF 3bn equivalent loan, binding offer received in December 2024) and the planned logistics hall development (HUF 5.6bn equivalent loan). As a result, we anticipate an increase in leverage (Scope-adjusted debt/EBITDA) to above 11x by the end of 2026. This projected increase in leverage is due to upcoming real estate developments and their deferred contribution to EBITDA.

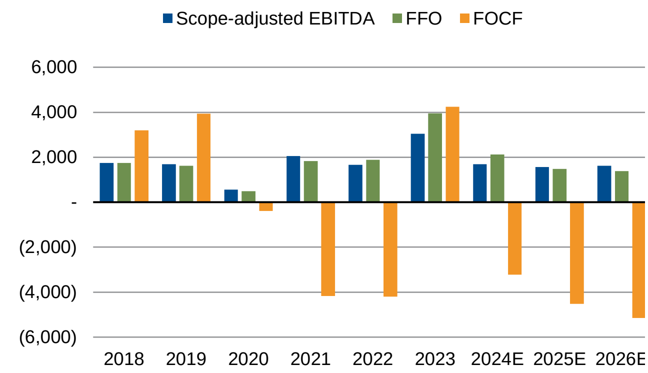
Adequate debt protection metrics despite debt increase in 2020

The interest result was positive in 2024, supported by income from investments in securities and low debt expenses, as the HUF 5bn bond carries a fixed rate of 3%. We anticipate that the interest result will turn negative in 2026, given the higher debt burden. The floating rates on the loans also expose the group to potential fluctuation in the Euribor rate although majority of current debt is fixed (88%).

Free operating cash flow impacted by development pipeline

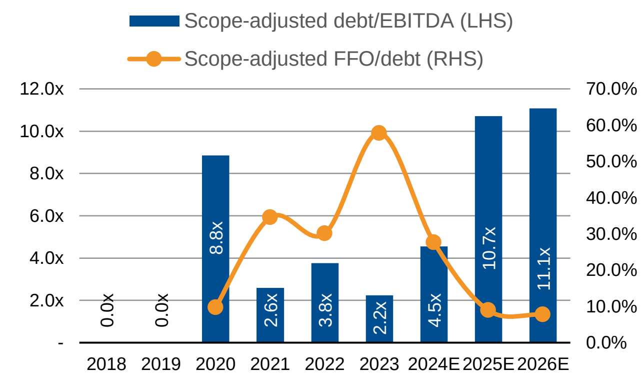
We expect FFO to remain positive in the coming years. However, FOCF will turn negative and remain so over the next few years, driven by the build-up of the real estate development portfolio. Projects will be financed using currently available funds (liquidity of above HUF 9.9bn as of December 2024) and potential customer advances.

Figure 5: Cash flows (HUF m)



Sources: Szinorg, Scope

Figure 6: Leverage



Sources: Szinorg, Scope

Adequate liquidity

Liquidity remains adequate and benefits from cash sources of approximately HUF 9.9bn of cash and equivalents as of December 2024, alongside available overdrafts totalling HUF 2.2bn. The debt maturity profile is back loaded, featuring a HUF 5.0bn bond maturing only in 2030, with no significant repayments required prior to that date. Nonetheless, external liquidity will be necessary to finance capex and working capital requirements.

Table 2. Liquidity sources and uses (in HUF m)

	2024P	2025	2026
Unrestricted cash (t-1)[5]	13,414	9,873	14,398
Open committed credit lines (t-1)[6]	-	-	-
FOCF (t)	-3,218	-4,525	-5,154
Short-term debt (t-1)	110	180	370
Liquidity	**>200%**	**>200%**	**>200%**

Source: Scope Ratings

9. Debt ratings

Senior unsecured debt rating: B+

The rated entity issued a HUF 5.0bn senior unsecured corporate bond (ISIN HU0000359633) in 2020. Our recovery analysis is based on a hypothetical default scenario in 2026, which assumes outstanding senior unsecured debt of HUF 5.0bn, additional bank loans of HUF 12.9bn, with fully drawn overdrafts of HUF 2.2bn. The recovery assessment results in an 'above-average' recovery for senior unsecured debt, which translates into a B+ rating, one notch above the underlying issuer rating. The risk that the amount of senior unsecured debt increases on a path to default constrains the uplift.

[5] Considers cash and available money market instruments.
[6] Available overdrafts are excluded from our liquidity calculation as those are yearly rolling facilities. However, we acknowledge Szinorg's long term relationship with various financial institutions.

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