

GOPD Nyrt. Hungary, Real Estate



B

NEGATIVE

Key metrics

Scope credit ratios	2021	2022	Scope estimates	
			2023E	2024E
Scope-adjusted EBITDA interest cover	56.6x	Neg.	2.4x	1.5x
Scope-adjusted debt/EBITDA	5.3x	Neg.	8.0x	10.9x
Scope-adjusted loan/value ratio	30%	28%	31%	28%

Rating rationale

The Outlook change to Negative from Stable reflects the significant impact on Scope-adjusted EBITDA/interest cover of the additional debt contracted by the issuer to purchase more shares in its strategic subsidiary, SunDell Estate Nyrt, in H1 2023. Furthermore, Scope-adjusted EBITDA was negative in 2022 and H1 2023, driven by higher-than-expected development costs and the realisation of capitalised costs on plot incubations and residential developments. As a result, we have revised down GOPD's financial risk profile to B from BB. The business risk profile remains unchanged at B.

The financial risk profile of GOPD deteriorated more than SunDell's due to the significant additional costs realised by GOPD but also the additional debt taken on for purchasing SunDell shares to maintain the controlling interest.

The business risk profile is largely similar to SunDell's in terms of market share, diversification and asset quality, but with lower profitability.

The rating also considers GOPD's strong dependence on the real estate developments of and up-streamed cash dividends from SunDell (rated B/Stable) to pay debt service. We note GOPD received roughly half of the HUF 3.6bn of dividends distributed by SunDell in H1 2023, in line with its ownership share.

Outlook and rating-change drivers

The Outlook for GOPD was changed to Negative from Stable, reflecting in particular the interest coverage ratio's projected deterioration.

A downgrade might be warranted if Scope-adjusted debt/EBITDA were to move towards 15x and/or EBITDA/interest cover towards 1.0x or if liquidity weakened. This could be caused by underperformance of SunDell, the realisation of further capitalised costs by GOPD, as well as spending on share transactions and/or shareholder remuneration.

A positive rating action might be warranted as follows: i) a return to a Stable Outlook would require a recovery in profitability, resulting in a Scope-adjusted EBITDA/interest cover of well above 1.0x, and no deterioration in liquidity, while GOPD maintains its majority ownership and control over SunDell; or ii) a rating upgrade, which we deem a remote scenario, would require an improvement in financial metrics as well as the business risk profile, e.g. via more projects, a stronger backlog, more recurring-revenue streams and/or less dependence on SunDell.

We note that GOPD Nyrt's senior unsecured bond issued under the Hungarian Central Bank's bond scheme has accelerated repayment clauses. The clauses require GOPD to repay the nominal amount of HUF 5.5bn in case of a rating deterioration (2-year cure period for a B/B- rating, immediate repayment after the bond rating falls below B-, which could have default implications).

Rating & Outlook

Issuer	B/Negative
Senior unsecured debt	B
ISIN HU0000361076	B+

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Related Methodologies and Related Research

General Corporate
Rating Methodology;
October 2023

European Real Estate
Rating Methodology;
January 2023

Second-Party Opinion SunDell
Estate PLC Green Bond
Framework

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Bloomberg: RESP SCOP



Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
17 Oct 2023	Outlook change	B/Negative
24 Oct 2022	Affirmation	B/Stable
3 Dec 2021	New	B/Stable

Rating and rating-change drivers

Positive rating drivers

- Majority control over SunDell, a real estate investment trust with strong dividend cash flows stemming from its housing development activities
- Strong financial policy envisaging moderate leverage, with a loan/value ratio of around 30% and Scope-adjusted debt/EBITDA of below 8x, and no dividend payouts from GOPD in the medium term

Negative rating drivers

- High concentration risk due to limited number of assets under development, which also mainly relate to residential real estate in Budapest
- Lack of visibility on future cash flows due to limited project pipeline of GOPD as a standalone entity and limited visibility beyond 2023 regarding SunDell
- Aggressive financing structure envisaging acquisition of SunDell shares and plots for development purely through debt

Positive rating-change drivers

- Improving business risk profile (remote scenario), e.g. via considerable growth of the company's size and its recurring cash flows and/or less dependence on SunDell

Negative rating-change drivers

- Scope-adjusted debt/EBITDA moving towards 15x
- Scope-adjusted EBITDA/interest cover moving towards 1.0x
- Weaker liquidity

Corporate profile

GOPD Nyrt. was established only relatively recently in 2018 as a public limited company focused on 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. The company consolidates SunDell Estate Nyrt under IFRS.

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, Budapest-based 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 had controlling majority ownership since late 2021.



Financial overview

			Scope estimates		
Scope credit ratios	2021	2022	2023E	2024E	2025E
Scope-adjusted EBITDA/interest cover	56.6x	Neg.	2.4x	1.5x	1.2x
Scope-adjusted debt/EBITDA	5.3x	Neg.	8.0x	10.9x	9.8x
Scope-adjusted loan/value ratio	30%	28%	31%	28%	28%
Scope-adjusted EBITDA in HUF m					
EBITDA	3,679	-2,107	2,824	2,089	1,981
Scope-adjusted EBITDA¹	3,679	-2,107	2,824	2,089	1,981
Funds from operations in HUF m					
Scope-adjusted EBITDA	3,679	-2,107	2,824	2,089	1,981
less: (net) cash interest paid	-65	-409	-1,168	-1,384	-1,600
less: cash tax paid per cash flow statement	-13	-61	-75	-80	-85
Change in provisions	-321	1,429	-	-	-
Funds from operations	3,279	-1,148	1,582	625	296
Scope-adjusted total assets in HUF m					
Total assets (reported)	59,667	67,190	68,556	68,952	65,718
less: cash and cash equivalents	-2,304	-724	-1,859	-4,713	-1,133
Scope-adjusted total assets	57,363	66,466	66,697	64,239	64,585
Free operating cash flow in HUF m					
Funds from operations	3,279	-1,148	1,582	625	296
Change in working capital	298	8,359	1,063	4,217	154
Non-operating cash flow ²	-3,507	1,983	0	0	0
less: capital expenditure (net)	799	-16,831	1,337	-1,759	-500
Free operating cash flow	870	-7,637	3,982	3,084	-50
Net cash interest paid in Scope-adjusted EBITDA in					
Net cash interest per cash flow statement	-65	-409	-1,168	-1,384	-1,600
Net cash interest paid	-65	-409	-1,168	-1,384	-1,600
Scope-adjusted debt in HUF m					
Reported gross financial debt	19,649	19,107	22,709	22,709	19,409
less: cash and cash equivalents	-2,304	-724	-1,859	-4,713	-1,133
add: non-accessible cash ³	2,304	724	1,859	4,713	1,133
Scope-adjusted debt	19,649	19,107	22,709	22,709	19,409

¹ Changes in fair value excluded







² Includes variations in advance payments received on residential development projects

³ No cash netting applied

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Environmental, social and governance (ESG) profile

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)

GOPD has little activity besides the real estate activities of SunDell. Hence, their ESG profiles are similar.

Commitment to energy-efficient housing development

In Hungary, the government is incentivising energy-efficient housing by offering preferential interest rates on mortgages financing such properties. The last green mortgage programme (*Zöld Otthon Program*) closed in Q2 2022, which offered a 2.5% fixed interest rate for up to 25 years. No new programmes are planned but the market expects more will come.

SunDell and GOPD were one of the first in the market to develop environmentally conscious and sustainable residential buildings with low energy and water use and a high share of green areas. The group's new buildings are guaranteed to have an energy performance certification of at least 'BB' under Hungarian law, which is considered a nearly zero-energy building (nZEB).

Business risk profile: B

The business risk profile is driven by the small size of the company and weak diversification in terms of geographies and activities (development of homes), coupled with volatile and very weak operating profitability. Moderate asset quality due to the location and age of the group's buildings support the rating.

Industry risk profile: BB

As a residential real estate developer, GOPD is exposed to the highly cyclical real estate industry with its medium barriers to entry and low substitution risk.

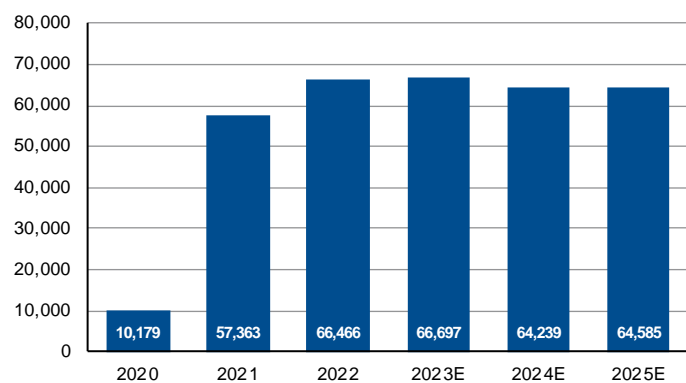
We view development as the riskiest real estate sub-segment but assign an industry risk of BB.

Decreasing affordability of housing in Hungary affects the sector

Significant inflation in Hungary (14.5% in 2022; 17.6% expected in 2023 by the Hungarian central bank) and interest rates hikes have had a significant impact on the residential housing market of Budapest, where GOPD operates. Prices of newly built residences fell 15%-25% in real terms over the last 12-18 months owing to minimal nominal price growth. The potential increase in demand due to soaring household wages has been nullified by increases in retail mortgage rates and monthly instalments.

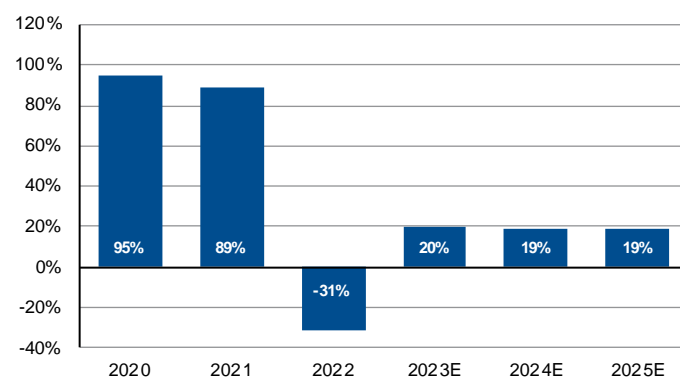
Therefore, the affordability index in Budapest is now similar to the price/income ratios of Warsaw and Ljubljana but higher than Bucharest's. In addition, mortgage financing has come to a halt, resulting in demand shocks with fewer transactions. High interest rates in western Europe have also caused international investors to shun the market, while Russian investors, major buyers in the luxury segment in which SunDell operates, are no longer present.

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



Sources: Scope (estimates)

Figure 2: Scope-adjusted EBITDA margin (%)



Sources: Scope (estimates)

Weak diversification, high cluster risk and high dependence on main subsidiary

GOPD's diversification is weak. Cash flow will come from SunDell's limited number of projects (2-3 plot developments a year) and ongoing residential developments (eight projects). As a real estate investment trust, SunDell enjoys tax exemptions and is expected to have significant dividend upstream.

Good asset quality in affordable housing

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 of subsidiary SunDell, but also on costs incurred, especially on plot incubations. This leads to high concentration risk and volatility. In 2022, GOPD made a loss with Scope-adjusted EBITDA at negative

HUF 2.1bn. Reported EBITDA (including changes in fair value) was HUF 0.8bn. Scope-adjusted EBITDA in 2022 was driven by capitalised costs realised on plot incubations and housing developments handed over in 2022 by GOPD and SunDell.

Financial risk profile: B

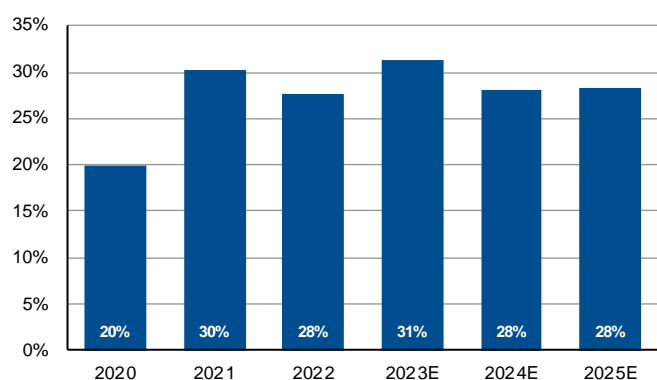
The financial risk profile of GOPD deteriorated more than that of main subsidiary SunDell (from BB to B) due to significant additional costs realised on GOPD level but also due to additional debt contracted for purchasing SunDell shares to maintain the controlling interest.

The rating also considers GOPD's strong dependence on the real estate developments of and up-streamed cash dividends from SunDell (rated B/Stable) to pay debt service. GOPD received roughly half of the HUF 3.6bn of dividends distributed by SunDell in H1 2023, in line with its ownership share and the rating case.

At the end of 2022, GOPD's Scope-adjusted loan/value ratio stood at 28% (down 2pp YoY) while Scope-adjusted debt/EBITDA was negative (compared to 5.3x). Going forward, the Scope-adjusted loan/value ratio is forecasted to stay around 30% and Scope-adjusted debt/EBITDA to recover below 10x (without netting of cash). The lower projections are due to additional costs incurred but also due to HUF 3.4bn of new debt at a high interest rate contracted from MFB Hungarian Development Bank in 2023, subsidised only in the early years for the purpose of purchasing SunDell shares to consolidate GOPD's ownership. We note that the dividends arising from the additional share purchase cannot fully service the loan and that dividends in general are a risky and volatile source for debt service.

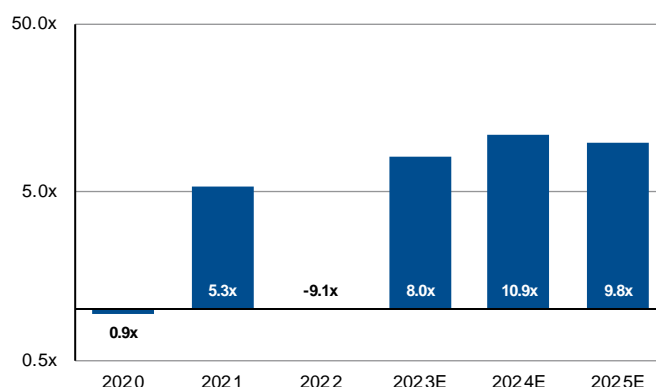
Leverage to normalise if GOPD and SunDell execute well on handovers in Q4 2023-Q1 2024

Figure 3: Scope-adjusted loan/value (%)



Sources: Scope (estimates)

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

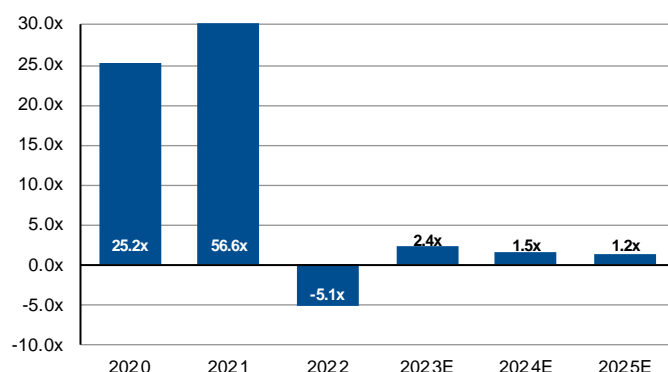


Sources: Scope (estimates)

Interest cover under pressure due to costs and additional debt

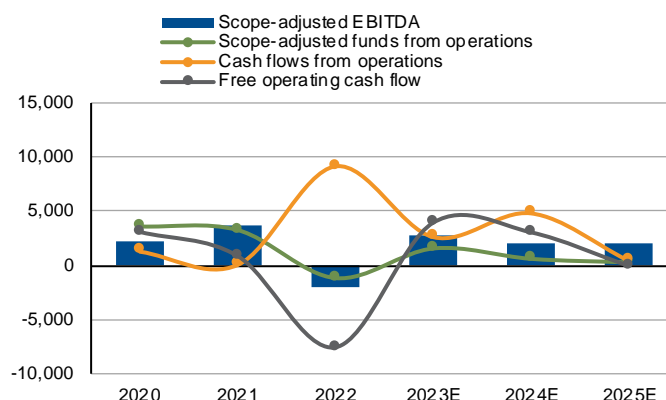
Scope-adjusted EBITDA interest cover was also negative in 2022 due to the negative EBITDA. We expect it to recover above 2.0x in 2023 due to strong cash generation driven by the handover of flats in SunDell's flagship projects into 2024. The contracted fixed-rate debt is also protecting cash flows against the very high interest rates in Hungary. We expect Scope-adjusted EBITDA interest cover to decrease towards 1.2x by YE 2025 due to the increasing interest burden on the new loan and the limited visibility on revenues and hence EBITDA after 2024.

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



Sources: Scope (estimates)

Figure 6: Cash flows (HUF m)



Sources: Scope (estimates)

Adequate liquidity

Liquidity is adequate in Scope's financial base case. The company has no short-term debt outstanding and the GOPD 2031/A bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme will only start amortising in 2026, while amortisation for SunDell will start in 2025. The adequate liquidity is despite the low cash balance at H1 2023 as a high number of apartments will be handed over starting from November 2023. Liquidity could come under pressure if all planned projects were to commence and create a significant amount of work in progress and finished inventory while cash generation lags possibly due to slower-than-expected sales on luxury apartments in two projects. Liquidity risk is mitigated by the planning flexibility of when to commence construction. Liquidity shall significantly improve when handovers start in Q4 2023. The liquidity assessment is also supported by GOPD's proven good access to capital markets for both debt and equity.

Balance in Scope-adjusted EBITDA in	2023E	2024E
Unrestricted cash (t-1)	724	1,859
Open committed credit lines (t-1)	-	-
Free operating cash flow	3,982	3,084
Short-term debt (t-1)	-	245
Coverage	n/a	131%

Supplementary rating drivers: +/- 0 notches

No notching was applied.

Scope considers that GOPD Nyrt. is strongly reliant on its strategic subsidiary SunDell Estate Nyrt. GOPD holds 54.77% of shares in SunDell as of 30 June 2023. In this regard, Scope notes the significant interlinkages between these companies, as GOPD has very limited cash flow generation besides that from SunDell and sells incubated plots to SunDell for residential housing developments. GOPD does not provide explicit parent support to SunDell.

Long-term debt ratings

In December 2021, GOPD issued a HUF 5.5bn senior unsecured bond (ISIN: HU0000361076) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond has a tenor of 10 years and a fixed coupon of 4.95%. Bond repayment is in five tranches starting from 2026, with 10% of the face value payable yearly and a 50% balloon payment at maturity. Furthermore, GOPD consolidates the two bond issuances of SunDell.



The bond proceeds were used for developing housing projects and acquiring a landbank. In addition to the rating deterioration covenant, bond covenants include a list of other soft covenants.

Senior unsecured debt rating: B

We assumed a hypothetical default at YE 2025 and applied reasonable discounts on the company's asset base. While the liquidation scenario may point towards an 'above-average' recovery, we did not grant a rating uplift due to the structuring of the financing and the possibility of further debt issuance. This translates into a B debt class rating for senior unsecured debt, in line with the issuer rating.

Senior unsecured guaranteed bond (HU0000361076): B+

The HUF 5.5bn senior unsecured bond is guaranteed 80% by MFB Hungarian Development Bank (rated by Scope at BBB/Stable), based on which we affirm the senior unsecured debt guaranteed by MFB at B+. We expect in this case an 'above-average' recovery for outstanding senior unsecured guaranteed debt in a hypothetical default scenario based on a distressed liquidation value, resulting in one notch of uplift above the issuer rating.



Appendix: Peer comparison (as at last reporting date)

	GOPD Nyrt.	SunDell Estate Nyrt.	Wingholding Zrt.	Kopaszi Gát Kft.	CORDIA International Ingatlanfejlesztő Zrt.
	B/Negative	B/Stable	B+/Stable	B/Stable	BB/Negative
Last reporting date	30 June 2023	30 June 2023	31 December 22	31 December 22	31 December 22
Business risk profile	B	B	BB	B+	BB-
Property type	Development	Development	Commercial	Development	Development
Scope-adjusted total assets (EUR bn)	0.2	0.2	2.2	0.2	0.6
GLA (sq m '000s)			390		845
Geographies	One region, national presence	One region, national presence	More than three regions, international presence	One region, national presence	More than three regions, international presence
Locations	'B' and 'C' locations	'B' and 'C' locations	'A' and 'B' locations	Mainly 'B' locations	Mainly 'B' locations
Financial risk profile	B	BB-	B+	B+	BB
Scope-adjusted EBITDA/interest cover	-5.1x	3.9x	1.5x	0.2x	5.6x
Scope-adjusted debt/EBITDA	-9.1x	8.4x	8.0x	242x	7.8x
Scope-adjusted loan/value ratio	28%	26%	62%	82%	31%

Sources: Public information, Scope



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