7 August 2023 Corporates

Opus Global Nyrt.
Hungary, Investment Holdings

BB STABLE

Key metrics

			Scope estimates	
Scope credit ratios	2021	2022	2023E	2024E
Total cost cover (x)	4.7	2.2	2.5	3.0
Loan-to-value (LTV, %)	40	43	40	
Liquidity (x)	52	48	-	-

Rating rationale

The ratings continue to reflect Opus' strong financial risk profile and total cost coverage, supported by its sound liquidity policy during its previous transition phase, which included active M&A in its energy division. Despite some deterioration in credit metrics in 2022 due to acquisition-related debt and a significant drop in dividend from its industrial division (down 40% YoY), the holding's financial risk profile is still strong. In addition, the holding is still relatively resilient to macroeconomic downturns, such as those triggered by the Covid-19 crisis and the Russia-Ukraine war. The ratings are held back by portfolio sustainability due to concentration risk in recurring income generation, which continues to be very high, reflecting the non-industrial divisions' inability to pay dividends so far.

Outlook and rating-change drivers

The Stable Outlook incorporates a rating case of a broadly unchanged investment portfolio over the next one or two years, no dividend payments to Opus shareholders, a focus on developing the existing portfolio and no major M&A activity (other than the already envisaged transactions in the food division) as well as a total cost coverage of significantly above 1.0x.

A positive rating action may occur if Opus' business risk profile improved, particularly with regard to concentration risks related to dividend income. However, we do not foresee any material changes in this regard in the short-to-medium term.

A rating downgrade could be triggered by total cost coverage being sustained below 1.0x.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
03 Aug 2023	Affirmation	BB/Stable
28 Feb 2023	Monitoring review	No action
29 Mar 2022	Affirmation	BB/Stable
01 Apr 2021	Affirmation	BB/Stable

Ratings & Outlook

Issuer	BB/Stable
Senior unsecured debt	BBB-

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Related Methodology

General Corporate Rating Methodology; July 2022

Investment Holding Companies Rating Methodology; May 2023

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Conservative buy-and-build strategy • Consistently strong total cost coverage ratio • No dividend payments • Improving portfolio diversification by value	• Continued high dividend concentration • Low geographic diversification • Frequent top management changes (ESG driver)

Positive rating-change drivers	Negative rating-change drivers
• Improvement in dividend diversification	• Large debt-funded acquisition • Total cost coverage sustained at below 1x

Corporate profile

Opus Global is a Hungarian investment holding company. It qualifies as a holding company due to its portfolio approach (not all portfolio companies are 100% owned) to generating income. Although there is limited integration between portfolio companies in different sectors, the holding centralises certain services and funding. The group is the result of the merger between Opus and Konzum in 2018. With about HUF 150bn (about EUR 400m) in market capitalisation, it is among the top entities on the Hungarian stock exchange.

The group's investment philosophy focuses on holding majority positions in four industrial sectors: industry, food processing, energy and tourism. Opus' long-term buy-and-build approach involves identifying undervalued targets and creating growth and value through tight operational control of its portfolio companies. In the last two years, Opus has executed larger transactions, mainly in the energy division, which was already earmarked for transition out of traditional fossil fuels and into renewables and distribution. Additionally, the asset management division, which traditionally holds minority positions, has been further reduced to allow for a focus on the four core divisions.

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Environmental, social and governance (ESG) profile[1]

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)

Some governance concern

We are concerned about frequent changes in top management at Opus (latest: end-2022), which were not previously flagged and may impact governance transparency. Over the past four years, there has been high volatility in top management composition, partly unexplained, which does not foster long-term planning and strategy.

Opus is directly and indirectly controlled by Lorinc Meszaros, Hungary's richest individual, who does not have a direct management or supervisory board representation within the holding.

[1] 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.

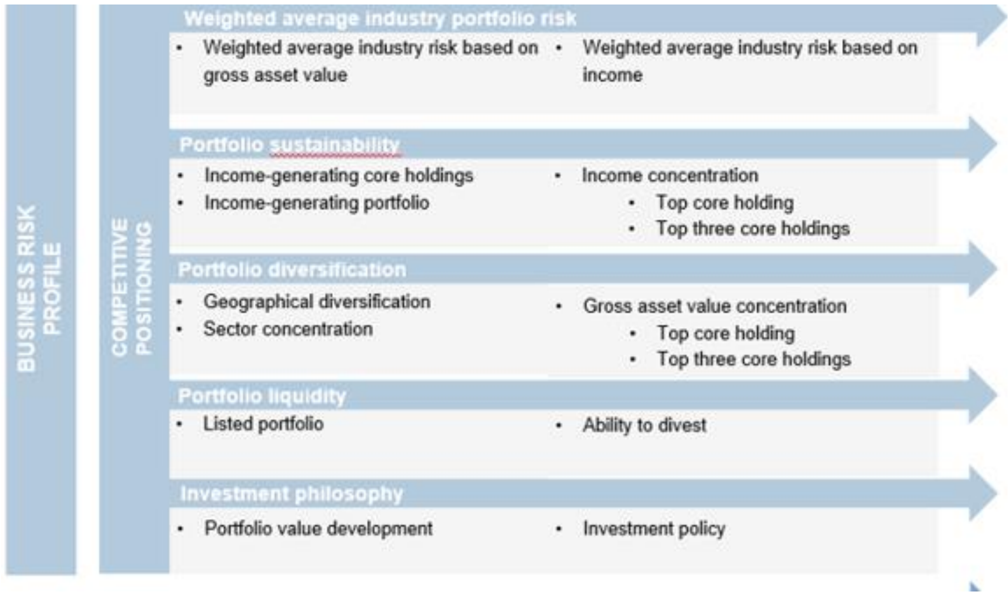
Financial overview

				Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**
Total cost cover (x)	3.2	4.7	2.2	2.5	3.0
LTV (%)	28	40	43	40	
Liquidity (x)	3	52	48	-	-
Cash flows in HUF m					
Recurring cash inflows	10,057	12,374	7,948	10,590	13,250
Non-recurring cash inflows	19,242	1,894	296	0	0
Recurring cash outflows	3,132	2,641	3,509	4,199	4,449
Balance sheet/ indebtedness in HUF m					
Net asset value	**171,250**	**222,360**	**279,717**	**300,000**	**300,000**
Reported gross financial debt	29,563	68,561	67,732	67,732	67,732
less: accessible cash and cash equivalents	-25,826	-27,234	-8,264	-7,870	-8,020
add: cash non-accessible	0	0	0	0	0
add: guarantees and suretyships	44,529	47,000	60,021	59,000	50,000
Scope-adjusted debt	**48,265**	**88,307**	**118,862**	**118,861**	**109,711**

Business risk profile: BB-

The business risk assessment applies our Investment Holding Companies Rating Methodology published in May 2023 (Figure 1):

Figure 1: Competitive positioning assessment



Source: Scope

Industry risk: BB

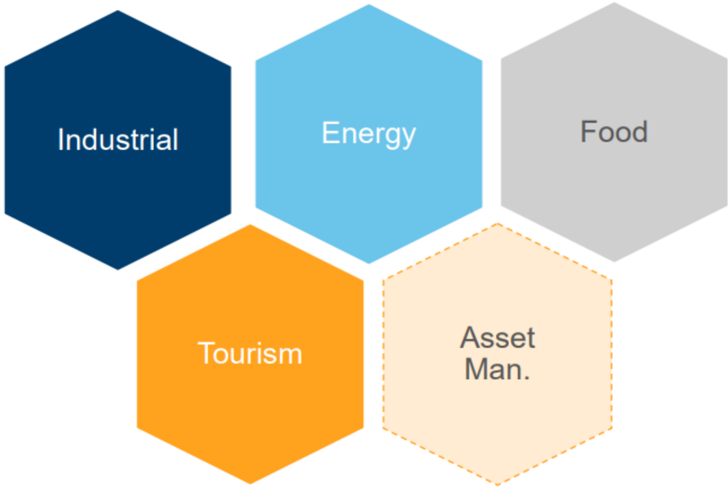
Opus' exposure to four distinct, relatively non-cyclical and little-correlated sectors continues to support its business risk profile. Most industries represented in the portfolio have low and medium cyclicality. Opus' construction subsidiaries have a large exposure to public projects such as railway infrastructure, telecoms and utility works, which is a strength in the event of macroeconomic weakness.

In addition, most of the investment companies within Opus' portfolio have significant growth potential, either thanks to a high order backlog (Meszaros es Meszaros) or recent expansion capex (KALL and Viresol).

Opus' largest exposure by asset value was previously to the industrial and food processing segments (more than two-thirds, compared to about 50% in 2023). The four industries are now more evenly represented, reflecting recent investments in the energy and tourism segments. The recent acquisition of the 33% of Viresol from Duna Aszfalt at the end of 2022 has increased the food processing division's relative weight in the holding structure. However, the holding company's industrial exposure still continues to be a mix of low-rated construction activities and highly rated food processing and energy sectors. The weighted average industry risk based on asset value corresponds to a BBB category, contrasting with an outcome of B for the weighted average industry risk based on (dividend) income. A blended mix of BB represents Opus' overall current exposure to underlying industry representation.

A buy-and-build investment strategy has a positive impact on the credit quality of an investment holding. Opus focuses on generating dividend income from all its subsidiaries in the medium term, which only a few of its portfolio companies do at present. Opus aims to generate income by providing an increasing amount of management services to its subsidiaries, as seen in the Viresol minority buyout, and centralising certain functions at the holding level. The ratings thus continue to reflect Opus' conservative and long-term buy-and-build investment approach, focused on creating growth and value by exercising active operational control over its portfolio companies.

Figure 2: Industrial exposure of Opus



Source: Opus Global

Main portfolio companies

Industrials segment (2022 sales: HUF 218bn, up 37% YoY; EBITDA margin: about 11%; order backlog HUF 100bn)

- **Meszaros es Meszaros Zrt.** (M+M; 51% owned indirectly): general contractor for typically large public procurement construction projects such as utilities (water, waste management, infrastructure), water and underground, as well as road and railways
- **R-Kord Kft.** (51% owned directly): general contractor for large public procurements in railway construction
- **RM International Zrt** (51% owned indirectly): holds a 50% share in the consortium for the development of the high-speed railway connection between Budapest and Belgrade
- **Wamsler SE** (99.3% directly owned): German fireplace and stove manufacturer; largest player in Central and Eastern Europe with a market share of about 7% (about a third in Hungary)

Food Processing segment (2022 sales: HUF 140bn, up 73% YoY; EBITDA margin 8%)

- **KALL Ingredients Kft.** (74% owned): corn processing with extensive product portfolio including isosugar and liquid sugars; just invested EUR 160m into a modern plant
- **Viresol Kft.** (51% owned at end-2022 – increased to 84% at the end of 2022): wheat processor with extensive product portfolio including starches, industrial alcohol, gluten and raw material for fodder
- **Csabataj Zrt** (74% owned): mixed farming (livestock breeding, egg and crop production)

Energy segment (2022 sales: HUF 154bn, EBITDA margin 21%)

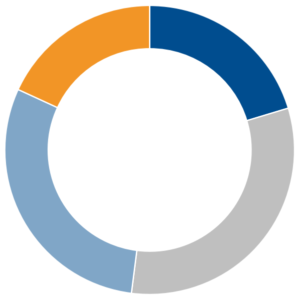
- **Opus Titasz** (50% owned): electricity distribution in the eastern part of Hungary, reaching more than 700,000 customers

- **Opus Tigaz** (49.57% indirectly owned): owns and operates Hungary's largest natural gas distribution network

Tourism (2022 sales: about HUF 31bn, up 66% YoY; EBITDA margin 12%)

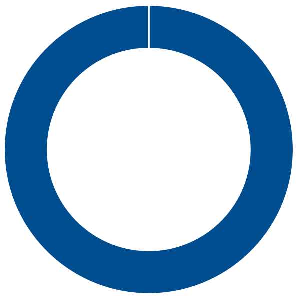
- **Hunguest Hotels Zrt.** (99.99% owned indirectly): among Hungary's leading hotel operators with 25 locations in Hungary, Austria, Montenegro and Romania

Figure 3: Industry risk by asset value 2023E



Sources: Opus, Scope

Figure 4: Industry risk by dividend income in 2022



Sources: Opus, Scope

Weak portfolio sustainability

The rating is held back by portfolio sustainability due to concentration risk in recurring income generation, which continues to be very high, reflecting the non-industrial divisions' inability to pay dividends so far. This also applies to Hunguest (Opus' main tourism company), despite significant progress in terms of sales and EBITDA margin in the past two years. The issuer rating continues to depend strongly on the dividend received from construction companies. While we believe this is likely to change over time – based on the positive operating trends achieved in most portfolio companies – we also expect this will be a gradual process. In the short term, the rating is thus still expected to be heavily dependent on the M+M and R-Kord dividends.

Portfolio diversification improved

Opus has improved its portfolio diversification as the sizable energy segment now provides a more balanced asset value diversification than three years ago when the holding's portfolio was largely concentrated on two segments (industrials and food processing). In addition, the recent transaction involving the minority buyout of Viresol (from Duna Aszfalt) have further strengthened the holding's portfolio diversification by sector.

Opus's portfolio diversification is still limited by its exposure to the Hungarian market, as the dividend-paying undertakings generate most of their revenue in Hungary (especially the energy and industry divisions) and are therefore exposed to the economic cycle of the country with a limited ability to offset the negative impact of a downturn in this region. However, the food processing segment, which accounts for 30% of Opus' gross asset value, is largely international with significant multinational customers such as Coca Cola or Haribo. This provides a certain mitigant to the concentration risk of the portfolio.

Gross asset value (here net investment values) concentration is modest and well balanced as the top three portfolio companies (M+M, Viresol, Hunguest) account for around 55% of the total portfolio.

Portfolio liquidity

With the exception of Tigaz, Opus only owns unlisted shareholdings. Asset fungibility is therefore a weakness in the context of the business risk assessment. However, the high share of unquoted shareholdings does not constrain Opus' ability to extract divestiture proceeds, as has been demonstrated in the past. Opus sold its coal power plant to the

Hungarian state two years ago. In addition, the food processing and tourism assets should be easily disposable if necessary.

Investment philosophy

After Opus' recent portfolio modification, new management has reiterated its commitment to a long-term investment approach, although it remains open to opportunistic transactions (Viresol, Hunguest).

This commitment to a long-term investment approach is evident in two key aspects:

i) **Increase in majority-owned shareholdings:** Opus has been aiming to enlarge its shareholdings in its investments (Viresol). While it has not been immediately and directly possible so far for the two energy utilities, the company has still been able to execute and gain control via its owner and his network. Further stake increases in Tigaz and Titasz are likely.

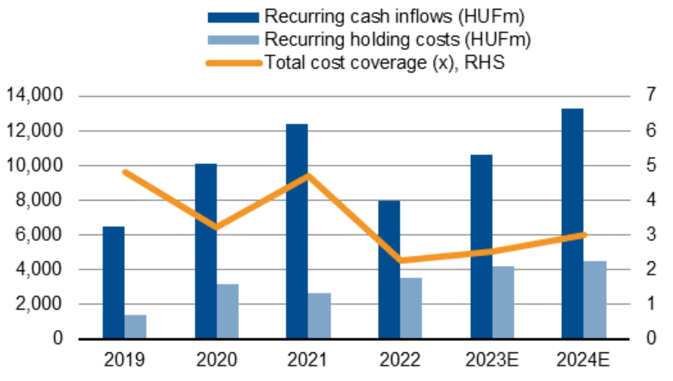
ii) **Active role on boards:** Opus plays an active role on the boards of its shareholdings. By participating in the decision-making processes of its investments, the group enhances its ability to influence their dividend policies.

Financial risk profile: BBB-

Financial risk profile providing ratings cushion

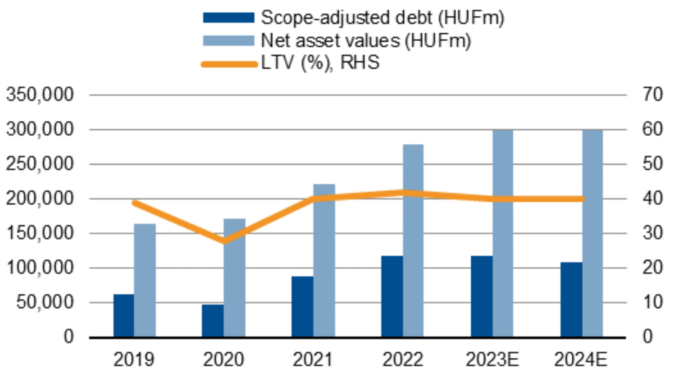
Management is committed to maintaining a strong cushion relative to the rating's total cost cover requirements. While a rating downgrade could occur if total cost cover dropped to below 1x, Opus' annual performances have been reliably well ahead of that level. Total cost cover is also safeguarded by the possible waiving of own dividend payments as confirmed by management. In addition to that, the company wants to maintain a significant cash cushion to be able to i) develop its undertakings further; or ii) make new investments within the industries it currently operates in (i.e. no expansion outside these sectors).

Figure 5: Total cost coverage providing cushion



Sources: Opus, Scope (estimates)

Figure 6: LTV stretched but stable



Sources: Opus, Scope (estimates)

Credit metrics' deterioration in 2022

In 2022, our main credit metric, the cost-coverage ratio, declined significantly YoY, caused by the acquisition-related increase in debt as well as by a significant drop in the dividend received from its industrial division (down 40% YoY). This does not challenge the issuer rating or Opus' financial risk profile, as total cost coverage remained strong. We expect the ratio to remain at 2-3x in the near future due to an increase in holding costs stemming from new headcount requirements for management's strategy of centralising more service and financial functions at the holding level. This cost increase is likely to largely neutralise the expected recovery in dividends received in 2023. While total cost coverage declined YoY in 2022, the LTV could be kept stable at about 40% in 2022 compared to 2021 due to increased net investment values in Opus' main portfolio companies. This in turn balances Scope-adjusted debt from recent transactions, which resulted in Opus taking on about HUF 24bn of additional payment obligations in 2002 and 2023 (mainly for the Viresol minority buyout) and despite an expected recovery in dividends received from the industrial division in 2023.

Our base case assumes i) a gradual recovery of the important M+M dividend; ii) an increase in management and service fees and iii) a slightly rising interest income from shareholder loans.

In 2022, interest income on deposits was sizable in the wake of the Hungarian government's favourable terms on certain loan programmes (HUF 1bn – not shown as recurring income). This is expected to increase further in 2023 to HUF 1.6bn.

Opus' LTV has been around 40%, except in 2020 when cash generation was strong and the ratio was significantly lower. The company's net investment values are calculated by stripping gross asset values off investment companies' outstanding debt (both external and internal obligations, including the interests), a conservative assumption in our view. While in 2021 net investment values did not grow much, mostly due to the consequences of Covid-19 and other crises, it grew in 2022, supported by the first-time full consideration of Tigaz and Titasz. However, Scope-adjusted debt also grew in 2022, mainly explained by the additional payment obligations taken on from the Viresol transaction (assuming shareholder loans granted by former owners).

Balance in HUFm	2022	2023E	2024E
Cash and marketable securities (t-1)	27,234	8,890	7,870
Open committed credit lines (t-1)	0	0	0
Short-term debt (t-1)	735	0	0
Coverage	**>200%**	**>200%**	**>200%**

Adequate liquidity

Opus continues to manage liquidity in a very conservative manner, which is both due to its ample cash on the balance sheet and its now zero dependence on bank debt (the low 2021 exposure having been fully repaid in 2021). In addition, liquidity has to be viewed in conjunction with the total cost cover of above 1.0x, which is also supportive, as Opus does not have to cover costs from its ongoing operations through the absorption of debt or the disposal of assets.

Supplementary rating drivers: +/- 0 notches

The ratings are unaffected by supplementary rating drivers, although governance constitutes a negative consideration (see page 3).

Long-term debt rating

Senior unsecured debt rating: BBB-

We performed a recovery assessment for the senior unsecured debt category. For this assessment, we constructed a hypothetical default scenario, derived a liquidation value and then compared it with the now increased volume of senior unsecured debt (namely the company's two bonds) in order to determine its recovery rate. For Opus, we calculated a superior recovery of the senior unsecured debt positions, mainly supported by very little secured bank debt ranking ahead, and the comparatively high market value of portfolio companies. Even discounting this value by 50% and adding guarantees and suretyships of about HUF 45bn, senior unsecured debt is likely to be recovered.

Our assessment assumes no cross-default clauses in the portfolio companies' debt documentation.

Appendix: Peer comparison

	Opus Global Nyrt.	Lexholding Zrt.	LP Portfolió Kft.	Compactor Fastigheter AB	Franz Haniel & Cie. GmbH
	BB/Stable	B+/Stable	B+/Stable	BBB-/Stable	BBB-/Stable
Last reporting date	31 December 2022	31 December 2022	31 December 2022	31 December 2022	31 December 2022
Business risk profile	BB-	B	B	BB	BBB
Financial risk profile	BBB-	BB+	BB	A-	BBB-
Total cost cover	2.2x	1.3x	>2x	>2x	>1x
Loan-to-value	43%	41%	35%	10%	<10%
Asset values (EUR m)	850	150	40	1,200	5,500
Liquidity	No impact	No impact	No impact	No impact	No impact

Sources: Public information, Scope

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