25 March 2024

Corporates

Infogroup Holding Kft.
Hungary, Real Estate

BB- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	6.3x	5.4x	13.5x	5.7x
Scope-adjusted debt/EBITDA	8.6x	9.0x	4.4x	8.9x
Scope-adjusted loan/value ratio (LTV)	46%	40%	35%	45%

Rating rationale

The rating affirmation reflects the strong operating profitability, supported by the successful execution of the project pipeline. Amid the expected significant increase in debt, the 100% secured revenues and the high occupancy rate (96% as of December 2023) will partially mitigate the temporary deterioration in credit metrics, by making profitability highly predictable. The rating is also underpinned by the adequate liquidity, given the absence of medium-term debt maturities.

Main rating constraints are the small size and poor geographical diversification, which can translate into cash flow volatility and an inability to benefit from economies of scale. The high tenant concentration, with the top three accounting for 39% of rental income and the exposure to ‘C’ grade locations that could put pressure on the asset value are other major rating constraints.

Outlook and rating-change drivers

The Outlook is Stable, reflecting our view that Infogroup will continue to grow at a moderate pace and that the expected pressure on interest coverage and leverage, due to the execution of the project pipeline, will be partially mitigated by the strong operating performance, which relies on secured and recurring revenue. This will allow Infogroup to maintain Scope-adjusted loan/value below 55% and Scope-adjusted interest cover above 2x. The Outlook also incorporates our view that the issuer will maintain high occupancy and pre-letting levels going forward.

A positive rating action is seen remote at present but could be warranted if the company were to grow significantly in size leading to an improved tenant diversification, while maintaining credit metrics at current levels.

A negative rating action could occur if the Scope-adjusted loan/value ratio rises above 55% or Scope-adjusted EBITDA interest cover falls below 2x. An increase in the loan/value could be caused by a decrease in the company’s asset value or an increase in debt due to higher-than-expected costs associated with pipeline execution. A decrease in debt protection could be caused by a decline in occupancy leading to a weakening of EBITDA.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
25 Mar 2024	Affirmation	BB-/Stable
27 Mar 2023	New	BB-/Stable

Ratings & Outlook

Issuer	BB-/Stable
Senior unsecured debt	BB-

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Related Methodologies and Related Research

Corporate Rating Methodology; October 2023

European Real Estate Methodology; January 2023

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Strong occupancy of around 96% both in office and in Industrial/ logistics • Adequate profitability with Scope-adjusted EBITDA margin of 60% • Good interest cover that is expected to remain above 3x despite the increase in indebtedness. • Adequate liquidity	• Small player in a highly fragmented market with total EUR 234m estimated assets as of year-end 2023 but continued moderate growth • Concentrated tenant portfolio with top three accounting for 39% of rental income, although risk is partially mitigated by the good credit quality • Poor geographical diversification with portfolio concentrated in Hungary and partially in grade 'C' locations, which poses a risk of asset value decrease

Positive rating-change drivers	Negative rating-change drivers
• Remote: Significant growth in size leading to an improved tenant diversification, while keeping credit metrics at current level	• Scope-adjusted LTV of above 55% and Scope-adjusted EBITDA interest cover of below 2x on a sustained basis

Corporate profile

Infogroup Holding Kft. (Infogroup) is a real estate development and investment company focused on developing and buying buildings in Hungary to be held on its portfolio. Founded in 1990 as a family office to build residential real estate, the company shifted focus to industrial logistics and commercial properties in the 2000s. Today, it holds around 175,000 sqm of industrial and logistics properties (including 38,000 sqm under development), more than 33,000 sqm of office space and more than 210 hectares of land. Industrial properties are mainly located in eastern and central Hungary at five locations in Kecskemét, Karcag, Polgár, Miskolc and Tiszaújváros, while the offices and hotels are in Budapest. In addition, the group offers asset and facility management services to its tenants.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	7.1x	6.3x	5.4x	13.5x	5.7x	3.2x
Scope-adjusted debt/EBITDA	6.9x	8.6x	9.0x	4.4x	8.9x	8.9x
Scope-adjusted loan/value ratio (LTV)	41%	46%	40%	35%	45%	45%
Scope-adjusted EBITDA in HUF m						
EBITDA	2,103	2,453	2,811	6,383	4,931	5,110
Scope-adjusted EBITDA	**2,103**	**2,453**	**2,811**	**6,383**	**4,931**	**5,110**
Funds from operations in HUF m						
Scope-adjusted EBITDA	2,103	2,453	2,811	6,383	4,931	5,110
less: (net) cash interest paid	-296	-388	-522	-473	-872	-1,585
less: cash tax paid per cash flow statement	-30	0	-40	-98	-59	-47
Change in provisions other operating cash flow	0	0	52	-1	-1	0
Funds from operations (FFO)	**1,777**	**2,065**	**2,301**	**5,811**	**3,999**	**3,478**
Free operating cash flow in HUF m						
Funds from operations	**1,777**	**2,065**	**2,301**	**5,811**	**3,999**	**3,478**
Change in working capital	764	-2,666	1,451	1,859	-2,575	2,188
Non-operating cash flow	257	-9	645	-455	0	0
less: capital expenditure (net)	0	0	379	-488	-488	-488
less: dividend	0	-163	0	-1,481	-400	-150
Free operating cash flow (FOCF)	**2,798**	**-773**	**4,776**	**5,246**	**536**	**5,028**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	-296	-388	-522	-473	-872	-1,585
Change in other items	0	0	0	0	0	0
Net cash interest paid	**-296**	**-388**	**-522**	**-473**	**-872**	**-1,585**
Scope-adjusted debt in HUF m						
Reported gross financial debt	17,027	23,247	30,555	34,392	48,833	50,917
less: cash and cash equivalents	-4,519	-5,559	-11,405	-13,435	-10,694	-11,696
add: non-accessible cash	2,014	2,836	5,703	6,717	5,347	5,848
add: operating lease obligations	88	497	557	557	556	556
Scope-adjusted debt (SaD)	**14,610**	**21,021**	**25,410**	**28,231**	**44,042**	**45,625**

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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)

ESG considerations

Ownership and management roles are separated into different corporate bodies. Decision-making is organised into three separate functions, ensuring low key person risk: i) the board, which defines the long-term strategy and cost plan; ii) operational management, tasked with project implementation and the management of key accounts; and iii) further corporate governance element, with an investment committee (for project plan approval), cooperation with authorities and the auditor, risk management and finance).

Regarding sustainability, Infogroup established a green committee who selects and monitors green projects and supports the company's commitment to the ESG policy. Furthermore, in 2022 the group published its first green bond framework, under which proceeds from issuances will be used to finance existing and future buildings with the aim to increase energy efficiency and reduce the carbon footprint.

We note that Infogroup has a community engagement strategy applied to its development projects, through its involvement in various social initiatives and the allocation of around EUR 0.2m of profits to local non-governmental organisations (childcare, local communities, social programmes, and in-kind contributions). We believe this helps the company with obtaining a competitive edge in the markets in which operates.

[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.

Business risk profile: B+

Industry risk profile: BB-

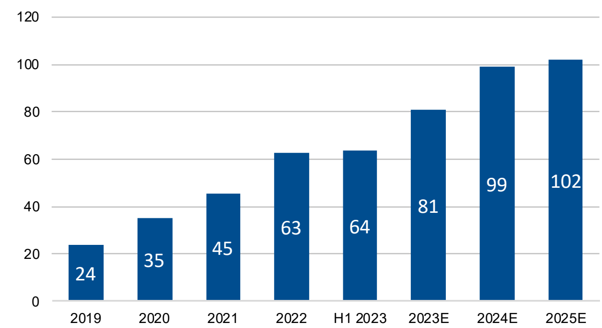
Infogroup's main activity consists of developing commercial real estate properties to hold in its portfolio, with a focus on logistics. Most of the revenues come from rental income, which translates to a BB industry risk profile; the blended industry risk profile of BB- reflects the higher industry risk of real estate development.

Small player but with consolidated presence in logistics

With a total asset value of EUR 196m as of June 30, 2023 (Scope-adjusted total assets), Infogroup is relatively small in a European context, nonetheless assets are constantly increasing. Founded in the early 90s as residential developers, over the years Infogroup has shifted focus on industrial and logistic development as well as office and some hotels. In 2023 Infogroup completed the development of two new warehouses in Kecskemet (21,000 sqm) and Miskolc (19,000 sqm) and they expect to complete three further projects in 2024-2025, of which one is for sale (an industrial hall in Kecskemet which is already pre-sold 100% to Hyundai) and two for rent (with 100% pre-letting). Another project will start in 2024 (an industrial hall in Debrecen) and currently has a pre-letting rate of 29%. We believe that the high pre-letting rate and the focus on the industrial/ logistics segment, the more resilient of the property segments, will enable Infogroup to continue to grow and maintain its position in the Hungarian market. Besides, Infogroup's focus on less competitive areas (central and north-eastern Hungary) has ensured good growth, as most of the biggest players concentrate on Budapest.

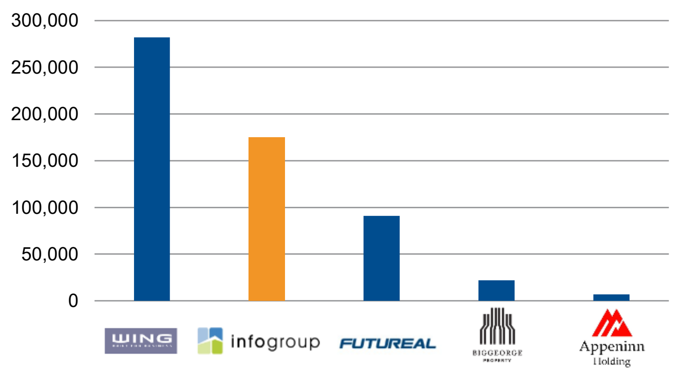
Due to its small size, we expect Infogroup strategy to focus on sustained growth, with future projects targeting the industrial-logistics segment, while the office and hotel business will not see substantial growth over the next three years.

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



Sources: Infogroup Kft., Scope estimates

Figure 2: Infogroup and Scope-rated peers industrial space assets (sq m) as at YE 2023E



Sources: Infogroup Kft., Scope estimates

National presence only limits geographical diversification

With all assets located in Hungary, we deem geographical diversification as poor. Assets are distributed between Budapest (39% of annualized rental income as of 2023) and central and north-eastern Hungary (61% of annualized rental income). Given the highly cyclicality nature of the real estate industry faces, the concentration of projects in one country carries a high risk of volatile cash generation and property values, which is partly mitigated by the presence in Budapest (office and hospitality portfolio), as capitals are more resilient to macro-economic downturns.

High tenant concentration

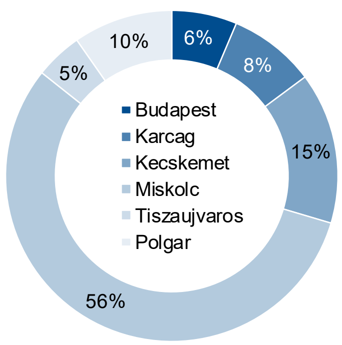
The weak tenant diversification, with top three representing 39% of rental income and the top 10 representing 76% (both as of December 2023), is a negative driver for the business risk profile. The quality and granularity of the tenant base has become even more crucial as economic conditions continue to worsen. The associated risk is partially mitigated by the good credit quality of the largest tenants such as Jabil, Lidl and Freudenberg, as well as no significant SME exposure, which reduces the risk of payment delays.

Good diversification across asset classes

But future focus on logistic development

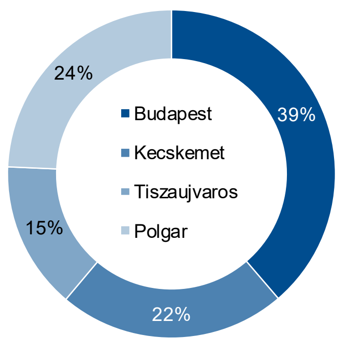
The company's active investment covers three property segments: office, hospitality and industrial/ logistics. These sectors are subject to slightly different demand trends, making the group less sensitive to cash flow volatility. Based on the project pipeline, the portion of rental income from the industrial/ logistics segment is expected to grow in the future, to 68% in 2024 and 73% in 2025 as Infogroup plans to mainly invest into this segment. The logistics sub-market in Hungary appears in fact to be under-utilized compared to other central European countries and growth will be driven by i) increase in e-commerce ii) supply chain optimization strategies iii) the ambition of Hungary to become a major hub for electric vehicles parts (which Infogroup takes advantages from by developing units close to BMW in Debrecen-Polgar and Mercedes in Kecskemet).

Figure 3: Geographical diversification by gross lettable area (sq m) as at YE 2023 (Infogroup estimates)



Sources: Infogroup Kft., Scope

Figure 4: Geographical distribution by rental income as at YE 2023 (developed portfolio only)



Sources: Infogroup Kft., Scope

Moderate asset quality but strengthen by important partners

Infogroup's current and future investments target suburban areas (Miskolc, Kecskemét, Polgar) in the eastern region of Hungary that host major multinational companies, while maintaining the office and hospitality portfolio in Budapest. While these areas have high potential for logistics development, they are unfavourable to our view of asset quality, as they are more exposed to changes in demand and less attractive to investors than properties in Budapest. However, the company has built a strong reputation in the segment, as evidenced by the involvement in large built-to-suit solutions for multinational companies in Miskolc and Tiszaujvaros. We believe the proximity of the assets to highways, airports and large corporations such as BMW in Debrecen-Polgar and Mercedes-Benz in Kecskemet partially offsets re-letting risk and the risk of asset devaluation related to suburban areas.

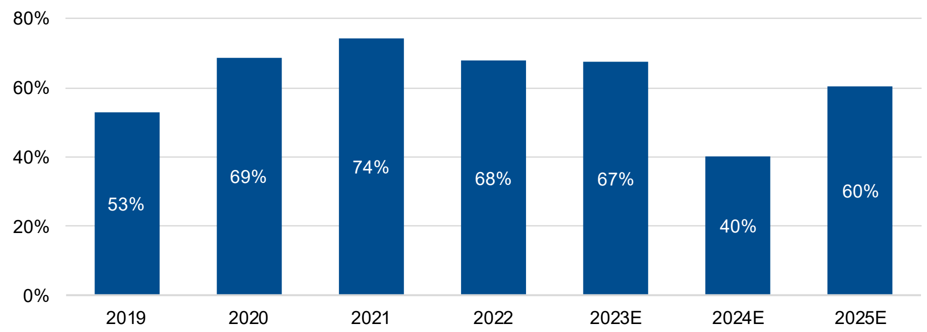
Strong profitability

The profitability is the main supportive driver of the business risk profile.

Infogroup achieved a Scope-adjusted EBITDA margin of 67.5% in 2023 (based on preliminary results; down 0.3pp YoY). In 2024 we expect profitability to decline to 40%, due to exceptionally strong Scope-adjusted EBITDA from a develop-to sell project subject to a forward deal. We expect profitability to return to above 60% in 2025, driven by recurring rental income, which is expected to grow at a rate of 20-30% until 2025, supported by two new projects to be delivered in 2024, which are 100% pre-let.

Strong rental growth from CPI-linked leases within the standing portfolio and the issuer's focus on delivering its industrial/logistics development pipeline, which benefits from a favourable demand/supply imbalance, supported continued growth in recurring cash generation. The successful execution of the pipeline, including the delivery of projects on time and on budget, has been supported by the strategy of working with contractors that are local small and medium-sized enterprises (approximately HUF 20m to HUF 50m in turnover), which ensures greater flexibility and bargaining power.

Figure 5: Scope-adjusted EBITDA margin



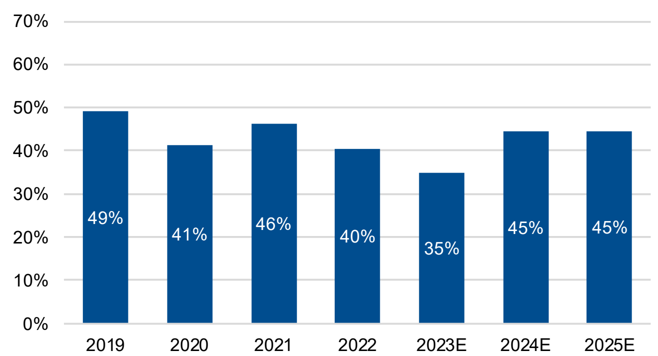
Sources: Infogroup Kft., Scope estimates

Financial risk profile: BB

Leverage to increase in line with new debt financed developments

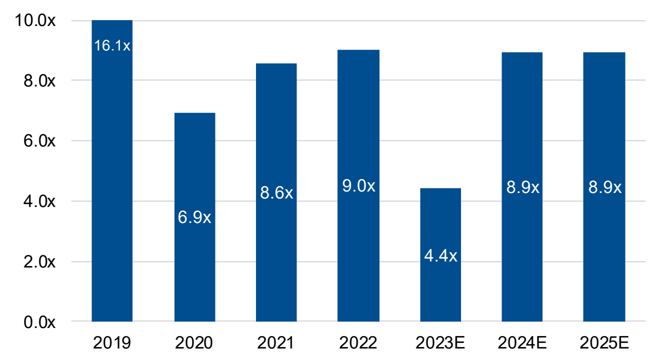
Leverage as measured by the Scope-adjusted loan/value ratio materially increased in 2021 following the HUF 4.5bn bond issued for refinancing, execution of Infogroup's development pipeline, and plot purchases. Leverage decreased for the second consecutive year in 2023 to 35% (down 5pp YoY) but is expected to increase again and remain at around 45%, driven by higher debt, with Scope-adjusted debt expected to increase to HUF 46bn by YE2025 from HUF 28bn as of YE 2023, to fund further execution of the issuer's development pipeline. Likewise, the Scope-adjusted debt/EBITDA ratio has been fluctuating for years. After bottoming out in 2023 at around 4x driven by the exceptional growth in EBITDA, the ratio is expected to remain between 8x and 9x for the next two years, with new assets generating enough EBITDA to partially offset the increase in debt used to finance their development. In calculating net debt, we have only deducted 50% of the cash we assumed would be used as a deposit for development loans. Access to additional financing that is needed to execute further developments is supported by the high level of unencumbered assets, which amount to HUF 13bn based on the issuer's 2023 preliminary results. In addition, we acknowledge the company's conservative financial policy, including no major acquisitions, and no speculative developments which supports our view of broadly stable credit metrics going forward.

Figure 6: Scope adjusted loan/value ratio (%)



Sources: Infogroup Kft., Scope estimates

Figure 7: Scope-adjusted Debt/EBITDA (x)



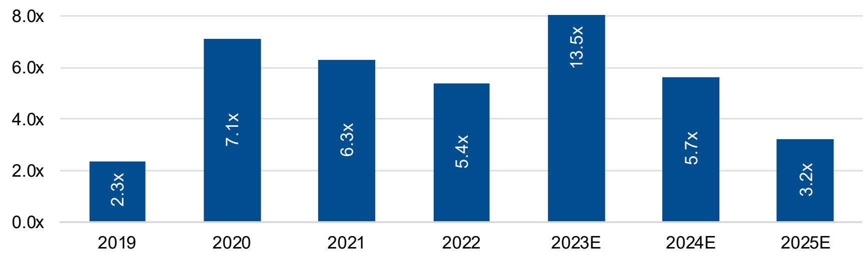
Sources: Infogroup Kft., Scope estimates

Adequate debt protection but pressured by new debt issuance

The financial risk profile is also driven by the company's adequate debt protection, measured by the Scope-adjusted EBITDA interest cover. While the interest cover will be exceptionally high in 2023 (13.5x based on preliminary results; up 8.1x YoY), driven by the strong increase in Scope-adjusted EBITDA thanks to a pre-sold development project, we expect the ratio to weaken in the coming years and range between 3x and 6x, pressured by additional debt financing required to realise the company's development pipeline. The impact of the drastic change in borrowing costs is partially mitigated by the strong growth in EBITDA, which is expected to reach HUF 4.9bn in 2024 and HUF 5.1bn in 2025, and the absence of material interest rate risk on existing debt (97% at fixed rates or hedged).

The execution risk for the developments under construction (Kecskemet BTO Industrial Hall, Miskolc BTS Industrial Hall and Tiszaujvaros BTS Extension - all expected to be handed over in 2024 and with 100% pre-sale/pre-letting rate) is considered low as Infogroup has a track record of timely and on budget project delivery, reflecting strong execution capabilities as well as ability to partner with reliable suppliers.

Figure 8: Scope-adjusted EBITDA interest cover



Sources: Infogroup Kft., Scope estimates

Adequate liquidity

We deem the liquidity as adequate as unrestricted cash fully covers short term debt obligations and no significant debt portion is maturing before 2026. Infogroup relies on established relationship with six large banks and constantly aims at keeping a minimum level of 15%-20% cash to debt ratio.

Balance in HUF m	2022	2023E	2024E
Unrestricted cash (t-1)	2,723	5,702	6,717
Open committed credit lines (t-1)	na	na	na
Free operating cash flow	4,776	5,246	536
Short-term debt (t-1)	1,238	1,690	2,059
Coverage	**>200%**	**>200%**	**>200%**

Long-term debt rating

Senior unsecured debt rating: BB-

In May 2021, Infogroup issued a HUF 4.5bn senior unsecured bond (ISIN: HU0000360433) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond proceeds were used for refinancing financial debt (HUF 0.8bn) and for acquisitions (HUF 3.7bn). The bond has a tenor of 10 years and a fixed coupon of 3.0%. Bond repayment is in six tranches starting from 2026, with 5% of the face value payable yearly, and 50% balloon payment at maturity. We note that Infogroup's senior unsecured bond issued under the Hungarian Central Bank's bond scheme has an accelerated repayment clause. The clause requires Infogroup to repay the nominal amount (HUF 4.5bn) in case of rating deterioration (2-year cure period for a B/B- rating, repayment within 5 days after the bond rating falls below B-, which could have default implications). The rating headroom to enter the grace period is two notches; we therefore see no significant risk of the rating covenant being triggered In addition to the rating deterioration covenant, bond covenants include a cap on the dividend payment (maximum 50% of profit after tax and if loan/value ratio does not exceed 50%) and loan to value ratio not exceeding 60%.

We have affirmed the BB- rating of Infogroup's senior unsecured debt. The assessment is based on a hypothetical default scenario in 2025 and the issuer's liquidation value. The rating is also supported by the company's large pool of unencumbered assets.

Appendix: Peer comparison

	Infogroup Holding Kft.	Futureal Holding B.V.	CORDIA International Zrt.	MG RE Invest S.A.
	BB-/Stable	BB-/Negative	BB-/Negative	BB/Stable
Last reporting date	30 June 2023	30 June 2023	30 June 2023	31 December 2022
Business risk profile				
Scope-adjusted total assets (EUR m)	196	2,300	700	517
Gross lettable area (thousand sq m)	208	4,450	1,642	na
Countries active in	1	3	5	6
Top 3 tenants (%)	39%	11%	na	na
Top 10 tenants (%)	75%	23%	na	na
Property location	B and C	B	B	A and B
WAULT (years)	5.5	5	na	na
Scope-adjusted EBITDA margin	60%	37%	11%	41%
Financial risk profile				
Scope-adjusted EBITDA/interest cover	10.9x	1.6x	3.3x	10.1x
Scope-adjusted debt/EBITDA	6.9x	25x	7.3x	3.9x
Scope-adjusted loan/value	34%	54%	34%	52%

Sources: Public information, Scope

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