20 February 2024

Corporates

Biggeorge Property Nyrt.
Hungary, Business Services

B+ STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023P**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	6.0x	53.7x	9.0x	10.0x
Scope-adjusted debt/EBITDA	3.0x	1.4x	3.7x	2.4x
Scope-adjusted FFO/debt	25%	63%	17%	27%
Scope-adjusted FOCF/debt	-143%	69%	-51%	23%

Rating rationale

The affirmation is driven by our expectation that BGP's solid credit metrics will be maintained in line with the rating case, benefiting from a high presale rate of BGP-managed funds, which together with an expected recovery in Hungary's macroeconomic conditions in the second half of 2024, support adequate cash flow visibility.

The business risk profile (assessed at B+) is primarily driven by BGP's strong profitability and good pipeline visibility, underpinned by high presale rates of property developments of the funds under management. In 2024, the group is set to hand over three projects, launch four new ones, and continue with two ongoing developments, aiming to sell approximately 380 apartments, which mirrors the output levels achieved in 2022. The active engagement in five development projects underscores the group's robust agenda for the year. Looking ahead to 2025, the group plans to maintain its momentum by launching another four projects and handing over three, with the anticipated result of increasing the number of units sold to approximately 475, indicating a sustained growth in their development efforts.

BGP's financial risk profile is bolstered by strong presale rates of funds under management, with over 70% of the apartments expected to be delivered in 2024 already sold, and 40% of those slated for delivery in 2025 similarly pre-sold. Based on the forecasted sales trends of ongoing projects and the number of upcoming new projects, significant revenue visibility is provided for the next 18 to 24 months.

Outlook and rating-change drivers

The Outlook is Stable and reflects our view that credit metrics will maintain solid levels, with Scope-adjusted debt/EBITDA expected to remain below 4x. The continuation of work across five development sites, supported by strong presales expected to further enhance, provides adequate cash flow visibility, underpinned by a more supportive macroeconomic outlook in Hungary. The Outlook also includes the expectation that BGP's structure will not change.

A positive rating action may be taken if Scope-adjusted debt/EBITDA develops in line with our expectations toward levels below 3.5x on a sustained basis while BGP manages to increase its group size, leading to improved diversification of cash flow sources.

A negative rating action may be warranted if Scope-adjusted debt/EBITDA increases to above 5x on a sustained basis. This would be the consequence of a weaker operating income that results from lower demand, higher inflation or a lack of visibility that limits the launch of new projects.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
19 Feb 2024	Affirmation	B+/Stable
17 Feb 2023	Affirmation	B+/Stable
08 Feb 2022	New	B+/Stable

Ratings & Outlook

Issuer	B+/Stable
Senior unsecured debt	BB-

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Related Methodology

General Corporate Rating Methodology; October 2023

Rating Methodology: European Business and Consumer Services Corporates; January 2024

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Adequate cash flow visibility from adequate pre-sale rates for different projects • One of Hungary's largest homebuilders through funds managed • Successful fund manager with a broad group of co-investors and highly levered return on own invested capital • Over HUF 200bn of assets under management spread over 38 funds	• Small size by European standards • Significant development exposure, albeit with a strong project record and effective risk mitigation • High geographic and asset class concentration

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA develops in line with our expectations toward levels below 3.5x on a sustained basis; while BGP manages to increase its group size, leading to improved diversification of cash flow sources	• Scope-adjusted debt/EBITDA increases to above 5.0x on a sustained basis

Corporate profile

Biggeorge Property Nyrt. (BGP) is listed on the Xtend Platform of Budapest Stock Exchange and part of Biggeorge Holding Ltd., a Hungarian vertically integrated real estate group active in real estate development, ownership, fund management, services, financing, and construction. Biggeorge Holding Ltd. was established in 1991 and is owned and managed by Tibor Nagygyörgy.

Financial overview

			Scope estimates		
Scope credit ratios	**2022**	**2023P**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	6.0x	53.7x	9.0x	10.0x	15.4x
Scope-adjusted debt/EBITDA	3.0x	1.4x	3.7x	2.4x	1.7x
Scope-adjusted FFO/debt	25%	63%	17%	27%	38%
Scope-adjusted FOCF/debt	-143%	69%	-51%	23%	34%
Scope-adjusted EBITDA in HUF m					
EBITDA	1,102	2,606	1,666	2,543	3,785
Dividend income[1]	1,852	4,041	175	302	94
less: disposal gains from fixed assets included in EBITDA	-568	-1,732	0	0	0
Scope-adjusted EBITDA	**2,386**	**4,915**	**1,841**	**2,845**	**3,880**
Funds from operations in HUF m					
Scope-adjusted EBITDA	2,386	4,915	1,841	2,845	3,880
less: (net) cash interest paid	-397	-91	-204	-283	-252
less: cash tax paid per cash flow statement	-229	-546	-494	-723	-1,043
Funds from operations	**1,760**	**4,277**	**1,142**	**1,839**	**2,584**
Free operating cash flow in HUF m					
Funds from operations	1,760	4,277	1,142	1,839	2,584
Change in working capital	-3,112	585	21	-38	-53
less: capital expenditure (net)	-8,747	-118	-4,599	-250	-250
Free operating cash flow	**-10,099**	**4,744**	**-3,436**	**1,551**	**2,282**
Net cash interest paid in HUF m					
Net cash interest per cash flow statement	-397	-91	-204	-283	-252
Net cash interest paid	**-397**	**-91**	**-204**	**-283**	**-252**
Scope-adjusted debt in HUF m					
Interest-bearing debt	7,792	7,592	7,481	7,481	7,481
less: adjusted cash and cash equivalents[2]	-750	-750	-750	-750	-750
Scope-adjusted debt	**7,042**	**6,842**	**6,731**	**6,731**	**6,731**
Non-adjusted cash and cash equivalents (for information purpose)	5,819	9,100	4,700	7,215	9,497

[1] Includes gains realised on shares of funds managed

[2] In line with our methodology regarding the treatment of cash for lowly rated companies and in line with related peers, we assume that only a portion of the cash (amounting for a maximum of HUF 750m) is deemed as available with the remainder expected to be deployed over the next couple of years to enable portfolio growth. Nonetheless, BGP is expected to generate a comfortable cash position as highlighted below the SaD calculation.

Biggeorge Property Nyrt.

Hungary, Business Services

Table of Content

Environmental, social and governance (ESG) profile[3]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

ESG profile: adequate

BGP has an adequate ESG profile. Business services companies like BGP tend to be especially affected by reputational risk and its impact on long-term income. This risk for BGP is mitigated by its good standing with customers and co-investors. Due to higher public scrutiny in terms of energy savings in new projects, the group adopted strict building standards regarding, for example, geothermal heating, heat pump, green roofs, and AA or AA+ energy-saving ratings.

However, it is important to note that BGP operates within a complicated corporate structure that could pose challenges to effective governance and oversight. This complexity may impact the transparency and efficiency of its operations, potentially affecting stakeholder trust and complicating ESG efforts. However, the investment fund management company, Biggeorge Alapkezelo Plc is supervised by the National Bank of Hungary (NBH) since its establishment in 2005 and the managed real estate funds were created in each case upon their registration by the NBH. The operation of the investment funds is supervised by multiple international external appraisers, fund custodian banks and by an independent auditor (BDO), which jointly guarantee security and prudency at an institutional level.

Moreover, being listed on BSE's XTEND platform with Biggeorge Property Plc and on BSE's standard platform with Biggeorge REIT Plc and the operational and reporting obligations associated with the presence on the stock exchange also implements additional layers of transparency and accountability. In conclusion, BGP maintains an adequate ESG profile, underscored by its commitment to stringent building standards aimed at promoting energy savings and environmental sustainability in its projects. Despite operating within a complex corporate structure, the company demonstrates strong oversight and accountability through supervision by regulatory bodies such as the National Bank of Hungary. Furthermore, its listing on the BSE's XTEND and standard platforms enhances transparency and reliability, ensuring that BGP remains steadfast in its adherence to ESG principles.

[3] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: B+

Industry risk profile: BBB-

We classify BGP as a business services provider, an industry we assess as BBB based on a medium level of cyclicality, medium risk of substitution, and medium barriers to entry. The business's performance is closely tied to the assets under management by BGP and the demand for residential and logistics real estate in Hungary.

We maintain a blended industry risk profile to account for the slight exposure to homebuilding, which represents less than 20% of total EBITDA as of YE 2023. Importantly, BGP also serves as an incubator for future developments carried out by project funds, by acquiring and holding the necessary land bank. This approach contributes to the diversification of BGP's investment portfolio and supports its potential for long-term growth in the sector.

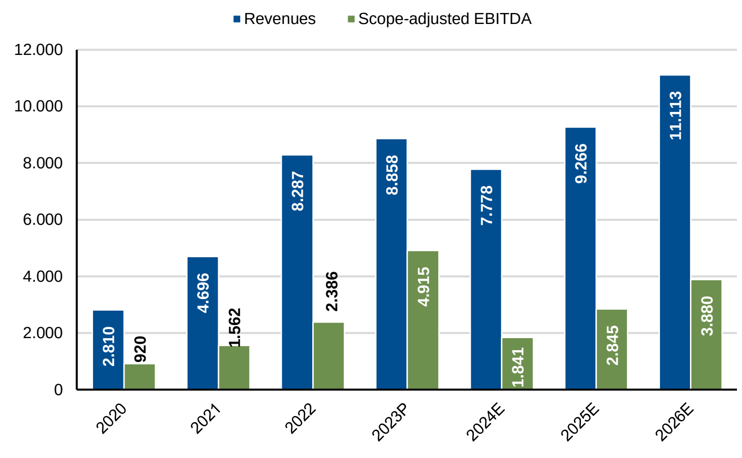
Hungarian real estate and economy show signs of recovery amidst interest rate cuts and rising consumer confidence

In 2023, the Hungarian real estate market was characterised by extremely high interest rates, notable even in a global context. Following the steep rate hikes in 2022, base rates remained at very high levels for most of 2023. However, towards the year's end, the Hungarian Central Bank (MNB) began to significantly cut rates. The central bank's communication was clear, leading the market to expect rapid cuts in the first half of 2024, with analysts predicting a decrease to 6% by July. Beyond this point, it was anticipated that rate cuts would proceed at a more gradual pace, reaching 4.5% by the end of 2026.

The Hungarian GDP growth was reported to be negative from Q1 to Q3 of 2023, despite a significant positive contribution from the agricultural sector. Nonetheless, GDP growth is expected to return to positive territory in 2024, reflecting a generally more optimistic outlook for the macroeconomic environment.

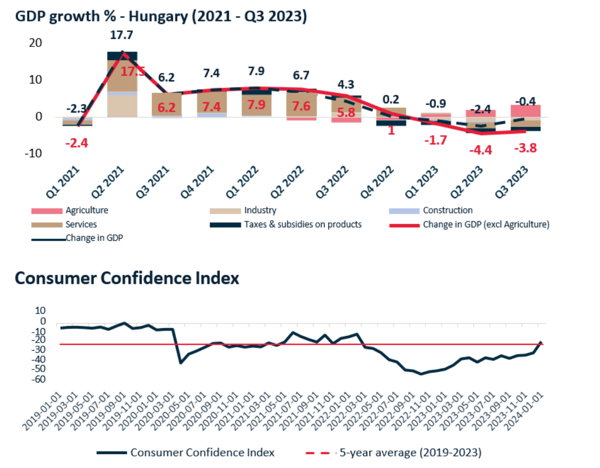
Simultaneously, the Consumer Confidence Index has been on an upward trajectory over the past twelve months, having reached its lowest point towards the end of 2022. By the start of 2024, the index had exceeded the five-year moving average, indicating the potential for an increasingly favourable market environment in the coming period.

Figure 1: Revenues and Scope-adjusted EBITDA development (HUF m)



Sources: Biggeorge, Scope estimates

Figure 2: Hungarian Macro Data



Sources: Biggeorge

Parallel to these economic developments in 2023, the group continued to develop its real estate exposure while maintaining its exposures to fund services. Specifically, all the real estate developments mentioned are undertaken within funds managed by BGP, underlining the group's operational involvement in these projects. During Q1 2023, the group completed the Waterfront City 3 development, consisting of 217 apartments. Works continued on five other developments throughout 2023, totalling 844 apartments, of which

622 are expected to be completed in 2024, with the remaining 222 apartments scheduled for completion in 2025. Provided market conditions prevail, the group is expected to commence a number of new projects in the 2nd and 3rd quarter of 2024, adding a further 751 apartments to the company's pipeline, which will be completed in 2026.

Operating solely within the Hungarian market, BGP is particularly sensitive to the local market dynamics. The Hungarian real estate sector is characterised by its fragmented nature and intense competition. Despite these challenges, BGP has managed to secure a significant position as a service provider in the Hungarian development sector. However, when viewed in a broader European context, the group is considered relatively small.

Furthermore, BGP's strategic ownership structure, with a notable stake in the primary umbrella fund, underscores its ability to effectively leverage local market insights. While it may not achieve market domination in the conventional sense of larger multinational corporations, BGP's local focus and specialised services enable it to maintain a robust position within its sector.

Emerald Hotel continues to provide a diversified revenue stream

Despite its modest size, BGP's strength within its niche is fortified by diverse activities, including hotel operations and fund services. The recent completion of the Emerald Hotel has introduced a new revenue stream, enhancing the group's resilience and stability amid market fluctuations. The group's revenues have demonstrated greater stability compared to many direct competitors, mainly due to its unique fund structure.

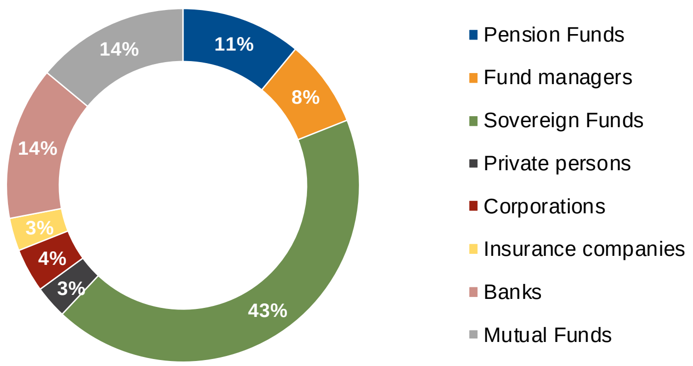
Inherent size limits potential to scale its services on a broader geographical scale.

The group's scalability is challenged when considering expansion beyond the Hungarian market. Despite its commanding presence in the regional market, the company's size and specialised service offering pose challenges in terms of scalability and geographical expansion. Its current operational model and market dynamics constrain its potential to extend its reach beyond Hungary's borders, indicating a need for strategic adaptation to overcome these limitations, which is unlikely in the short term.

BGPs regional focus, while advantageous in understanding and catering to local market needs, inherently limits the company's potential to scale its services on a broader geographical scale.

BGP's operations are entirely concentrated in Hungary, with a strong focus on Budapest. This limited geographic diversity is a significant constraint, particularly in terms of mitigating risks associated with regional economic fluctuations. The projects 'Silverbay Residence', comprising 69 apartments, and 'Szemesbay Resort', with 153 apartments, do introduce some diversification within Hungary, as both are located at Lake Balaton - a renowned vacation destination 90 minutes southwest of Budapest. However, BGP's overall geographic footprint remains relatively narrow.

Figure 3: Profile of co-investors as of YE 2023



Sources: Biggeorge Property Nyrt, Scope

… common to all European developers

BGP's customers are the funds that it manages. BGP has 38 different funds, and operates a one fund, one project model. The minimum investment amount per investor is EUR 100k. As such, customer concentration can be seen as high. The company's fund business sources capital from a diverse range of institutional investors, including pension funds and sovereign funds, indicating a healthy degree of customer diversification. These types of investors often have long investment horizons and are less likely to withdraw funds abruptly during economic downturns, providing a level of stability to BGP's funding. Furthermore, the lock-up periods in BGP's fund management contracts provide an additional layer of stability to its financial profile, offering some protection against market volatility.

Market share assessment unchanged

BGP boasts a diverse range of services, encompassing various aspects of real estate development, fund management, and hospitality operations. However, these services exhibit a high degree of correlation, limiting their cross-selling potential.

The company's primary focus is residential development (homebuilding), which represents a significant portion of its services. While this concentration within the real estate sector provides stability and expertise, it also means that the various services offered are inherently tied to the real estate market's performance, as BGP generates a substantial portion of its fee income from development services, including project management, sales, marketing, and engineering control.

Strong Scope-adjusted EBITDA margin

In 2023, the Scope-adjusted EBITDA margin leapt to 31%, primarily due to robust revenue from fund services exceeding initial forecasts, and proceeds from land disposals. For 2024 and 2025, the Scope-adjusted EBITDA margin is expected to stabilise within the 20 to 30% range, supported by a forecasted recovery in the macroeconomic environment, anticipated disinflation, and the introduction of housing subsidy programmes, which may bolster the housing market and, by extension, demand for BGP's developments[4]. Notably, the geographic concentration of BGP's projects, primarily in the Budapest region and around Lake Balaton where housing prices have shown resilience and even appreciation, positions BGP favourably within this recovering market context. However, the overall high valuation of house prices relative to macroeconomic fundamentals, despite easing, remains a concern. Thus, while Hungarian GDP growth's return to positivity in 2024 suggests a more optimistic outlook, BGP's strategic response to these dynamics, including leveraging high presale rates and navigating the evolving landscape of housing subsidies and loan conditions, will be critical.

In 2024, work is anticipated to be completed on three developments, yielding 622 apartments, with over 70% already presold. This will be succeeded by two additional developments in 2025, which are expected to deliver 222 apartments. Based on the forecasted sales trends of ongoing projects and the number of upcoming new projects, significant revenue visibility is provided for the next 18 to 24 months.

Historically, co-investor returns were capped at 6-7%, but they increased to approximately 15% at the end of 2022 to maintain competitiveness and appeal to co-investors. They have since been adjusted to a range between 9-11%. Co-investors are not involved in managing the assets, with their investment typically committed for a five-year period, followed by the option to withdraw after a 6 to 12 month notice period.

In 2021, BGP's Scope-adjusted return on capital employed (SaROCE) hit a high of 9.1%, displaying a period of good efficiency of resources. However, in 2022, the SaROCE dropped to 4.3% as the Scope-adjusted EBITDA (i.e. the numerator) decreased, with a

[4] MNB – Housing Market Report – November 2023

number of projects put on hold amid challenges stemming from Hungary's adverse macroeconomic environment.

In 2023, as BGP's Scope-adjusted EBITDA rebounded, aided by a number of one-off land sales, the SaROCE climbed back up to 7.9%. The SaROCE is expected to dip to 5.3% in 2024 before an expected recovery to 8.1% in 2025, with an anticipated improvement in profitability and efficiency.

The recovery in SaROCE underscore BGP's ability to adapt to external market conditions and make strategic investments to achieve sustained growth and enhanced shareholder value.

Revenue stability and predictability

BGP’s stable revenue stems from diversified sources including fund management fees, real estate development, and hotel management. Despite challenging market conditions in Hungary, such as high interest rates and a real estate market downturn, BGP has shown consistent revenue growth and resilience. The duration of its fund management contracts (i.e. its lock up periods) and a robust real estate project pipeline provide good visibility of future cash flows. The 'one project, one fund' model, with at least 20% of the total equity provided by BGP Group or related entities in each project, ensures that its interests are closely aligned with those of external investors, instilling trust and confidence, contributing to revenue predictability and stability.

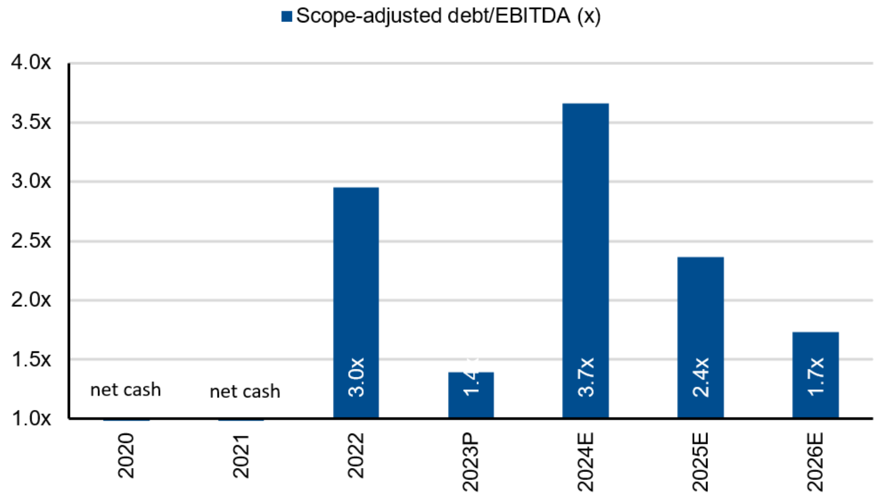
BGP's service integration is evident through its range of offerings, including project management, asset management, and construction services. This is complemented by vertical integration in construction via GroundUp Ltd., ensuring control over the real estate development process and potentially increasing efficiency and revenue stability. The integration of BGP's services into client operations means that switching providers would be costly and inconvenient, securing BGP’s position in the market. Its ability to offer tailored solutions, evidenced by specific projects in green finance and energy-efficient real estate, highlights a high level of service customisation. BGP’s approach not only aligns with clients' interests but also becomes an integral part of their investment strategies.

Financial risk profile: BB-

Interest cover expected to remain stable

As of YE 2023, the interest-bearing debt consists of a single bond - issued in Feb’22, under the Hungarian Bond Funding for Growth Scheme (NKP) – and some minor shareholder loans. The NKP bond makes up 98% of the total debt outstanding and is fixed at 5.1%. The high proportion of fixed-rate debt insulates the company from market volatility, particularly from fluctuating interest rates as seen in Hungary over the past 18 months, providing better visibility on future interest payments and allowing for more predictable cashflows.

Figure 4: Leverage cover



Sources: Biggeorge Property Nyrt, Scope estimates

Land sales in 2023, help boost FOCF

In 2022, the Scope-adjusted free operating cash flow (FOCF) was negative, as the company invested into two residential projects. The investments were financed by the proceeds of the HUF 7bn bond issuance.

In 2023, FOCF turned positive, due to the following:

(i) the sale of investment properties (Lands) in 'Pro-Centoquaranta Ltd' and in 'Wersic Ltd', amounting to HUF 2.1bn. This land, which was directly owned by the aforementioned companies, are fully consolidated by BGP. Further land sales are expected over the next two years, but they are expected to be marginal. The issuer has a significant land bank on which it can develop and is further land acquisitions. BGP has recently successfully tendered for two plots in downtown Budapest.

(ii) the group realised gains of HUF 3.2bn, following the handover of Waterfront City III. residential developments. No such gains are forecasted to be realized for 2024 to 2026. This development was carried out by BG22, a project fund of BG30. BGP has sold some of the shares it had in BG30 to BG4 and therefore realised financial gains incurred on this asset (the share price changed due to the handover of Waterfront City III mainly and the fair value change of other investment projects).

The inflow of cash managed to offset the HUF 5.4bn investment in two new funds, BG30 and BG40. In 2024, the group plans to invest HUF 4.4bn in additional funds.

Without any significant gains or the sale of more lands, FOCF is therefore expected to turn negative again before an anticipated recovery in 2025. Further investment in other line items, such as CAPEX, is expected to have a minimal impact on the cash flow.

Land sales in 2023, help boost FOCF

Biggeorge's leverage, as measured by its Scope-adjusted debt/EBITDA ratio, improved significantly to 1.4x in 2023 (down 1.6x YoY) bolstered by a spike in Scope-adjusted EBITDA, primarily from one-off land sales. However, leverage is expected to normalise in 2024, ranging from 3.0x to 4.0x, before improving to under 3.0x in 2025. This improvement is anticipated due to an increase in Scope-adjusted EBITDA, attributed to enhanced operational efficiency and the completion of additional developments, while debt levels are expected to remain stable.

Debt is expected to remain relatively stable as the bond prospectus stipulates that the issuer must consult with us for debt issuance above 10% of equity. Additionally, the issuer has indicated that they do not expect to raise any additional debt. As such, the Scope-adjusted debt is expected to remain largely unchanged, c. HUF 7bn.

Liquidity is adequate

Liquidity is adequate despite FOCF anticipated to be negative in 2024, as it is linked to funds in which BGP finance, which are earmarked for a number of investments in 2024. However, the BGP has HUF 9.1bn in cash on the balance sheet as at YE 2023.

Balance in HUF m	2023P	2024E	2025E
Unrestricted cash (t-1)	4,354	4,700	7,215
Open committed credit lines (t-1)	0	0	0
FOCF (t)	4,744	-3,436	1,551
Short-term debt (t-1)	514	518	518
Coverage	**>200%**	**>200%**	**>200%**

Assuming all funds earmarked for developments is committed (which is not the case), the company still has adequate cash sources remaining, to cover any short-term obligations. BGP benefits from having no significant short-term debt repayments in the coming years, as well as the relatively low CAPEX, due to the asset light nature of the business. We believe that cash sources will comfortably cover cash needs going forward. As such, liquidity is deemed to be adequate.

Long-term debt rating

Senior unsecured debt rating: BB-

Biggeorge has issued one senior unsecured bond through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond was issued in February 2022 with a volume of HUF 7.0bn (ISIN: HU0000361365), a ten-year tenor and a fixed coupon of 5.1%, payable annually. Repayment is in five equal tranches (10% of the face value), commencing from February 2027, with a with a 50% balloon payment at maturity.

Our recovery analysis is based on a hypothetical default scenario in 2025, based on the liquidation value of the company's assets. We estimate the recovery for all senior secured debt to be 'above average', and therefore we affirm the senior unsecured debt rating of BB- (one notch above the underlying issuer rating).

This affirmation is driven by the above-average recovery rate due to the significant unencumbered asset position, which provides sufficient headroom against severe market value deterioration.

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