Duna Aszfalt Zrt.
Hungary, Construction

BB- STABLE

Key metrics

		Scope estimates		
Scope credit ratios	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	Net cash interest	31.9x	7.7x	7.8x
Scope-adjusted debt/EBITDA	0.2x	0.9x	3.2x	1.9x
Scope-adjusted funds from operations/debt	427%	106%	28%	45%
Scope-adjusted free operating cash flow/debt	73%	48%	16%	11%

Rating rationale

Duna Aszfalt's business risk profile remains constrained by its relatively small size in a European context and weak diversification, with its competitive positioning dependent on strong ties with the Hungarian government, despite growth in Poland, to ensure continued operations at unchanged scale and profitability in its domestic market. However, good profitability levels and a record order book provide sufficient revenue visibility and headroom to counter increased competitive pressure.

Duna Aszfalt's financial risk profile is supported by low leverage, high interest cover and adequate liquidity. It is constrained by a relatively weak cash flow coverage given the expected pressure on cash generation, compounded by the risk of higher volatility due to (i) the company's ambitious growth strategy, which is associated with execution and integration risk, as well as (ii) the chunkier order book.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation of a successful integration of Motal-Engil Central Europe's (MECE) operations into Duna Aszfalt, with a combined order book providing good revenue visibility for more than two years. The Outlook is based on a normalisation of credit metrics with debt/EBITDA of 2-3x and EBITDA interest coverage of above 7x. The Outlook further reflects increased volatility in cash generation due to (i) the chunkier order backlog, (ii) potential changes in Duna's competitive environment, and (iii) declining operating profitability, with acquired companies having a dilutive impact on Duna Aszfalt's currently good EBITDA margin.

The upside scenario for the ratings and Outlook is: (1) Improved diversification of the order book (customers, segments, geographies, projects) paired with Scope-adjusted debt/EBITDA maintained below 3.0x, which is considered remote at present.

The downside scenarios for the ratings and Outlook are (individually): (1) Scope-adjusted debt/EBITDA of above 3.5x or (2) a backlog of below 1x.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
10 Oct 2024	Affirmation	BB-/Stable
12 Oct 2023	Affirmation	BB-/Stable
14 Oct 2022	Outlook change	BB-/Stable

Ratings & Outlook

Issuer	BB-/Stable
Senior unsecured debt	BB

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Related Methodologies

General Corporate Rating Methodology; October 2023

Construction and Construction Materials Rating Methodology; January 2024

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Good profitability still ahead of peers, but subject to dilution from acquisition of less profitable peers • Robust credit metrics, with leverage, while expected to increase, remaining between 2x-3x (Scope-adjusted debt/EBITDA); above 30% (Scope-adjusted funds from operations/debt) and Scope-adjusted EBITDA interest coverage of above 7x • Improved geographic footprint in CEE following the acquisition of Poland's Mota-Engil Central Europe in Q3 2024, which is expected to increase non-domestic sales to around 30% • Track record of winning tenders	• Focus on local industrial and civil engineering projects, a highly cyclical segment with low barriers to entry • Revenue concentration in both building and motorway construction • Dependence on government tenders • Market position based on the Group's well-established credentials in projects with state-owned companies, resulting in regulatory and reputational risks (ESG factor)

Positive rating-change drivers	Negative rating-change drivers
• Improved diversification of the order book (customers, segments, geographies, projects) paired with Scope-adjusted debt/EBITDA maintained below 3.0x	• Scope-adjusted debt/EBITDA increasing to and sustained at above 3.5x • Order backlog dropping to below 1x

Corporate profile

Founded in 1996 and 100% owned by László Szíjj, Duna Aszfalt Zrt. (Duna Aszfalt) is one of the largest players in Hungarian road construction and renovation. Further segments include the laying of utility lines, the construction of water and sewage treatment structures, and bridge building. Duna Aszfalt also provides heavy equipment and operates asphalt-mixing plants, quarries as well as emulsion production and laboratory facilities.

Financial overview[1]

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	75.0x[2]	Net cash interest	31.9x	7.7x	7.8x
Scope-adjusted debt/EBITDA	0.8x[3]	0.2x	0.9x	3.2x	1.9x
Scope-adjusted funds from operations/debt	106%[4]	427%	106%	28%	45%
Scope-adjusted free operating cash flow/debt	7%	73%	57%	17%	12%
Scope-adjusted EBITDA in HUF m					
EBITDA	22,235	50,089	30,863	15,348	25,011
Operating lease payments	-	-	1,960	1,960	1,960
Other items[5]	10,189	2,729	-	-	-
Scope-adjusted EBITDA	**32,424**	**52,818**	**32,822**	**17,308**	**26,971**
Funds from operations in HUF m					
Scope-adjusted EBITDA	32,424	52,818	32,822	17,308	26,971
less: (net) cash interest paid	(432)	591	(1,028)	(2,247)	(3,464)
less: cash tax paid per cash flow statement	(3,744)	(2,691)	(880)	-	(72)
Funds from operations (FFO)	**28,247**	**50,719**	**30,914**	**15,061**	**23,434**
Free operating cash flow in HUF m					
Funds from operations	28,247	50,719	30,914	15,061	23,434
Change in working capital	(29,384)	(21,987)	(3,916)	5,667	1,121
Non-operating cash flow	13,918	(792)	-	-	-
less: capital expenditure (net)	(11,011)	(19,312)	(8,934)	(9,592)	(16,772)
less: lease amortisation	-	-	(1,623)	(1,623)	(1,623)
Free operating cash flow (FOCF)	**1,769**	**8,627**	**16,441**	**9,513**	**6,160**
Net cash interest paid in HUF m					
Net cash interest per cash flow statement	432	(591)	691	1,910	3,127
add: interest component, operating leases	-	-	337	337	337
Net cash interest paid	**432**	**(591)**	**1,028**	**2,247**	**3,464**
Scope-adjusted debt in HUF m					
Reported gross financial debt	30,000	30,000	49,829	62,530	62,530
less: cash and cash equivalents[6]	(116,647)	(77,536)	(87,644)	(74,887)	(77,123)
add: non-accessible cash[7]	34,770	35,358	36,150	36,150	36,150
add: operating lease obligations	-	-	5,439	5,439	5,439
Other items[8]	78,587	24,054	25,305	25,305	25,305
Scope-adjusted debt (SaD)	**26,711**	**11,876**	**29,081**	**54,537**	**52,301**

1 The rating case is based on the assumption of full consolidation of Motal-Engil Central Europe from FY2024 (PLN:HUF: 91.66 as at end-June 2024).
2 Changes due to the inclusion of HUF 1bn of interest income, which was not included in the last review.
3 Changes due to the omission of HUF 10bn of SHL, which was taken into account in the last review but is not part of the debt items disclosed in the company's annual accounts.
4 Changes due to change in Scope-adjusted interest (see above)
5 Changes in provisions
6 Includes a 100% haircut on marketable securities (starting 2023) and excludes HUF 5.5bn of cash earmarked to finance the group's investment plans (only up until 2024).
7 Includes HUF 35bn in own equities; HUF 792m in restricted cash for Motal-Engil Central Europe (2024 and beyond); and HUF 588m in restricted cash for Duna Aszfalt (for 2023 and beyond)
8 Includes performance bonds (up until 2022) as well as advances received from customers

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Environmental, social and governance (ESG) profile[9]

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)	Grey leaf
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)	Grey leaf
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)	Grey leaf
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks	Red leaf	Stakeholder management (shareholder payouts and respect for creditor interests)	Grey leaf

Legend

Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

Regulatory and reputational risk

The construction industry has a massive environmental impact. Industry efforts have focused on reducing energy use and associated emissions. New regulations regarding cleanliness and safety have also drastically affected operations at construction sites. Increased union influence could also lead to increased costs and timelines on projects.

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

We deem regulatory and reputational risks to be a negative ESG factor. We believe that Duna Aszfalt's market position in recent years was gained by winning state tenders thanks to the company's well-established credentials on projects with state owned companies. State tenders account for around 70% of the company's backlog as at end-June 2024, which creates a high dependency.

Further, we would have expected the company, given its size, to use one of the tier one auditors or a firm that is part of an international network. However, Duna Aszfalt still relies on a small, local auditor with around 30 years' experience, but limited market presence and reach, which raises concerns about the effectiveness and reliability of the audit going forward, given Duna Aszfalt's recent growth outside of Hungary.

[9] 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: B

Industry risk profile: B

Duna Aszfalt operates as a main contractor. The group has a very concentrated business model, with around 90% of its revenues in recent years coming from construction activities, with a strong focus on motorway construction (circa 75% of revenues for the last twelve months to end-June 2024). Other construction activities include utilities, water and wastewater treatment and bridge building. We consider the construction industry as a whole to be highly cyclical, with low barriers to entry and low/medium substitution risk.

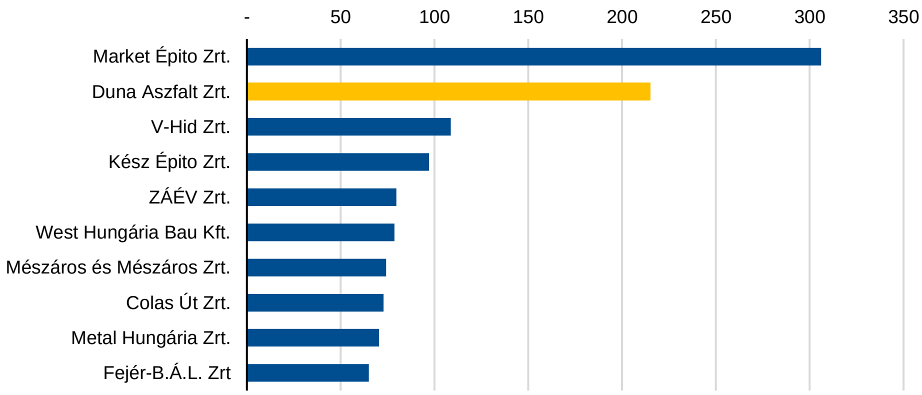
Although Duna Aszfalt's business is mainly civil engineering, the majority of its portfolio consists of small projects: only 20% of its projects have a contract value of more than EUR 50m, while these projects account for 92% of its contracted volume.

The acquisition of Mota-Engil Central Europe (MECE), signed on 27 September 2024, adds further exposure to construction (buildings, [small] civil engineering projects) and property development (3% of combined gross margin in 2023).

Small construction player in a European context, but leader in its niche market

With revenues of HUF 261bn (EUR 682m) and Scope-adjusted EBITDA of HUF 50bn (EUR 131m) in 2023, the company remains a small construction company both in a European context and in Hungary. This limited size is a negative rating factor, as it implies greater sensitivity to unforeseen shocks, higher cash flow volatility and limited economies of scale.

Figure 1: Duna and Hungarian construction peers by revenues in 2022 (HUF bn)



Sources: Public information[10], Scope

In 2023, the construction segment has been affected by greater uncertainty in the overall market environment, leading to margin pressure due to (i) declining demand, with construction output at current prices 5% and construction investment volume 15% lower than in 2022[11], as well as (ii) inflationary pressures, supply chain disruptions and rising interest rates. Public procurement has also slowed due to lingering uncertainty regarding the inflow of substantial EU funds.

Despite its relatively small size and unfavourable market conditions, Duna was able to increase its market share in Hungary and remain the leader in Hungarian motorway construction in 2023. However, we see some uncertainty that Duna will maintain its strong position, particularly in motorway construction in Hungary. This is based on our view of risks related to (i) the new Public Procurement Act, which came into force in

[10] Látványos grafikon mutatja, hogyan vette át a hatalmat a NER az építőiparban | G7 - Gazdasági sztorik érthetően
[11] Hungary (fiec-statistical-report.eu)

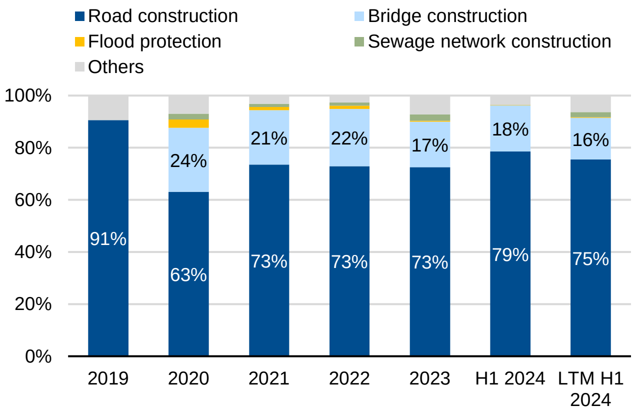
autumn 2023 and may need to be revised to unlock EU funding[12], and (ii) the company's reliance on the owner's close relationship with the Hungarian government. Adverse developments in either area could ultimately weaken Duna's market position.

However, the acquisition of Poland's MECE (part of the Portuguese Motel-Engil Group) in Q3 2024 will increase Duna's revenue generation outside its home market of Hungary by around 30%, making it a visible player in its neighbouring country and reducing its dependence on the close relationship with the Hungarian government. All this partially mitigates the risks mentioned above.

Limited diversification by geography and segment

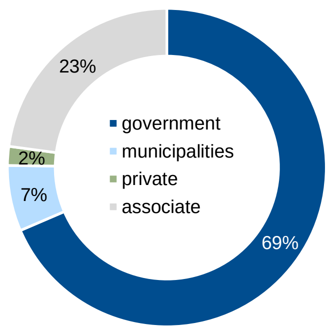
Geographical diversification remained limited in 2023 as the group's activities have been mostly concentrated in Hungary, creating a full exposure to the macroeconomic environment of one country. This is compounded by Duna Aszfalt's focus on construction, a cyclical industry in which market downturns tend to strongly affect revenue and earnings.

Figure 2: Revenues breakdown by segment



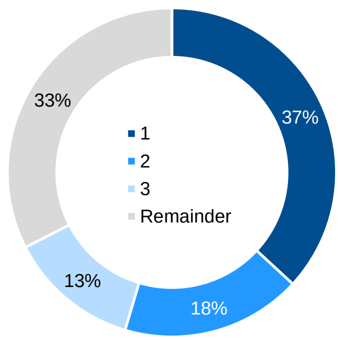
Sources: Duna, Scope

Figure 3: Composition of Duna Aszfalt's backlog by investors; 30/06/2024



Sources: Duna, Scope

Figure 4: Composition of Duna Aszfalt's backlog by projects; 30/06/2024



Sources: Duna, Scope

While only 5% of revenues in 2023 were generated outside Hungary, this is expected to rise to nearly 30% by 2025, driven by the acquisition of MECE, a Polish construction company with a focus on motorway, bridge railway and power construction). In addition, the company expects this share to increase in the coming years, supported by contracts in either Poland or Romania and further acquisitions in Central and Eastern Europe - CEE (construction companies with the same or similar scope of activities). This would further improve geographic diversification, which is much needed given the declining business opportunities in Hungary with the major highways built or rehabilitated over the last two decades.

Diversification across business segments remains limited. Duna Aszfalt covers various construction segments, but the group has a relatively high exposure to (small) civil engineering (motorway, bridge construction), where it generated around 90% of revenue in 2023 (around 91% in LTM H1 2024).

Concentrated customer structure, strongly exposed to state tenders

A further restraining factor for the group's business risk profile is its high dependence on state tenders and thus on government demand and strategy. Government-related projects (incl. municipalities) have represented more than 50% of Duna Aszfalt's revenue since 2017 and around 75% of its current order book.

[12] Since March 2024, the European Commission and Hungarian government dispute over the November 2023 law on public construction projects, which Brussels argues may violate EU transparency and competition standards. QANDA_23_6466_EN.pdf (europa.eu)

With its current focus, the group's top line is heavily dependent on the continued demand for road infrastructure improvements in Hungary. So far, however, government spending and fiscal policy have continued to address road infrastructure needs regardless of the macroeconomic environment or the availability of EU funds.

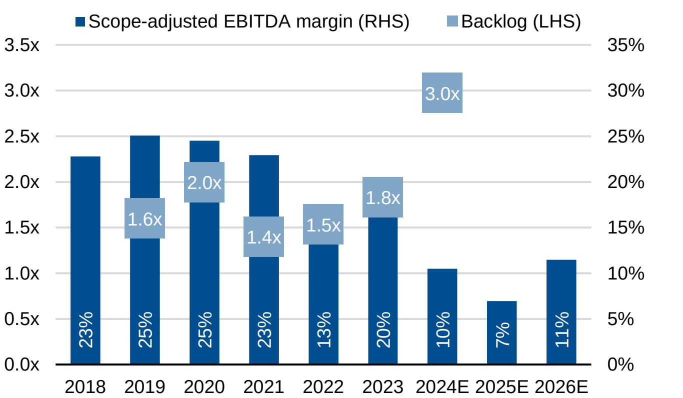
However, major recently awarded projects (e.g. the Mohács Danube bridge) have not yet started and are expected to last beyond 2026 (next government election in 2026), and thus remain subject to possible postponement in light of reduced availability of EU funds and/or cancellation if the next government focuses on other areas of investment.

Given the complementary nature of MECE's businesses, diversification in terms of segments, customers and projects is not expected to change significantly. All of this could lead to significant cash flow volatility in the event of project delays or cancellations, increased competition or looser government ties.

Robust order backlog although shrinking pool of public construction projects

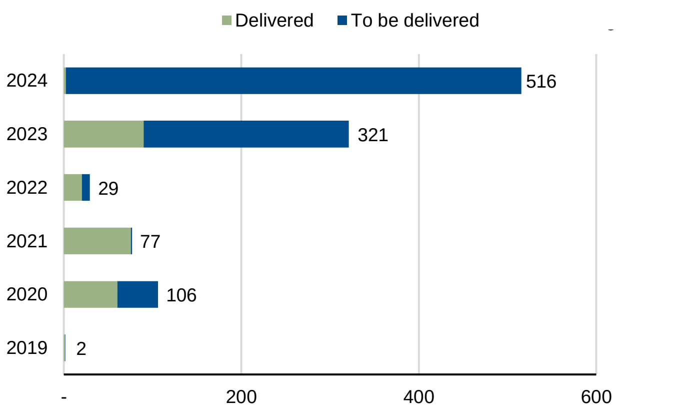
After years of fiscal stimulus linked to EU funding priorities and local governmental policies boosted Duna Aszfalt's niche market, the Hungarian construction sector is facing heightened uncertainty due to a shrinking pool of public construction projects, a result of general budget restrictions and uncertainty surrounding EU funds. The Hungarian government announced on 20 May 2023 a reduction of its planned budget for 2023 and 2024, reduced spending in Duna Aszfalt's niche market[13]. Tenders have become scarcer, leading to lower volumes and thinner margins, and we do not expect a rapid recovery until the dispute with the European Commission over the new Public Procurement Act, which came into force in autumn 2023, is resolved.

Figure 5: Scope-adjusted EBITDA margin & backlog (excl. MECE)



Sources: Duna, Scope estimates

Figure 6: Backlog by date of contract (excl. MECE)



Sources: Duna, Scope

However, we acknowledge that Duna Aszfalt continues to source new projects, with 64% of the pipeline signed in H1 2024. The group's backlog of projects totalled HUF 800bn as of end-June 2024 (compared to HUF 489bn as of August 2023) resulting in a backlog of 3.0x of the average revenue in the last three years and providing decent top line visibility for the next three years. The company's book-to-bill ratio stood at 1.9x as at end-June 2024 pointing to the substantial order intake in the last twelve months to end-June 2024 of HUF 578bn.

Two major projects were signed at the beginning of the year: (i) the construction of the Mohács Danube bridge and related road network (construction period 2025-2029); and (ii) the construction of the M49 motorway section between Ököritófülpös and Csenger

[13] https://www.portfolio.hu/gazdasag/20230531/megvan-a-kormany-2024-es-terveinek-legnagyobb-nyertese-618414

(construction period 2025-2027). Although these projects strengthen the order book, they reinforce the group's high dependence on government tenders (through Hungarian state-owned companies) and individual projects, with both projects representing approximately 55% of the current order book.

MECE acquisition dilutes achievable margins, while limited hedging increases volatility

Duna Aszfalt's profitability improved in 2023, with a Scope-adjusted EBITDA margin of 19% (up 6pp YoY), largely due to lower subcontractor involvement as Duna was able to complete more of the work with its own resources. However, while MECE's order book (HUF 116bn as at end-2023) is expected to provide further revenue visibility, it will have a dilutive effect on the group's Scope-adjusted EBITDA margin[14]. Further margin pressure that could be exerted in the future is related to i) the possible need for Hungary to change its public procurement law, which could mean a higher level of competition in public tenders, and ii) a resumption of negative volatility in raw material prices, as the company limits the hedging of input prices, with most materials (except steel) being purchased at spot prices.

The profitability is supported by the fact that Duna Aszfalt has been procuring new projects and has made efforts in recent years to source several building materials internally or to buy in bulk in order to keep building material stocks under control.

Given the increased downward pressure, we expect the Scope-adjusted EBITDA margin to decline and hover around 10% for the next few years.

Financial risk profile: BB+

Reduced profitability and chunky order backlog lead to lower and volatile FOCF

Margin dilution due to recent and future acquisitions, as well as the chunkier backlog, with major projects representing 40% to 70% of Duna Aszfalt's (excluding MECE) secured revenues in 2025 and 2026, creating an increased risk of a more volatile top line due to delays in the execution of these projects, thus putting pressure on FOCF in the coming years. This will only be partially mitigated by Duna's efforts to consolidate motorway contractors in CEE, which should lead to a more diversified order book, but also to higher execution and integration risk, which could increase pressure on FOCF. However, we expect the group's FOCF to remain positive, albeit more volatile, in the coming years.

We note that the growth/consolidation efforts, with around HUF 90bn earmarked for investments (of which HUF 23bn for MECE) in between 2024 and 2025, will lead to a significant increase in the company's debt, with gross financial debt expected to more than double to HUF 63bn by end-2025 (end-2023: HUF 30bn), while cash levels are expected to stay around HUF 40bn (end-2023: 48bn).

The increase in debt, combined with lower and more volatile FOCF, will reduce the Scope-adjusted FOCF/debt ratio to 5-15% in the future.

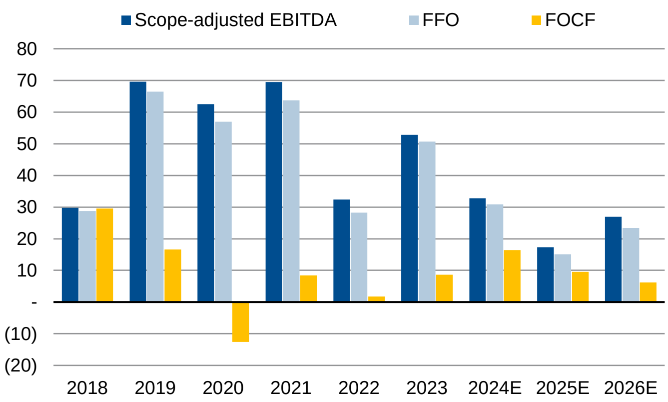
Leverage still benefiting from low gross debt, but expected to rise

From 2023, we exclude performance bonds from our calculation of Scope-adjusted debt. This reflects our view that these bonds are performance securities issued by insurance companies that mimic performance guarantees issued by banks. Both are off-balance sheet items that we do not consider to be financial liabilities (they are non-interest bearing and their execution risk is immaterial, as evidenced by only 1.5% of guarantees being executed between 2014 and 2023). Other changes in adjustments compared to last year include a 100% discount on securities held by the company (other than treasury shares, which are fully discounted) to reflect the limited liquidity and potential price volatility of these mostly investment fund shares.

[14] MECE's Scope-adjusted EBITDA margin has historically fluctuated between 5-6%

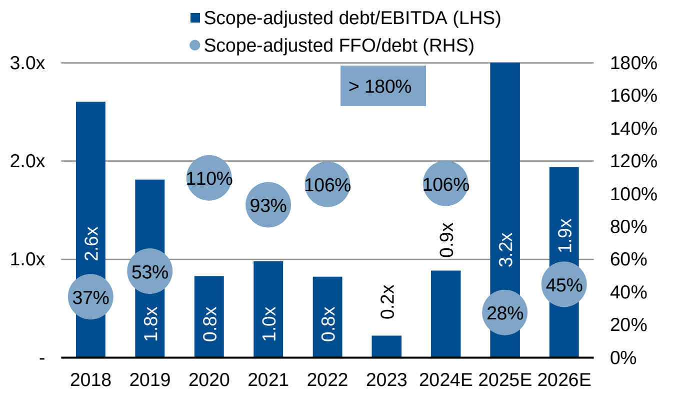
After these adjustments, the company had an almost net cash position at the end of 2023, but this is expected to deteriorate due to the lower FOCF and, most importantly, the company's investment plans to expand its reach to other countries and regions to counteract the declining business opportunities in Hungary. In addition to the acquisition of MECE in September 2024, the company is negotiating with another company in CEE, which is expected to close in 2025, according to Duna Aszfalt. As a result, Scope-adjusted debt is expected to increase to around HUF 55bn by the end of 2025, leading to peak leverage as measured by Scope-adjusted debt/EBITDA of around 3x.

Figure 7: Cash flow (HUF bn)



Sources: Duna, Scope estimates

Figure 8: Leverage



Sources: Duna, Scope estimates

Going forward, we expect leverage to remain between 2x and 3x, with future acquisitions expected to be executed at a maximum of 4x EV/EBITDA, 85% leveraged, both in line with the company's guidance and no more than 1/3 of Duna's current scale. Leverage could come under pressure in the event of a major transformational acquisition or a massive contraction or delay in the execution of the company's order book beyond our expectations, neither of which is expected in the short to medium term.

Scope-adjusted funds from operations/debt is expected to decline to between 30-45% in the coming years given the prospected increase in Scope-adjusted debt, partially due to around HUF 33bn in debt issuance to co-finance business expansion. While the latter will come at a higher cost than the company’s current financial liability (HUF 30bn bond with a fixed rate of 2.99%), weighted average cost of debt is likely to not exceed the profitability margin of the operating business, protecting Scope-adjusted funds from operations/debt at the forecasted level.

Debt protection impacted by higher financing cost

Debt protection, as measured by Scope-adjusted EBITDA interest cover, remained strong and showed a net interest income in 2023, thanks to substantial interest income on term deposits, which generated HUF 3.4bn (2022: HUF 1.1bn), exceeding interest paid of HUF 2.8bn (2022: HUF 1.5bn). Going forward, we expect the Scope-adjusted EBITDA interest cover to decline to 7-10x due to (i) higher financial expenses amid Duna Aszfalt's partly debt-financed investment phase and (ii) lower interest income due to the corresponding cash absorption as well as declining deposit rates in Hungary over the next few years.

This level of debt protection provides good headroom for the increased volatility of expected future cash generation, thereby supporting the financial risk profile at its current level.

Adequate liquidity

Liquidity is adequate and benefits from a backloaded debt maturity profile comprising a HUF 30bn bond with a bullet maturity in 2029. The group’s cash balances stood at HUF 31bn by end-June 2024. Marketable securities (shares in investment funds) of

HUF 53bn as at end-June 2024 could enhance the group's liquidity to some extent. Given the long maturity of the bond and no other short-term financial obligations, we believe short-term debt and capex coverage will be adequate over the next few years. New financing for acquisitions in CEE is expected to have debt maturities of around eight years, which will not affect short- to medium-term liquidity.

Balance in HUF m	2024E	2025E	2026E
Unrestricted cash (t-1)	42,178	51,493	38,737
Open committed credit lines (t-1)	0	0	0
Free operating cash flow (t)	16,441	9,513	6,160
Short-term debt (t-1)	-	312[15]	-
Coverage	**No ST-debt**	**>200%**	**No ST-debt**

Comfortable headroom on rating-related covenant

We note that Duna Aszfalt's senior unsecured bond, issued under the Hungarian National Bank's Bond Funding for Growth Scheme, has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 30bn) if the debt rating of the bond stays below B+ for more than two years (grace period) or drops below B- (repayment within 90 days). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is two notches.

In addition to the rating-related covenant, other covenants include a maximum dividend payment of 30% of EBITDA if the rating deteriorates below B+.

Given the current debt rating of BB, Duna Aszfalt has a comfortable headroom on the rating-related covenant.

Supplementary rating drivers: +/- 0 notches

Financial policy: credit neutral

We consider Duna Aszfalt's financial policy to be credit neutral. According to the company, "The payment of dividends is fully discretionary and subject to the decision of the shareholder. However, the amount of the dividend is fully in line with the relevant dividend payment regulations and caps and is planned at a level that still leaves sufficient room for reinvestment of profits".

The dividend payments made in the past and planned for the future (HUF 5.8bn in 2021, HUF 5bn in 2022, HUF 3bn in 2023 and HUF 5bn in the future) are variable. The company assured us that this dividend payment is not set in stone and that the maximum dividend payment is limited to the previous year's net profit.

Parent/government support: credit neutral

The rated entity is the ultimate parent. The company is 100% owned by the Hungarian entrepreneur Laszlo Szijj. He is among the TOP 10 richest men in Hungary according to Forbes. We have no information about a potential financial support if required, nevertheless, it cannot be ruled out

Governance & structure: credit neutral

We deem regulatory and reputational risks to be a negative ESG factor. We believe that Duna Aszfalt's market position in recent years was gained by winning state tenders thanks to the company's well-established credentials on projects with state owned companies. State tenders account for around 70% of the company's backlog as at end-June 2024, which creates a high dependency.

We would have expected the company, given its size, to use one of the tier one auditors or a firm that is part of an international network. However, Duna Aszfalt still relies on a small, local auditor with around 30 years' experience, but limited market presence and

[15] Relates to MECE

reach, which raises concerns about the effectiveness and reliability of the audit going forward, given Duna Aszfalt's recent growth outside of Hungary.

Although supplementary rating drivers are credit neutral, our assessment of the company's business and financial risk profile reflects the aforementioned regulatory and reputational risks (ESG factor credit negative)

Long-term debt rating

Senior unsecured debt rating: BB

We affirmed the BB rating for the senior unsecured debt category, which is one notch above the issuer rating and reflects an above-average recovery. The rating is constrained by the risk and possibility of an increase in senior secured debt if the issuer's credit quality deteriorates (volatility of the capital structure and the proportion of senior unsecured debt).

The recovery calculation considers the HUF 30bn unsecured corporate bond issued under the Bond Funding for Growth Scheme of the Hungarian National Bank. We assumes that (i) the business plan will be executed with HUF 33bn of additional bank debt, in line with the group's plans; (ii) payables have a higher seniority; and (iii) advances received will have the same seniority as the bond. The recovery analysis is based on a liquidation value of HUF 104bn for a hypothetical default in 2026. This value is based on an appropriate haircut on the assets and reflects a liquidation cost of 10% on the assets.

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