Biggeorge Property Zrt.
Hungary, Business Services

STABLE
B+

Corporate profile

Biggeorge Property Zrt. (BGP) is a wholly owned subsidiary of Biggeorge Holding Ltd. (BGH), a Hungarian vertically integrated real estate service provider active in real estate development, ownership, fund management, services, financing and construction. BGP focuses on real estate development, fund management and investment and has over HUF 100bn of gross assets under management in 25 funds. BGH was established in 1991 and BGP in 2013, both are owned and managed by Tibor Nagygyörgy. The group has sold 2,700 flats in Hungary over the past eight years and currently has over 1,000 flats under development.

Key metrics

			Scope estimates		
Scope credit ratios	2019	2020E	2021E	2022E	2023E
Scope-adjusted EBITDA/interest cover (x)	nm*	nm*	nm*	5.9x	4.3x
Scope-adjusted debt (SaD)/ Scope-adjusted EBITDA	3.2x	0.3x	0.1x	3.4x	4.5x
Scope-adjusted FFO/SaD (%)	34%	293%	762%	22%	13%
FOCF/SaD (%)[1]	-132%	99%	55%	-53%	-47%

*Net interest income

Rating rationale

Scope Ratings has today assigned a first-time issuer rating of B+/Stable to Hungarian integrated development service provider for residential real estate[2] Biggeorge Property Zrt. (BGP). Senior unsecured debt has also been rated B+.

The company's business risk profile (assessed at B+) reflects its position as one of the largest integrated development service providers for residential real estate in Hungary, with a good performance track record and above industry returns on its investments. BGP's business model mitigates development risk through fund structures whereby co-investors provide the bulk of the capital (with a capped return). The company earns fees on a multitude of services (mainly development and fund management) provided to the funds by its subsidiary Biggeorge Alapkezelo, as well as on capital invested in the funds and other investment vehicles. The level of fees is linked to the size of assets under management, but more so to the pace of growth and composition of the assets. This means visibility is good in the short term but can be volatile over longer time periods. Business risk is constrained by development risk (including permitting, construction and sales), directly through on-balance-sheet developments and indirectly through fund investments. The overall size of BGP, with just over HUF 100bn (EUR 280m) of gross assets under management, its geographic concentration on Hungary and Budapest, and segment concentration on residential and logistics real estate are also constraining factors. BGP is in a rapid growth phase, however, that could see assets under management triple by 2025.

BGP's financial risk profile (assessed at B+) reflects leverage, as measured by Scope-adjusted debt/EBITDA, expected at around 4x over the next three years.

Ratings & Outlook

Corporate rating	B+/Stable
Senior unsecured rating	B+

Analyst

Tommy Träsk
+49 69 33689 36
t.traesk@scoperatings.com

Related Methodologies

Corporate Rating Methodology
6 Jul 2021

European Real Estate Methodology
25 Jan 2022

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

[1] FOCF/SaD was added on 14 February 2022. In the original publication this metric was not shown.
[2] The business purpose has been amended on 14 February 2022. In the original publication the company was declared a real estate company.

Leverage will largely be a function of the amount and timing of capital invested in real estate projects going forward. BGP proposes to issue a HUF 7bn bond under the Hungarian National Bank's Bond Funding for Growth Scheme to fund two new residential developments, which will be funded by the company on its own (without co-investors) as well as additional commercial (logistics and office) real estate fund investments.

We expect interest coverage to remain above 4x given that the cost of most debt (i.e. the proposed bond) will be fixed. BGP's credit profile benefits from our expectation of limited shareholder distributions, capped at 35% of net profits under the bond indenture.

When computing credit metrics for BGP, we do not consolidate assets and liabilities held in funds controlled by the company, since BGP's effective economic interest in the funds is low. Instead, dividend income from investments in funds and joint ventures is included in Scope-adjusted EBITDA.

Interest rate and forex risk is mitigated, with most debt at the fund level at fixed rates and residential develop-to-sell projects financed with local currency loans and commercial develop-to-hold projects financed with euro-based loans (matching the euro-based rental income).

Liquidity is adequate proforma of the bond issuance, with planned investments to be funded by the proceeds of the bond and project-specific bank loans.

Outlook and rating-change drivers

The Outlook is Stable and reflects current strong demand for residential and logistics real estate in Hungary as well as the company's track record to date of achieving above industry returns on its investments. Furthermore, the Stable Outlook reflects our expectation that Scope-adjusted debt/EBITDA will average around 4x during 2022-2024.

A positive rating action would require Scope-adjusted debt/EBITDA below 3.5x on a sustained basis. This could happen if market conditions remain strong and the company maintains a disciplined approach to leverage and new on-balance-sheet developments.

A negative rating action is possible if Scope-adjusted debt/EBITDA increases above 5x on a sustained basis. Leverage could increase above the threshold if the company were to pursue a more aggressive debt-funded growth strategy than expected, or if market demand for its products were to decline, reducing returns on investments and growth in assets under management.

Rating drivers

Positive rating drivers	Negative rating drivers
• BGP forms an integral part of an integrated real estate group, BGH • One of Hungary's largest developers of residential real estate • Successful fund manager with a broad group of co-investors and high levered return on own invested capital • Over HUF 100bn of gross assets under management spread over 25 funds • Three sources of income: service fees, development income and investment returns (dividend income) • Interest rate and forex risk mitigated through fixed rate loans and currency matching • Dividend payout capped at 35% of net profits under bond indenture	• Relatively small size by European standards • Significant development exposure, albeit with a strong track record and effective risk mitigation • High geographic and asset class concentration • High leverage at fund level, making dividend income potentially volatile • Management control of, but small effective economic interest in, the underlying real estate assets • Income-producing assets encumbered in favour of secured lenders • Key-person risk

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA below 3.5x on a sustained basis	• Scope-adjusted debt/EBITDA persistently above 5x

Financial overview

			Scope estimates		
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover (x)	nm*	nm*	nm*	5.9x	4.3x
Scope-adjusted debt (SaD)/ Scope-adjusted EBITDA	3.2x	0.3x	0.1x	3.4x	4.5x
Scope-adjusted FFO/SaD (%)	34%	293%	762%	22%	13%
FOCF/SaD (%)[3]	-132%	99%	55%	-53%	-47%
Scope-adjusted EBITDA (HUF m)					
EBITDA	1,261	757	649	1,417	1,606
Dividend income	375	163	192	686	530
Scope-adjusted EBITDA	**1,636**	**920**	**841**	**2,103**	**2,136**
Scope-adjusted net cash interest (HUF m)[4]					
Interest paid	-101	-84	-5	-355	-501
Interest received	427	88	19	0	0
Scope-adjusted net cash interest	**326**	**4**	**14**	**-355**	**-501**
Scope-adjusted FFO (HUF m)					
EBITDA	1,261	757	649	1,417	1,606
Net cash interest paid/received	326	4	14	-355	-501
Cash tax paid	-193	-68	-70	-192	-365
Dividend income	375	163	192	686	530
Scope-adjusted FFO	**1,769**	**856**	**785**	**1,555**	**1,269**
Scope-adjusted debt (HUF m)					
Reported gross debt	5,186	292	103	7,103	9,528
Scope-adjusted debt (SaD)	**5,186**	**292**	**103**	**7,103**	**9,528**

*Net interest income

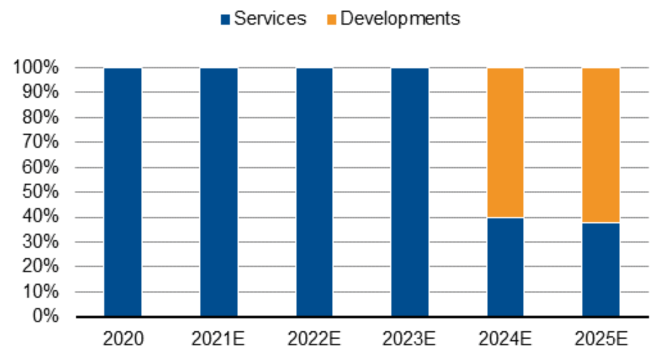
[3] FOCF/SaD was added on 14 February 2022. In the original publication this metric was not shown.
[4] The metric was renamed on 14 February 2022. In the original publication it was named Scope-adjusted net interest expense (HUF m).

Business risk profile: B+

Industry risk of BBB- reflects stable fee income and more volatile development income

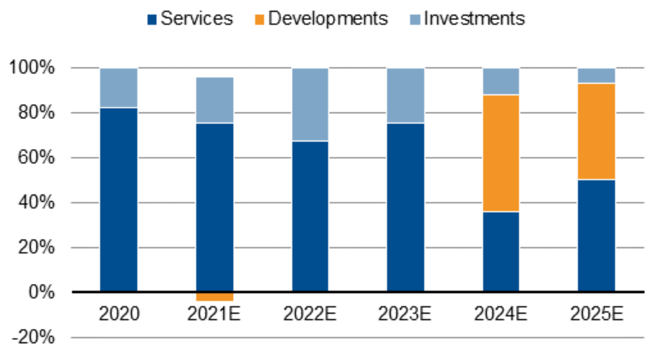
The company generates income from: i) fees earned on services provided to the funds (mainly development and fund management) classified as business services activity by Scope; ii) returns on two planned residential real estate developments to be undertaken without co-investors; and iii) investments in its funds and other investment vehicles. The assigned industry risk of BBB- is a blend of the relatively stable business services activity[5] (industry risk of BBB) and the more volatile real estate development and investment businesses (industry risk of BB).

Figure 1: Revenue breakdown by segment



Sources: Company, Scope

Figure 2: EBITDA breakdown by segment



Sources: Company, Scope

Business risk constrained by size and lack of geographic and asset diversification

BGP's business risk profile (assessed at B+) reflects the company's position as one of the largest development service providers for of residential real estate in Hungary with a good performance track record and above industry returns on its investments. The company expects to sell around 700 residential units in 2022 (2021: 370 units), which equates to a market share of about 6%-7%. In a European context however, business risk remains limited by the size of the company with just over HUF 100bn of gross assets under management, its geographic concentration on Hungary and Budapest, and its focus on the residential real estate development segment.

High levered return on investment with downside protection

The company mitigates development risk through asset diversification and fund structures whereby co-investors provide the bulk of the capital. With co-investors' return capped and developments majority debt funded, BGP achieves a very high levered return (average internal rate of return of over 60% on residential developments) on its own investment in the funds.

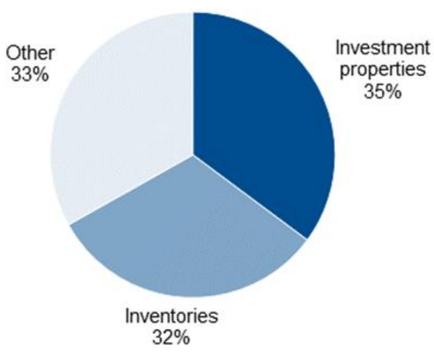
Besides the return on the capital investment, BGP earns fees on a multitude of services (mainly development and fund management) provided to the funds it manages. The level of fees is linked to the size of assets under management, but more so to the pace of growth and composition of the assets. This means visibility is good in the short term but can be volatile over longer time periods.

Greater segmental diversification and more stable fee income going forward

BGP's assets and fee income have historically been focused on residential developments-to-sell and, to a smaller extent, on logistics buy or develop-to-hold, However, the company has recently established a new fund (BG25) for logistics developments-to-hold. This should provide asset class diversification and a higher share of recurring annual fee income going forward.

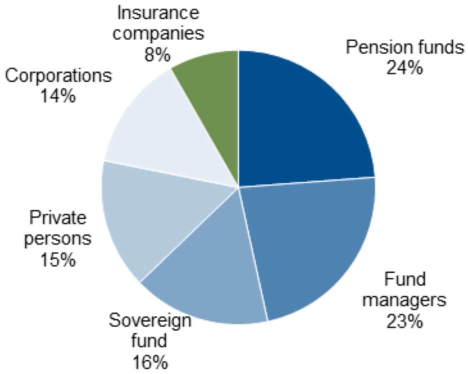
[5] The specification of the blended industry risk was amended on 14 February 2022. In the original publication it was shown as fee business.

Figure 3: BGP consolidated assets (incl. funds), 2021



Sources: Company, Scope

Figure 4: Co-investors by type, 2021



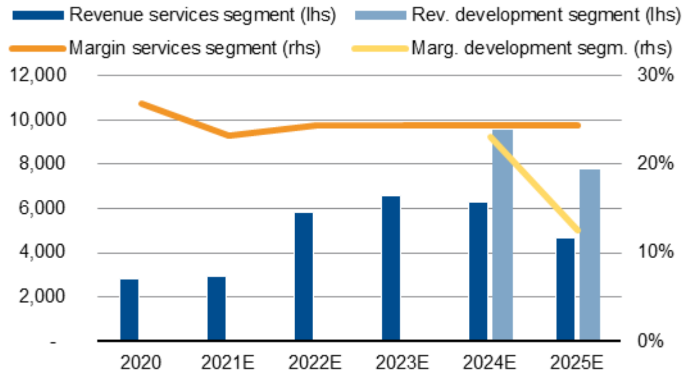
Sources: Company, Scope

Key to company growth is its ability to attract new capital from co-investors

The fund management business has 33 institutional co-investors, 92 private investors and a database of over 30,000 potential buyers for its residential real estate products (see Figure 4). The fund structure has allowed BGP to grow quickly with a limited own capital contribution.

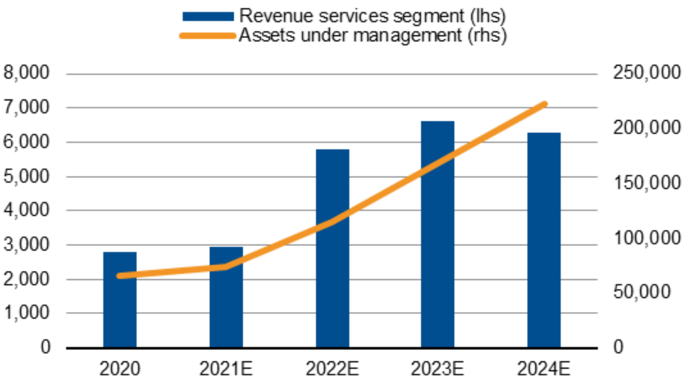
The proceeds of the proposed HUF 7bn bond will partly be used to fund investments in two residential real estate developments in Hungary. The first is a new residential real estate project at Lake Balaton and the second is the fifth phase of an ongoing residential development in Budapest, Waterfront City. Unlike most of BGP's residential real estate investments, these two developments will be undertaken by the company without the involvement of co-investors, effectively creating a new third income stream for the company.

Figure 5: Scope-adjusted revenue (HUF m) and EBITDA margin (%) by segment



Sources: Company, Scope

Figure 6: Service revenue and assets under management (HUF m)



Sources: Company, Scope

Potential for margins to rise with increasing assets under management

BGP expects a significant increase in fee income in 2022, partly due to a rise in assets under management (see Figure 6) and partly due to a large increase in expected residential sales in the current year. The development fees (including sales/marketing) are significantly higher than fund management fees. The company also expects an increase in the margin of the services business, given that its costs do not increase proportionately with the rise in assets under management (see Figure 5).

Financial risk profile: B+

Fund assets excluded from our financial assessment

Our financial risk assessment focuses on BGP's consolidated financial statements, excluding the fund investments. Although the company controls the fund assets (allowing IFRS consolidation), BGP only has a 5% ownership stake in the main umbrella fund (BG4), with the remainder held directly by the ultimate owners of the group. Instead, we include dividends received from the fund and other investment vehicles in Scope-adjusted EBITDA.

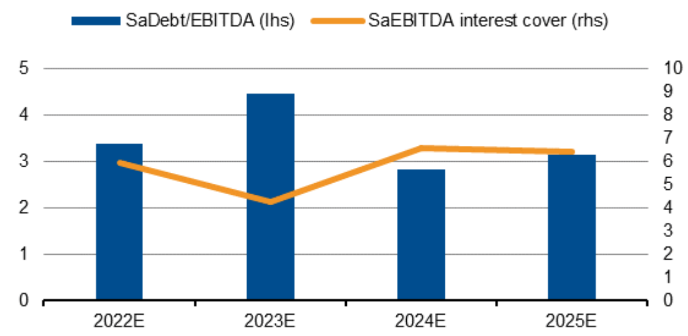
Furthermore, we assume that surplus cash at BG4 and BG25 is distributed to BGP in the form of dividends. We do not expect BGP to pay significant dividends, with distributions capped at 35% of net profits under the terms of the proposed bond.

Gross leverage expected to peak at 4-5x shortly before the two developments are completed

On this basis, we expect the company's leverage, measured by Scope-adjusted debt/EBITDA, to peak at 4-5x in 2023 with the two residential real estate developments underway and not yet handed over (see Figure 7). Scope-adjusted EBITDA interest cover is expected to be at its lowest at this time but to remain above 4x. If no further developments are undertaken, ratios would improve dramatically in 2024 and 2025 when the two developments are scheduled to be completed and handed over. We do however expect BGP to pursue similar new projects in the future and leverage to remain above 3.5x on average over the long term.

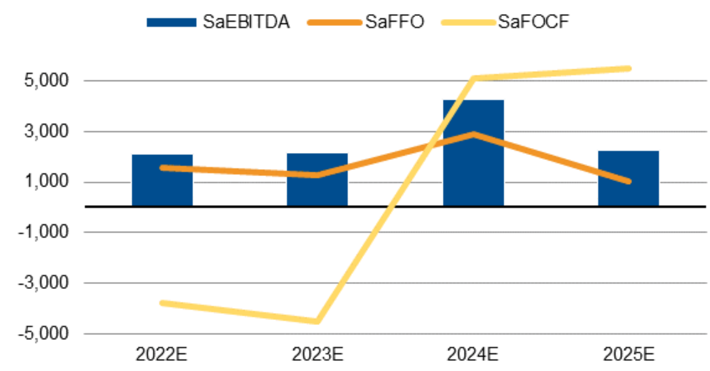
Similarly, we expect free operating cash flow to be negative in 2022 and 2023, with the deficit funded by the bond issuance and bank funding for the Waterfront City V development (see Figure 8). Assuming no additional investments are pursued, free operating cash flow should turn strongly positive in 2024 and 2025. It is likely that returns from the two developments will be reinvested in other real estate investments.

Figure 7: Scope-adjusted leverage and interest cover[6]



Sa = Scope-adjusted; Sources: Company, Scope

Figure 8: Scope-adjusted EBITDA and cash flow (HUF m)[7]



Sa = Scope-adjusted; Sources: Company, Scope

Interest rate and forex risk is mitigated, with most debt at the fund level at fixed rates and residential develop-to-sell projects financed with local currency loans and commercial develop-to-hold projects financed with euro-based loans (matching the euro-based rental income).

Liquidity is adequate proforma of the bond issuance, with planned investments to be funded by the proceeds of the bond and project-specific bank loans. Liquidity is further supported by the 10-year tenor of the proposed bond and by the fact that most cash outflows are discretionary in nature (project developments without co-investors).

[6] The legend of this chart was amended on 14 February 2022. In the original publication it was shown as Debt/EBITDA; EBITDA interest cover
[7] The legend of this chart was amended on 14 February 2022. In the original publication it was shown as EBITDA; FFO; FOCF / DCF.

Figure 9: Liquidity

in HUF[8] m	2021E	2022E
Short-term debt (t-1)	245	56
Unrestricted cash (t-1)	631	689
Committed credit lines (t-1)	0	0
Scope-adjusted free operating cash flow (t)	56	-3,782
Coverage	2.8x	-55.2x

Sources: Company, Scope

Long-term debt rating[9]

Bank lenders have a priority claim on tangible real estate assets

BGP plans to issue a HUF 7bn (EUR 19.5m) senior unsecured bond under the Hungarian National Bank's Bond Funding for Growth Scheme. The bond's tenor is 10 years with amortisation commencing five years after issuance (10% p.a. followed by 50% at maturity). The coupon, which we estimate at around 5%, is to be fixed and payable annually. There is a negative pledge provision preventing the issuer from pledging assets in favour of other bonds (but not other loans).

According to the terms and conditions of the bond, net proceeds are expected to be primarily applied by the Issuer in accordance with its Green Bond Framework, for the funding of its real estate development projects (in particular via a direct investment into real estate fund or other legal entity implementing the project), and/or for other real estate-related transactions (including, among others, acquisition of foreign or domestic real estate directly and/or indirectly through investing in foreign or domestic legal entities, acquisition of business shares, investment fund units, immaterial goods or similar type of securities), and/or acquisition of business shares of construction companies or constructors of pre-fabricated materials, and/or providing loans to subsidiaries with the same purpose.

Our hypothetical default scenario indicates that a liquidation of the business would provide an 'average' recovery for senior unsecured debt, which we therefore rate in line with the issuer credit rating. Most of the value in the default scenario is expected to stem from accounts receivables and developments in progress, to which bank lenders have a priority claim.

[8] The denomination of the liquidity was amended on 9 February 2022. In the original publication the denomination was EUR
[9] The title of this section was amended on 14 February 2022. In the original publication it was shown as Long-term and short-term debt ratings.

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 6 62 89 35 12

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer

© 2022 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Analysis GmbH, Scope Investor Services GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.