Greenergy Holding Vagyonkezelő Zrt Hungary, Utilities

SCOPE B+ STABLE

Corporate profile

Greenergy Holding Vagyonkezelő Zrt (Greenergy) is a small Hungarian utility. It operates about two dozen small-scale power plants with a total combined capacity of about 50 MW, primarily CHP (combined heat and power) plants, across Hungary. The company's business model is supplemented with O&M services for its own and third-party power plants, energy services and energy trading.

Greenergy's current structure was created via a partial management buyout, supported by an anchor investor. Ownership changed significantly in 2020 with the establishment of PARATUS Energy Kft as the new 100% owner – an investment company owned by Hungarian construction company KÉSZ Group (51%) and its two Directors Mr Dósai and Mr Dajbukát (24.5% each).

Key metrics

			Scope estimates		
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**	**2023E**
EBITDA/interest cover	11x	27x	9x	7x	9x
Scope-adjusted debt (SaD)/EBITDA	2.4x	2.2x	6.7x	5.3x	4.4x
FOCF/SaD	32%	-35%	8%	-15%	-14%
Liquidity	67%	-185%	>200%	>200%	>200%

Rating rationale

Scope Ratings GmbH (Scope) has today assigned a first-time issuer credit rating of B+/Stable to Hungary-based utility Greenergy Holding Zrt. Concurrently, Scope has assigned a first-time long-term debt rating of BB to senior unsecured debt issued by the company.

Greenergy's rating is supported by its operation of small-scale, decentralised power generation assets across Hungary, generating robust cash flow streams and supporting solid interest cover. However, the rating is held back by the company's very small scale and outreach as well as increased leverage during its current debt-financed, multi-year expansion phase.

Outlook and rating-change drivers

The Stable Outlook reflects Greenergy's largely debt-funded growth ambitions over the next few years, which are likely to weigh on its financial risk profile by YE 2023 and a materially increasing leverage (Scope-adjusted debt/EBITDA) which is expected to settle at around 4x by the end of the investment phase. However, the anticipated growth strongly supports solid interest coverage remaining consistently above 6x.

A positive rating action may be warranted if the company achieves growth resulting in the removal of the negative rating adjustment for peer group while at least maintaining its current financial risk profile. For the time being, this is deemed remote. Alternatively, we may consider a positive rating action if leverage improves to around 3x on a sustained basis.

A negative rating action could be required if Greenergy's growth trajectory does not materialise as expected, e.g. with significantly lower earnings contributions from newly integrated power generation assets. The shortfall in expected earnings growth could result in a sustained Scope-adjusted leverage of above 4.5x or EBITDA interest coverage materially below 5x on a sustained basis, which could lead to a negative rating adjustment.

Ratings & Outlook

Corporate rating	B+/Stable
Senior unsecured rating	BB

Analyst

Sebastian Zank, CFA
+49 30 27891-225
s.zank@scoperatings.com

Related Methodologies and Research

Rating Methodology: Corporate Ratings, Feb 2020

Rating Methodology: European Utilities, Mar 2021

ESG considerations for the credit ratings of utilities, Apr 2021

Capex quandaries divide European industry: Utilities spending contrasts with oil & gas, chemicals; telecoms investment steady, Mar 2021

European Utilities Outlook 2021, Feb 2021

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating drivers

Positive rating drivers	Negative rating drivers
• Power generation portfolio comprising decentralised small-scale energy generation units (heat and electricity) with sufficient granularity and significant growth trajectory related to the ramp-up of generation capacities and storage with limited execution risk • Robust business exposure to quasi-monopolistic heat generation and supply to district heating networks and reputable industrial/commercial customers under multi-year contracts • Cash flow enhancement through company's virtual power plant and its ability to provide reserve capacity to Hungarian transmission system operator MAVIR, including volatile renewables and peak-load eligible gas-fired power plants (ESG factor: credit-positive environmental factor) • Solid debt protection and liquidity after fundraising under MNB bond programme • Expected recurring EBITDA margin of 15%-23%, which should improve gradually based on a growing business exposure to power generation • O&M and EPC exposure for company's own and third-party generation assets	• Very limited size, scale and outreach even if energy generation capacities are doubled over the next few years • Expected leverage of 4.0x to 4.5x, strongly driven by strategic, largely debt-financed investment phase over the next few years with headroom for deleveraging in 2024 and beyond • Material dependency on achievable power prices for outright electricity production (which are fairly volatile on the OTC/HUPX) and significant dependence of achievable EBITDA margin on non-controllable gas procurement prices • Material potential exposure to adverse forex developments • Business exposure almost entirely linked to core market of Hungary for the foreseeable future • Rating adjustment for peer group comparison

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Significant corporate growth while maintaining financial risk profile with a leverage (Scope-adjusted debt/EBITDA) of 4.0-4.5x • Alternatively, Scope-adjusted debt/EBITDA of around 3.0x and below	• Sustained leverage of more than 4.5x or EBITDA interest coverage dropping to below 5x

Financial overview

			Scope estimates			
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
EBITDA/interest cover (x)	11x	27x	9x	7x	9x	9x
Scope-adjusted debt/EBITDA (x)	2.4x	2.2x	6.7x	5.3x	4.4x	3.8x
Free operating cash flow/Scope-adjusted debt (%)	32%	-35%	8%	-15%	-14%	15%
Liquidity (internal and external)	67%	-185%	>200%	>200%	>200%	>200%
Scope-adjusted EBITDA (HUF m)						
Reported EBITDA	13,867	1,106	1,177	1,419	1,863	1,910
One-offs	-13,172	0	0	0	0	0
Other adjustments*	232	-136	-50	-48	-45	-43
Scope-adjusted EBITDA	928	970	1,127	1,372	1,818	1,866
Interest (HUF m)						
Net interest paid	99	36	127	201	209	217
Interest received	-12	-1	-	-	-	-
Scope-adjusted interests	88	36	127	201	209	217
Scope-adjusted debt (HUF m)						
Gross financial debt	1,580	1,616	6,841	6,557	7,363	7,095
deduct: cash and cash equivalents	-358	-282	-5,196	-2,663	-89	-659
add: restricted cash (earmarked for investments)	-	-	5,196	2,663	89	-
add: contingent liabilities (75% of provisions for asset overhauls)	974	755	717	681	647	615
Scope-adjusted debt (SaD)	2,196	2,088	7,558	7,238	8,010	7,051

* Adjustments for profit/loss on derecognising fixed assets, net changes in provisions, non-cash revenue

Business risk profile: BB-

Business risk profile supported by solid business proposition related to cogeneration

The issuer rating primarily reflects Greenergy's solid cash flow generation in the context of the company's size and its changing financial risk profile amid its current strategic investment phase. While small, with a generation capacity of only about 45 MW, primarily related to gas-based CHP cogeneration assets, Greenergy's cash flow profile and credit quality are supported by its solid position in electricity and power generation. Heat generation and supply provide stable cash flows, bolstered by local oligopoly or even monopoly positions, a robust and flexible tariff setting framework and medium- to long-term contracts with industrial/commercial off-takers or municipal off-takers for district heating.

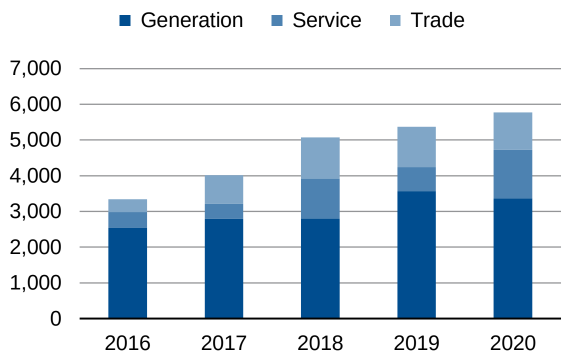
Industry-inherent volatility of largely unregulated power generation

In contrast, Greenergy's exposure to electricity generation and supply, which provides about 50% of the company's revenues, is subject to industry-inherent volatility related to merchant risks. Such potential earnings volatility can only be partly offset by Greenergy's ability to provide balancing capacity to Hungary's transmission grid operator MAVIR via its 'virtual power plant'. Consequently, the company's power generation fleet with a peak- and baseload-capable decentralised cogeneration portfolio, enhanced by renewable energy capacities, is a positive environmental ESG rating driver, which supports the stability and diversity of Greenergy's business model and limits regulatory risk.

Limited scale a key rating constraint

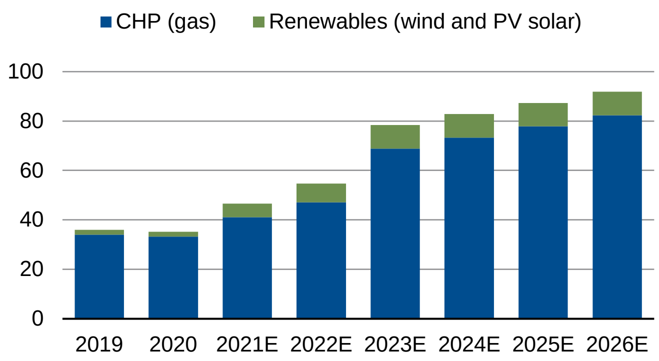
Greenergy's rating is held back to some extent by its limited scale and regional risk mitigation. Although we expect a steep growth trajectory, with a doubling of generation capacity in cogeneration and unregulated renewables, supplemented by additional growth in energy storage and energy services, the company will remain rather small in terms of cash flow generation. We judge execution risks related to the capacity ramp-up and envisioned strengthening of the business services segment to be low. The integration of new greenfield and brownfield power plants should not be overly challenging, given the company's long-standing expertise in operating small-scale, decentralised CHP plants. Similarly, we do not expect the integration of selective brownfield wind or solar parks to raise major concerns.

Figure 1: Revenue split across segments (HUF m)



Source: Greenergy, Scope

Figure 2: Envisioned portfolio ramp-up (MW)

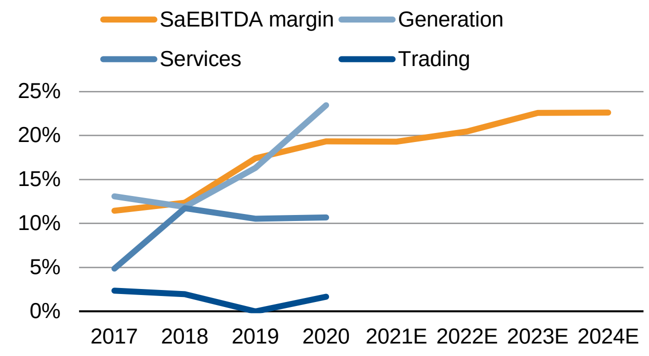


Source: Greenergy, Scope

Achievable margins and cash flows support the rating... but industry-induced margin volatility cannot be ruled out

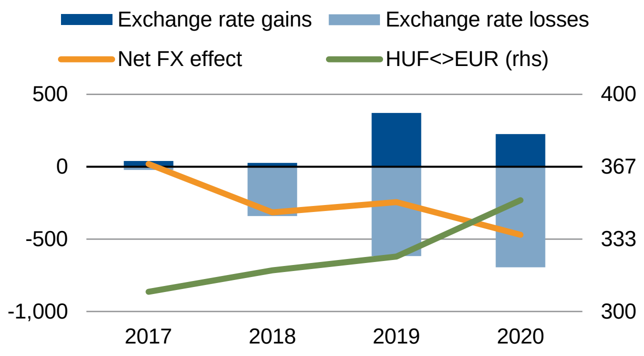
The company's solid cash flow generation is evidenced by its sound recurring EBITDA margin, which we expect to range between 15% to 23%. The margin is largely supported by the higher-margin generation business and somewhat diluted by the services and trading business. We expect Greenergy's margin profile to improve slightly over the next few years, bolstered by a larger share of higher-margin power generation activities. This should counterbalance the likewise growing absolute exposure to business services and scaling effects amid the company's overall growth. However, material cash flow risk arises from potential adverse forex effects and a non-controllable pricing environment for gas procurement.

Figure 3: Scope-adjusted EBITDA and segment margin



Source: Greenergy, Scope

Figure 4: Significant net FX losses following persistent HUF depreciation (HUF m)



Source: Greenergy, ECB, Scope

Financial risk profile: BB-

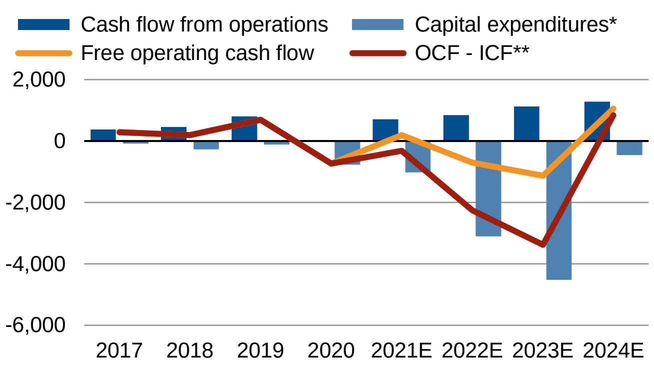
We deem Greenergy's future cash flow development to be driven by

- Issuance of a 10 year senior unsecured corporate bond under the MNB Bond Funding for Growth Scheme with a face value of HUF 5.7bn (equivalent to around EUR 16m) and assumed fixed coupon of 3%
- Full usage of the bond proceeds to partially finance HUF 8bn investment plan, executed between 2021 and 2023
- Significant revenue growth between 2021 and 2023 of 15%-20% p.a. bolstered by major capacity ramp-up in power production through greenfield and brownfield investments and expected expansion of energy services
- EBITDA margin expected to gradually increase, backed by the growing share of above-group-average generation business
- Lower level of annual deprecation following asset revaluations in 2019/2020 and prolongation of "economically useful depreciation range"
- No dividend pay-outs likely until 2025; shareholder remuneration only through interest payments on shareholder loan
- Debt repayments in line with assumed maturity schedule, primarily related to paydown of shareholder loan over the next few years
- Gradual net reduction of provisions-linked asset overhauls, which will largely take place over the next few years

Envisioned placement of HUF 5.7bn bond and large capex programme

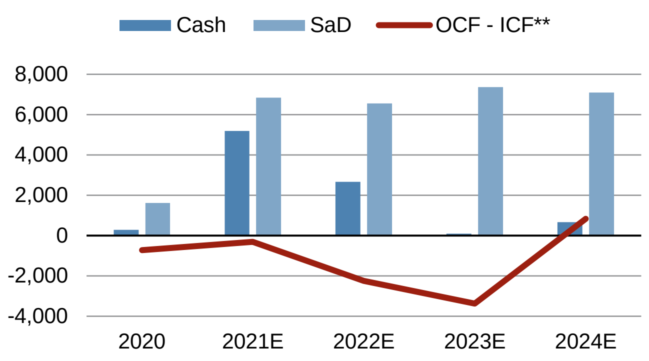
The company's expected organic and dynamic expansion, with scheduled capex of more than HUF 8bn between 2021 and 2023, will weigh heavily on free operating cash flow (FOCF) and its financial risk profile. However, we assume that required funding will be made available in line with the company's funding strategy, primarily based on the placement of a HUF 5.7bn bond under the MNB Bond Funding for Growth Scheme.

Figure 5: Investment phase weighing on FOCF (HUF m) …



Source: Greenergy, Scope expectations

Figure 6: … with corresponding negative effect on cash buffer and SaD (HUF m)



Source: Greenergy, Scope expectations
* for organic and dynamic growth
** operating cash flow minus investing cash flow

Medium-term leverage of 4.0-4.5x

Incorporating our expectations regarding Greenergy's growth trajectory over the next few years, we expect leverage (which comprises contingent liabilities for asset overhauls and restricted cash earmarked for investment) to settle at about 4.0x-4.5x over the medium term. While material investments will burden leverage metrics in the short term, the expected cash contributions from new investments, for which we see little execution risk, are likely to strengthen the company's leverage.

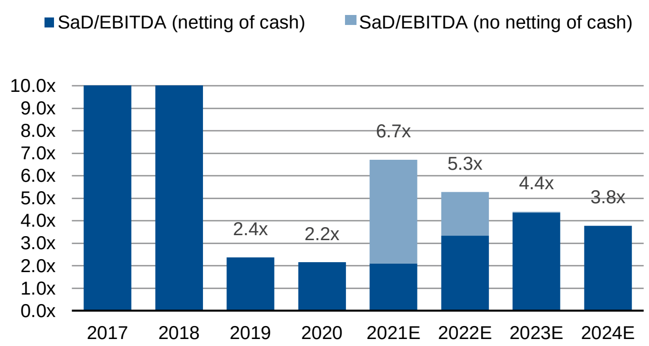
Deleveraging potential after 2023E

Following the finalisation of the medium-term investment programme by YE 2023, we assume that expected operating cash flow of about HUF 1.3bn will be fully sufficient to cover annual maintenance capex of about HUF 0.5bn. This should provide some headroom to actively scale back debt in 2024 and beyond, if such headroom is not used for shareholder remuneration.

Solid debt protection

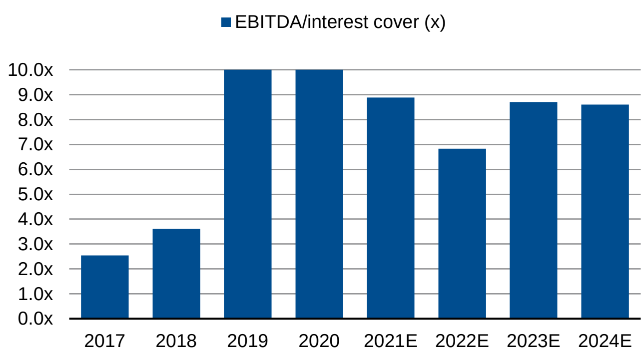
We expect debt protection, as measured by Scope-adjusted EBITDA interest coverage, at a comfortable level of about 7x and above in the coming years.

Figure 7: Expected development of Scope-adjusted leverage



Source: Greenergy, Scope expectations

Figure 8: Expected development of EBITDA interest coverage

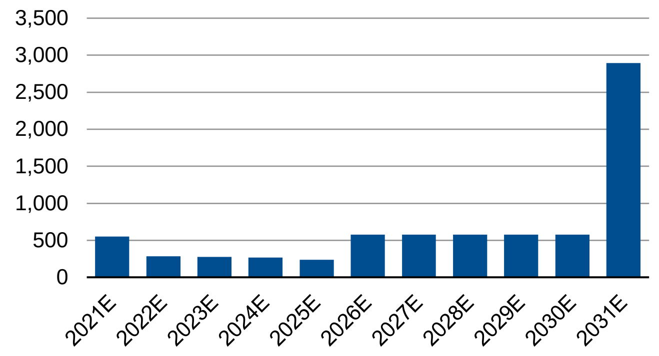


Source: Greenergy, Scope expectations

Scheduled debt repayments until 2025 largely related to paydown of shareholder loan

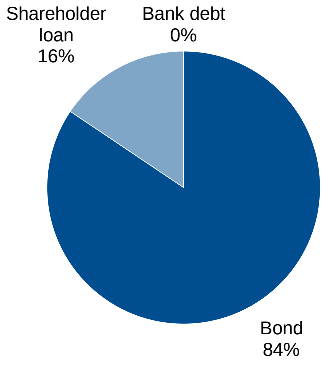
We regard Greenergy's liquidity position over the next few years as adequate. Scheduled debt repayments from the shareholder loan in addition to the early repayment of bank debt (development loan) in 2021 are expected to be fully covered by available cash sources and operating cash flow after investments. This, however, assumes the placement of a HUF 5.7bn bond and the consistent availability of Greenergy's HUF 1.3bn capex loan facility with CIB Bank, which needs to be extended on an annual basis. In light of Greenergy's business model and largely unencumbered asset base, we believe that external funding should reliably be available. We assume that debt repayments related to the shareholder loan may be delayed if cash sources are instead used for investments or other operational purposes. Moreover, we trust that the company is in a good position to negotiate new loans for specific additional capex if needed, either on a non-recourse project basis or recourse corporate basis.

Figure 9: Expected maturity schedule after bond placement (in HUF m)



Source: Greenergy, Scope expectations

Figure 10: Expected funding structure at YE 2021 after bond placement



Source: Greenergy, Scope expectations

Adequate access to funding, considering small corporate size

Despite its small size, Greenergy has sufficient and reliable access to external financing though well-established funding relationships with Hungarian banks such as CIB. We believe that the next large maturity of about HUF 580m in 2026, relating to the first amortisation of the planned MNB bond, can be covered by Greenergy's operating business. However, we think that Greenergy will also develop fallback opportunities for refinancing, with new debt issuances backed by its business model and largely unencumbered asset base.

Supplementary rating drivers: -1 notch

Rating cap at B rating category

The company's limited size and outreach compared to other entities rated in the BB rating category hinder it to exceed the assigned B+ issuer rating. This is reflected by a negative one-notch adjustment to the standalone rating of BB-.

Rating assigned on standalone basis

We rate Greenergy on a standalone basis. While the company's direct 100% parent PARATUS Energy Kft is owned by Hungarian construction company KÉSZ group (51%) and two of its three Managing Directors (49%), we consider the rated entity to be steered largely independently from its majority shareholder.

Credit-neutral financial policy

We regard Greenergy's financial policy as neutral for the rating, not materially weaking or strongly supporting the company's financial risk profile.

- While the company's strategy includes a strong growth trajectory, which is likely to be executed through acquisitions of single project companies with operating power generation assets, this is fully covered by the planned bond and poses limited execution/integration risks due to the nature of the acquisition targets and Greenergy's expertise in operating such assets.
- No dividend pay-outs scheduled for the next few years. Shareholder remuneration is limited to the annual interest payment of 3% on the shareholder loan provided by the owners of the direct parent PARATUS Energy Kft.

Long-term debt rating

Well above-average recovery expected for existing and future senior unsecured debt

We expect a well above-average recovery for existing and future senior unsecured debt. Greenergy changed its funding structure a few years ago, moving from funding at the project level to funding at the corporate level. However, certain debt raised for specific expansion projects, such as Greenergy's contracted capex facility, can benefit from collateral in the form of assets, providing such creditors with higher security and recovery than investors in senior unsecured debt.

Greenergy plans to issue a HUF 5.7bn (equivalent to around EUR 16m) senior unsecured bond in Q3 2021 under the Bond Funding for Growth Scheme of the Hungarian National Bank. The bond's tenor is expected to be ten years with 50% of its face value subject to amortisation in 2026-2030 and the remaining 50% in 2031. The coupon will be fixed and payable on an annual basis. Proceeds from the bond placement are intended to be fully used to support the company's extensive capex programme between 2021 and 2023.

BB debt category rating for senior unsecured debt

We have assigned a BB rating to Greenergy's senior unsecured debt, two notches above the issuer rating. Our recovery assessment includes the planned HUF 5.7bn senior unsecured bond issuance. We see a high likelihood that senior unsecured debt positions will largely be recovered in a hypothetical default scenario even after senior secured debt positions are fully covered. However, this incorporates the assumption that Greenergy's exposure to new senior secured debt will not materially go beyond the currently contracted volume linked to its capex facility. Our recovery expectations are based on an expected liquidation value of above HUF 9bn before administrative claims in a liquidation which incorporates a material discount on the expected total asset value amid the current expansion phase.

Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Frankfurt am Main
Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris
23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

Oslo
Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid
Edificio Torre Europa
Paseo de la Castellana 95
E-28046 Madrid

Phone +34 914 186 973

Milan
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London
111 Buckingham Palace Road
London SW1W 0SR

Phone +44020-7340-6347

info@scoperatings.com
www.scoperatings.com

Disclaimer