

GOPD Nyrt.

Hungary, Real Estate



Corporate profile

GOPD Nyrt. is a fairly new company, established three years ago as a public limited company with core operations in real estate development. It is listed on the BÉT XTEND market, the entry level of the Budapest Stock Exchange. GOPD operates the group's subsidiaries as a holding company. GOPD's main shareholder is the Piukovics family.

GOPD develops plots on which residential units can be built and then sells the plots after permits are obtained. Construction is typically contracted through its subsidiaries and dwellings are also sold by its largest subsidiary, real estate investment trust SunDell Estate Nyrt. A significant part of the company's profit is reinvested into new projects. Ongoing projects are financed by own sources and earlier bond issuances within SunDell.

GOPD also enjoys the yearly dividend upstream from SunDell, in which it has a minority share of 47.7%. GOPD plans to gain the majority in SunDell by acquiring around a 10% share package from minority shareholders.

Key metrics

Scope credit ratios	2019	2020	Scope estimates		
			2021E	2022E	2023E
EBITDA/interest cover (x)	No interest expense	Negative	Negative	4.2x	4.3x
Scope-adjusted debt (SaD)/EBITDA	Net cash	Negative	Negative	4.7x	4.6x
Scope-adjusted loan/value ratio (standalone)	Net cash	26%	56%	49%	51%
Scope-adjusted funds from operations/SaD	Net cash	-8%	-5%	16%	16%

Rating rationale

Scope Ratings GmbH (Scope) has assigned a first-time issuer rating of B/Stable to GOPD Nyrt. along with a debt category rating on senior unsecured debt of B.

Scope has also assigned a preliminary rating of (P)B+ to the planned HUF 5bn senior unsecured bond (2022-32) guaranteed 80% by state-owned MFB Hungarian Development Bank.

The rating reflects GOPD's strong dependence on subsidiary SunDell as well as its limited size that results in cluster risks, albeit mitigated by moderate financial leverage going forward. Most importantly, the ratings assume the successful placement of a HUF 5bn senior unsecured bond with an 80% guarantee from state-owned MFB Hungarian Development Bank by the end of Q1 2022, with proceeds to be used for gaining majority ownership in SunDell and developing further plots.

GOPD develops real estate and owns shares in real estate development companies, leading to an industry risk of B. We rate GOPD's business risk profile at B-, in particular for its rather weak market position and low diversification. The company is relatively new and most of its business is performed at subsidiary level. Its most important subsidiary is SunDell, for which it develops plots. SunDell (rated by Scope at B/Stable) operates exclusively in Budapest's fragmented residential development market, in which it has a low market share, with Scope-adjusted assets of around EUR 90m.

Ratings & Outlook

Corporate rating	B/Stable
Senior unsecured rating	B
Preliminary senior unsecured guaranteed bond rating	(P)B+

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Related Methodologies

Corporate Rating Methodology:
July 2021

Rating Methodology: European
Real Estate Corporates
January 2021

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Bloomberg: RESP SCOP



Nevertheless, SunDell has moderate visibility in its core market, also thanks to the HUF 12bn (EUR 35m) of projects it has developed and sold in the past five years.

GOPD's financial risk profile, rated at BB, is capped at SunDell's level despite its somewhat better metrics. This is because GOPD is highly dependent on SunDell and is expected to become its majority owner and consolidate the entity. Going forward, the Scope-adjusted loan/value (LTV) ratio is forecasted to increase to around 55% at the close of the transaction – which is rather conservative for a developer. The Scope-adjusted debt/Scope-adjusted EBITDA ratio is expected in the range of 4.5x-5.0x in the coming two years, although volatility may be high. GOPD benefits from its Scope-adjusted EBITDA interest coverage exceeding 4x going forward and no upcoming debt repayments in the coming years. The company is also expected to benefit from a gradual reduction in cash flow volatility via the larger and thus more granular project portfolio of SunDell and the ramp-up of recurring revenue from SunDell's leased properties. The high volatility of cash flows caused by the clustered project pipeline and lack of recurring revenues at this point are credit-negative for both GOPD's and SunDell's financial risk profiles.

Liquidity is adequate in our financial base case. The company has no short-term debt outstanding and the new bond to be issued under the Bond Funding for Growth Scheme of the Hungarian National Bank (MNB) will only start amortising from the fifth year at the earliest.

Outlook and rating-change drivers

The Outlook for GOPD is Stable and incorporates the assumption of a Scope-adjusted LTV of around 50% and Scope-adjusted interest cover of more than 4x. Furthermore, the Outlook incorporates a successful placement by the end of Q1 2022 of a HUF 5bn senior unsecured bond guaranteed by MFB and gaining and keeping majority ownership and control in SunDell.

A positive rating action would require the issuer to show sustained financial metrics in line with the Stable Outlook while substantially improving its business risk profile, e.g. via more projects, more recurring revenue streams and/or less dependence on SunDell.

A negative rating action might be warranted if the Scope-adjusted debt/EBITDA is more than 8x or financial metrics developed below our base case expectations. This could be caused by an underperformance of the company's own development projects, or less dividend received than expected from SunDell, e.g. as a result of lower prices for residential real estate in its core market Budapest or increasing input or labour costs.

Rating drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"> • Strong and increasing valuation of SunDell shares, behind which are residential project developments • Strong financial policy envisaging moderate leverage with LTV of around 30% going forward and no dividend payout from GOPD in the medium term 	<ul style="list-style-type: none"> • High concentration risk as number of assets under development are limited and concentrated towards Budapest residential real estate market • Lack of visibility on future cash flows as project pipeline of GOPD is limited • Rather aggressive financing structure envisaging buying shares of SunDell and plots for development purely out of debt

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • Improving business risk profile, e.g. via a considerable growth of the company's size and recurring cash flows and/or less dependence on SunDell 	<ul style="list-style-type: none"> • Development of metrics below expectations; liquidity issues • Scope-adjusted debt/EBITDA exceeding 8x



Financial overview

			Scope estimates		
Scope credit ratios	2019	2020	2021E	2022E	2023E
EBITDA/interest cover (x)	No interest expense	Negative	Negative	4.2x	4.3x
Scope-adjusted debt (SaD)/EBITDA	Net cash	Negative	Negative	4.7x	4.6x
Scope-adjusted loan-to-value (standalone)	Net cash	26%	56%	49%	51%
Funds from operations/SaD	Net cash	-8%	-5%	16%	16%
Scope-adjusted EBITDA in HUF m	2019	2020	2021E	2022E	2023E
EBITDA	2	-132	-110	477	513
add: net profit/loss related to sale or development of properties	0	0	0	577	577
add: rental payments	-	-	-	-	-
Scope-adjusted EBITDA	2	-132	-110	1,054	1,090
Scope-adjusted funds from operations in HUF m	2019	2020	2021E	2022E	2023E
EBITDA	2	-132	-110	1,054	1,090
less: (net) cash interest as per cash flow statement	-	-60	-103	-251	-251
less: cash tax paid as per cash flow statement	-	-2	-2	-20	-24
add: dividends received from shareholdings	-	-2	-	-	-
Other non-operating charges before funds from operations	-	42	-42	-	-
Scope-adjusted funds from operations	2	-155	-257	783	815
Scope-adjusted debt in HUF m	2019	2020	2021E	2022E	2023E
Reported gross financial debt	0	2,102	5,000	5,000	5,000
less: cash and cash equivalents	-12	-63	-2,597	-2,232	-3,297
add: cash not accessible ¹	0	0	2,597	2,232	3,297
add: pension adjustment	-	-	-	-	-
add: operating lease obligations	-	-	-	-	-
Other	-	-	-	-	-
Scope-adjusted debt	-12	2,039	5,000	5,000	5,000

¹ Netting of cash is generally applicable to ratings in the BB category or higher, and only if cash is permanent and accessible.

Business risk profile: B-

Industry risk: B

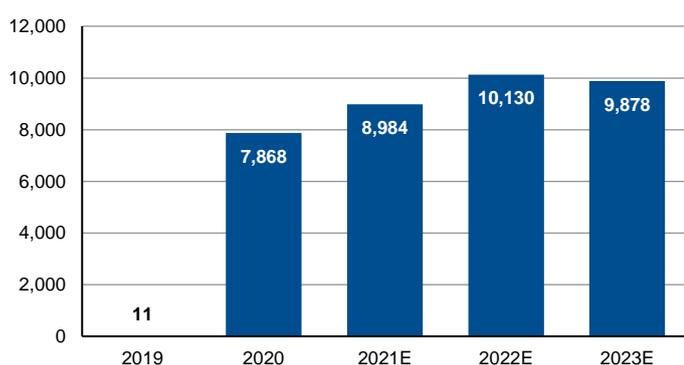
The industry of GOPD is defined by its main activity, which is plot/real estate development and sales, mainly to its subsidiary, real estate developer SunDell. GOPD's new business line is holding shares of real estate developers like SunDell. We therefore classify GOPD as a European real estate corporate developer. Industry risk for GOPD is very high as it operates in the riskiest sub-segment (project development) of a highly cyclical industry (real estate).

Rising housing prices as construction and labour costs soar

We expect demand for GOPD's assets to strengthen on the back of recent government and central bank incentives to further promote private home ownership, especially among families, and green housing, including energy-efficiency. However, the significant decrease of value-added tax on new homes (to 5% from 27%) did not slow the price increase in the market as construction costs have soared. The MNB increased the base rate to 1.8% from 0.6%, with the record low rate set until July 2021. The base rate is likely to further increase, but at a lower pace according to the MNB. Financing conditions for private homeowners will most likely also remain somewhat supportive as the MNB is incentivising commercial lenders to finance green and private home ownership.

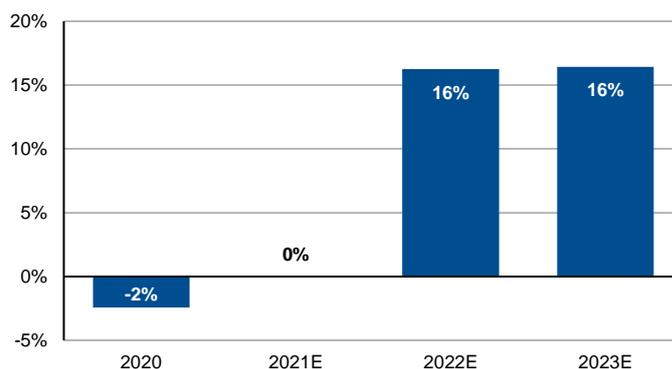
Financing increasingly costly, somewhat offset by government incentives for green housing

Figure 1: Scope-adjusted total assets (HUF m)



Source: Scope estimates

Figure 2: Scope-adjusted EBITDA margin (%)



Source: Scope estimates

Weak diversification, high cluster risk and high dependence on SunDell

GOPD's diversification is weak. Cash flow is expected from a limited number of projects (2-3 plot developments a year for SunDell) and dividend upstream from SunDell (behind which are 6-7 residential project developments). As a real estate investment trust, SunDell enjoys tax exemptions and is expected to have significant dividend upstream.

Good asset quality in the affordable housing segment

Asset quality is credit-positive for the company's business risk profile. GOPD is focused on medium-priced residential projects in Budapest to be sold to SunDell in the pre-construction phase. These projects enjoy relatively robust demand thanks to their affordability, supported by the above-mentioned government incentives.

Low EBITDA margin for a developer; exposed to high volatility

GOPD's profitability is highly dependent on the profitability, dividends, and limited number of residential developments of subsidiary SunDell. This leads to high concentration risk and volatility. We therefore expect profitability to stay volatile, at above-average levels compared to peers, with above 30% Scope-adjusted EBITDA margin going forward, depending on the timing of project completions.

Future focus on plots developments in pre-construction phase

Capital structure change in 2021 via HUF 2bn equity increase and HUF 5bn bond issuance

Low leverage for a real estate developer

Financial risk profile: BB

In 2020, revenues of HUF 5bn were mostly driven by subsidiaries sold in 2021, especially from construction company Dakota Építő Kft. In 2021, no such revenues were recorded. From 2022 onwards, revenues will arise from plot developments by GOPD to be sold mainly to SunDell. Later on, SunDell will appoint a general constructor company to build the housing, which will then sold by SunDell to the end-user.

In 2021, Schweidel Investment (owned 49% by the Piukovics family) invested HUF 2bn in GOPD's equity and now holds 16% of the entity.

We based our financial model on those forecasts, including our own assumptions/modifications.

Our base case assumes:

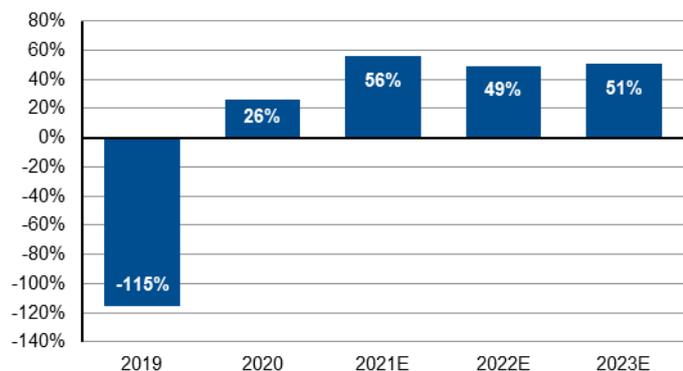
- SunDell paying dividends of at least HUF 1bn yearly from 2022 onwards (based on 2021 result). As GOPD will hold around 58% of SunDell after the transaction, we calculate around HUF 580m of dividends yearly.
- HUF 500m yearly EBITDA contribution from plot developments of GOPD, mostly to be sold to SunDell
- Senior unsecured bond issuance of HUF 5bn around the end of 2021, with 5% financing cost including yearly coupon and guarantee fee, 10-year maturity, yearly amortisation of 10% from fifth year, and 80% guarantee from MFB
- Bond proceeds earmarked for i) HUF 2bn to purchase roughly 10% stake in SunDell from minority shareholders; and ii) HUF 3bn for plot purchases and developments.
- GOPD's majority control over SunDell (at least 50%+1 share) and the Piukovics family's majority control over GOPD (at least 50%+1 share)
- Policy of no dividend payouts by GOPD in the medium term
- No pledge on the controlling majority of SunDell shares held by GOPD; no pledge on plots acquired from bond proceeds
- No factoring, leasing, overdrafts, operating leasing or off-balance sheet items
- Netting of cash: we excluded cash from our metrics because this generally only applies to entities rated BB or higher.

If consolidated accounts are unavailable (which is the case for GOPD as it currently does not consolidate SunDell), we use a look-through LTV to approximate leverage. In addition to the debt of SunDell, GOPD has a HUF 5bn senior unsecured bond. On the asset side it will hold a land bank worth around HUF 3bn as well as SunDell shares.

The Scope-adjusted debt/EBITDA ratio is reasonable for a real estate developer, at slightly below 5x in the next two years with a standalone LTV of around 50%

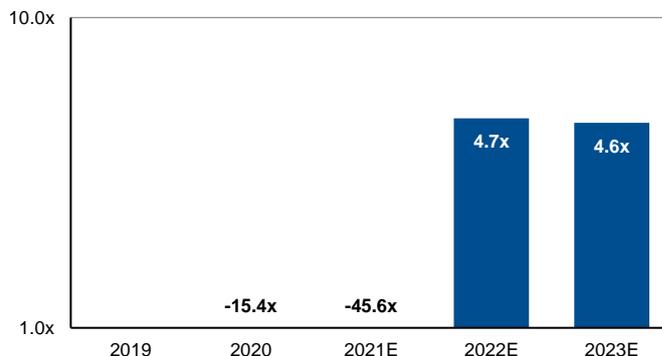
At the end of 2020, SunDell's LTV stood at 27%. Going forward, we forecast that the look-through LTV of GOPD will increase to around 35% after SunDell pays its first large dividend in 2022 – which is rather conservative for a developer.

Figure 3: Scope-adjusted LTV (%)



Source: Scope estimates

Figure 4: Scope-adjusted debt/Scope-adjusted EBITDA (x)



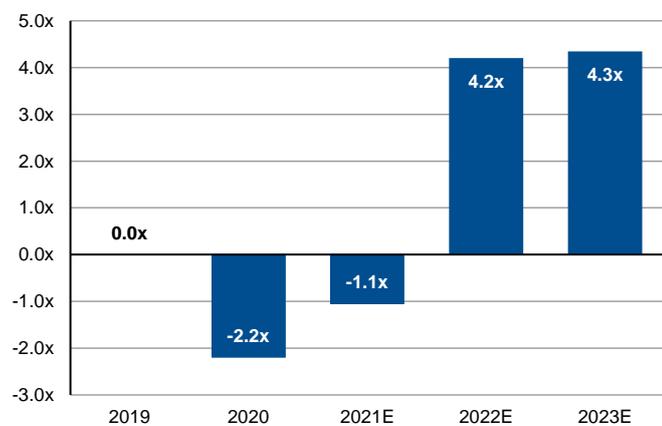
Source: Scope

Scope-adjusted EBITDA interest cover expected to stay above 4x

GOPD has a strong interest cover of above 4x. The revenue structure and cash flows are dependent on dividends from SunDell and the sale of developed plots, mainly to SunDell.

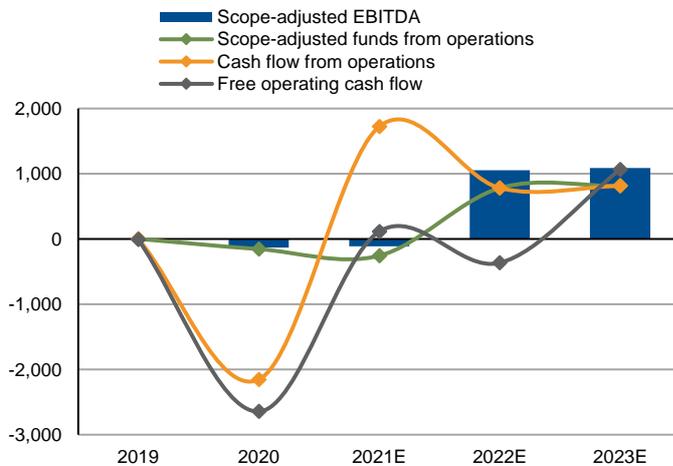
However, we flag the uncertainty around future cash inflows, the execution risk for the future projects of both GOPD and SunDell, the high cluster risk due to the low number of projects, and low existing stock.

Figure 5: Scope-adjusted EBITDA interest cover (x)



Source: Scope estimates

Figure 6: Cash flows (HUF m)



Source: Scope

Volatile cash flows, high cluster risk

The company's is still very new in the market, with negative free operating cash flow driven by the expansion of its land bank, especially in 2020. We expect free operating cash flow to return to positive territory in the coming years once material plot developments are completed as planned. Nevertheless, owing to further anticipated growth and the nature of real estate development, cash inflows and outflows will not necessarily be matched during the lifetime of future projects. Furthermore, GOPD suffers from its still limited size, which also amplifies the volatility inherent in its business model.

Adequate liquidity

We consider liquidity to be adequate as GOPD does not have any short-term debt and there are no large upcoming debt repayments.

Long-term debt instrument ratings

We expect the issuer to successfully issue the planned HUF 5bn bond.

We assume no additional debt on GOPD and no pledge on controlling majority of SunDell shares owned by GOPD.

We also assume a hypothetical default scenario for the year 2023 and applied reasonable discounts on the company's asset base (own plots and shares of SunDell which GOPD will consolidate at a later stage). The recovery of the senior unsecured debt falls into the 'average' category.

This translates into a B debt class rating for senior unsecured debt, in line with the issuer rating.

The planned HUF 5bn senior unsecured bond will be guaranteed 80% by MFB (rated by Scope BBB+/Stable), based on which we assign a (P)B+ preliminary debt rating to the senior unsecured debt guaranteed by MFB. We expect in this case an 'above-average recovery' for outstanding senior unsecured guaranteed debt



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