MET Hungary Solar Park Kft
Hungary, Renewable Energy

SCOPE B STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover (x)	4.3	2.9	1.0	2.2
Scope-adjusted debt/EBITDA (x)	8.2	65.2	30.0	9.4
Scope-adjusted funds from operations/debt	9%	1%	0%	6%
Scope-adjusted free operating cash flow/debt	10%	-56%	-47%	5%

Rating rationale

The rating is strongly supported by the MET Hungary Solar Park Kft's (MET HSP's) protected business model alongside the ramp-up of a power generation portfolio of 230 MW of photovoltaic plants in Hungary, bolstered by the prioritised feed-in of generated electricity at predictable prices for an extended period. However, MET HSP's financial risk profile constrains the rating due to high leverage and modest debt protection (interest coverage), although it is expected to gradually improve following the ramp-up of the power generation portfolio. The issuer rating assessment also remains conservative due to the risk of adverse regulatory changes – albeit not expected in the short to medium term considering the current forward price curve on electricity wholesale prices in Hungary – and the credit-negative governance and structure aspects.

Outlook and rating-change drivers

The Outlook remains Stable and reflects our expectation that MET HSP will finalise the ramp-up of its power plant portfolio to about 230 MW by YE 2022, mostly financed by the HUF 65bn bond issue and shareholder funds. This rating case assumes medium-term leverage of around 9x and EBITDA interest coverage sustained at more than 2x. The rating case and Outlook assume no capacity additions until 2031, beyond what is currently under development. We also deem ratings upside related to the removal of the 'malus' for governance and structure as remote in the short term.

A positive rating action could be warranted if Scope-adjusted debt/EBITDA improved to below 9x and EBITDA interest coverage moved closer to 3x. This could result from either stronger-than-expected cash inflow from power generation bolstered by significantly higher generation volumes or a significant reduction in interest-bearing shareholder loan.

The rating could come under pressure if Scope-adjusted debt/EBITDA remained well above 9x and EBITDA interest coverage stayed below 2x. This could result from lower-than-expected operating cash flows due to an underperformance of solar power plants or amended feed-in tariffs. The company's financial setup could also be challenged if shareholder distributions went beyond the interest on shareholder loans.

Furthermore, any additional operations undertaken apart from the expected capacity ramp-up could affect the rating positively or negatively depending on how they are financed.

Rating history

Date	Rating action	Issuer rating & Outlook
19 Nov 2021	New	B/Stable

Ratings & Outlook

Issuer	B/Stable
Senior unsecured debt	B+

Analyst

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Related Methodologies

Corporate Rating Methodology; July 2022

Rating Methodology: European Renewable Energy Corporates; January 2022

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Protected business model under current regulatory environment: the company operates in the renewables industry with favourable market conditions in Hungary (ESG factor); all of the company's solar power plants are eligible for the government-backed FIT (KÁT) scheme • Strong profitability and cash conversion: company benefits from the highly subsidised prices of the KÁT scheme for the next 20 to 25 years, resulting in stable cash flow and a high EBITDA margin of around 80% in the long run • Sound liquidity and deleveraging potential after the ramp up of new solar power plants bolstered by solidly positive free operating cash flow/discretionary cash flow • Set of covenants include minimum debt service coverage ratio and financial indebtedness • Significant exposure to subordinated shareholder loans could ease pressure on EBITDA interest coverage • Solid deleveraging potential over the medium term bolstered by largely positive discretionary cash flow following the completion of the investment phase by YE 2022	• Very high leverage for a number of years: highly leveraged expansion plans backed by senior unsecured debt and subordinated shareholder loans • Modest EBITDA interest coverage • Potential regulatory changes, such as retroactive tariff cuts or lower tariffs for larger power plant units, as seen in countries with more mature renewable markets (ESG factor), albeit this is not expected in the short to medium term considering the current forward price curve on electricity wholesale prices in Hungary • Potential negative impact on achievable profitability metrics and operating cash flow from cost of imbalances caused in the FIT balancing circle • No complete independence of the company within MET Holding with some weak points regarding governance (ESG factor) • Low diversification: the company only operates in one country (Hungary) and is only exposed to solar power • (Shrinking) execution/construction risks and yet unproven operational performance of newly commended power plants

Positive rating-change drivers	Negative rating-change drivers
• SaD/EBITDA trending to below 9x and EBITDA interest cover moving closer to 3x	• SaD/EBITDA remaining substantially above 9x over a prolonged time period and EBITDA interest coverage staying at 2x or below

Corporate profile

MET Hungary Solar Park Kft is an operating holding company of a group of companies that own and operate solar power plants in Hungary. The company is currently ramp-up its power plant portfolio to about 230 MW to be installed by YE 2022. MET HSP is fully owned by MET Renewables Holding AG, a 100% subsidiary of Swiss energy trading company MET Holding AG.

Financial overview

			Scope estimates			
Scope credit ratios	**2020[1]**	**2021**	**2022E**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover (x)	4.3	2.9	1.0	2.2	2.5	2.7
Scope-adjusted debt/EBITDA (x)	8.2	65.2	30.0	9.4	8.5	7.7
Scope-adjusted funds from operations/debt	9%	1%	0%	6%	7%	8%
Scope-adjusted free operating cash flow/debt	10%	-56%	-47%	5%	6%	8%
Scope-adjusted EBITDA in HUF m						
EBITDA	803	861	2,905	8,758	9,088	9,249
Adjustments	-	-	-	-	-	-
Scope-adjusted EBITDA	**803**	**861**	**2,905**	**8,758**	**9,088**	**9,249**
Funds from operations in HUF m						
Scope-adjusted EBITDA	803	861	2,905	8,758	9,088	9,249
less: (net) cash interest paid	-188	-293	-3,053	-3,897	-3,681	-3,433
less: cash tax paid per cash flow statement	-36	-34	-159	-97	-141	-173
add: dividends from associates	-	-	-	-	-	-
Change in provisions	-	-	-	-	-	-
Funds from operations (FFO)	**579**	**535**	**-307**	**4,764**	**5,266**	**5,642**
Free operating cash flow in HUF m						
Operating cash flow	667	-5,841	5,302	4,685	5,243	5,628
Net capex	-	-25,452	-46,000	-250	-250	-250
Free operating cash flow (FOCF)	**667**	**-31,293**	**-40,698**	**4,435**	**4,993**	**5,378**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	188	293	3,053	3,897	3,681	3,433
Adjustments	-	-	-	-	-	-
Net cash interest paid	**188**	**293**	**3,053**	**3,897**	**3,681**	**3,433**
Scope-adjusted debt in HUF m						
Reported gross financial debt	6,554	56,131	87,093	82,722	77,144	71,604
less: subordinated (hybrid) debt	-	-	-	-	-	-
less: cash and cash equivalents	-856	-10,916	-1,180	-1,245	-659	-496
add: non-accessible cash[2]	856	10,916	1,180	1,245	659	496
add: pension adjustment	-	-	-	-	-	-
Scope-adjusted debt (SaD)	**6,554**	**56,131**	**87,093**	**82,722**	**77,144**	**71,604**

[1] Deviations against 2020 numbers in previous rating report related to the differences between the audited consolidated accounts after the company's merger of different entities versus the pro-forma accounts that have been available for the first-time rating in November 2021.
[2] Netting of cash is generally applicable to ratings in the BB category or higher, and only if cash is permanent and accessible. Moreover, cash until 2022E is largely earmarked for investment related to the company's portfolio ramp-up.

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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)

Provision of clean energy from solar power plants

MET HSP's business model is entirely focused on the operation of solar power plants. The operation of solar power plants in Hungary – a country which still lags behind other European countries related to its energy transition towards "clean" energy sources and which is chronically short of power generation capacity (net importer of electricity) – naturally supports the rated entity's ESG footprint and supports robust cash flow streams. This is also demonstrated by the reclassification of the company's HUF 65bn bond (whose proceeds have largely been used to ramp-up the solar power plant portfolio) as a green bond under the company's green-bond framework.

Potential medium-/long-term regulatory issues

While the applicable regulatory framework for the remuneration of the power generation from solar power plants is very supportive for the company's cash flow profile (regarding visibility and robustness), the remuneration scheme theoretically bears regulatory risks of adverse changes albeit this is currently not at the horizon.

Weaknesses on governance and structure

As lined out under governance and structure (page 8), we do not deem the rated entity's governance setup as optimal for a risk-averse management approach in the interest of creditors.

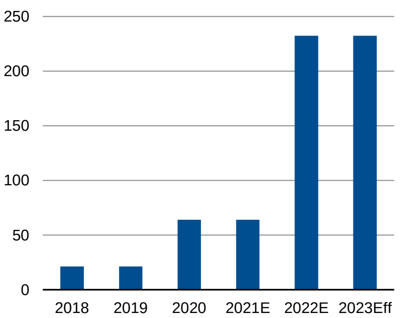
[3] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB-

Business risks largely mitigated by regulated power generation at long-term tariffs

Our BBB- assessment on MET HSP's business risks benefits the most from the exposure to fully regulated photovoltaic power plants in Hungary, with guaranteed take-off and remuneration of electricity generated under the country's KÁT system. The expansion of power generation to about 230 MW across five locations in Hungary is expected to be finalised by YE 2022 and run broadly according to plan with limited cost overruns. The company's business model is entirely focused on the provision of clean and renewable energy in Hungary, with expected annual generation of roughly 300 GWh and a load factor of around 15% (ESG factor: credit-positive environmental risk factor). Cash flow is largely predictable thanks to the regulated asset life of 20 to 25 years and the annual indexation of regulated tariffs to inflation. As such, the company is likely to keep EBITDA margins at around 80%, if not higher, as revenue growth is likely to outpace that of the already lean cost base.

Figure 1: Expected capacity ramp-up (MWp)



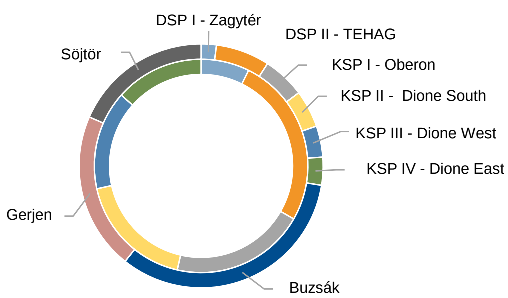
Source: MET HSP, Scope expectations

Figure 2: Regulatory lifetime of envisioned generation portfolio of more than 20 years

Power plant	Capacity (MW_e)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
PV Solar																												
DSP I - Zagytér	4.7	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓								
DSP II - TEHAG	16.6	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓								
KSP I - Oberon	13.0	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓						
KSP II - Dione South	11.5	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓						
KSP III - Dione West	9.6	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓						
KSP IV - Dione East	8.6	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓						
Buzsák	77.0			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Gerjen	48.5			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Söjtör	42.8			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Other renewables																												
-	-																											

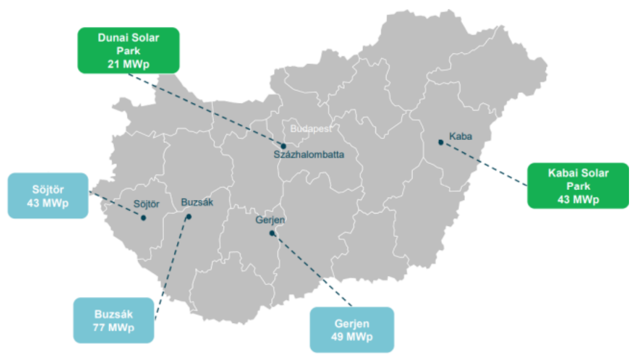
Source: Scope expectations

Figure 3: Inner circle: Today's capacity concentration measured by plant capacity – outer circle: Expected capacity concentration after full ramp-up of portfolio by YE 2022



Source: MET HSP, Scope

Figure 4: Five different power production sites across Hungary



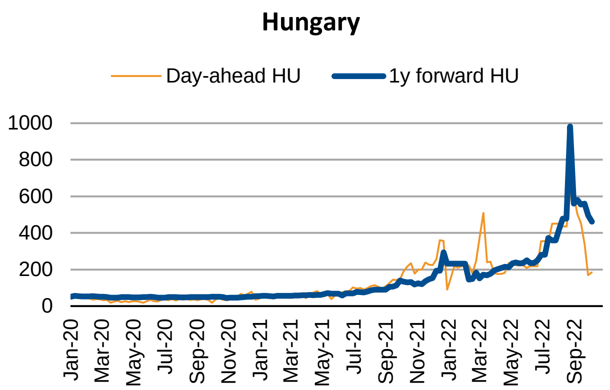
Source: MET HSP

Regulatory risks remain although this is currently not on the horizon

Nonetheless, the provision of non-controllable electricity from photovoltaic power plants still poses some regulatory risk. This cautious view has become more pertinent given the current challenges in Hungary to keep electricity costs low for end-customers. Adverse regulatory changes, which are currently not on the horizon considering the forward price curve for electricity wholesale prices in Hungary, could affect MET HSP's power generation portfolio, with any impact exacerbated by the material concentration risk around the three biggest power plants, currently a credit-negative factor. The risk of adverse regulatory change has become more pronounced with the soaring energy prices and the accelerated country-wide ramp-up of solar power generation under the National

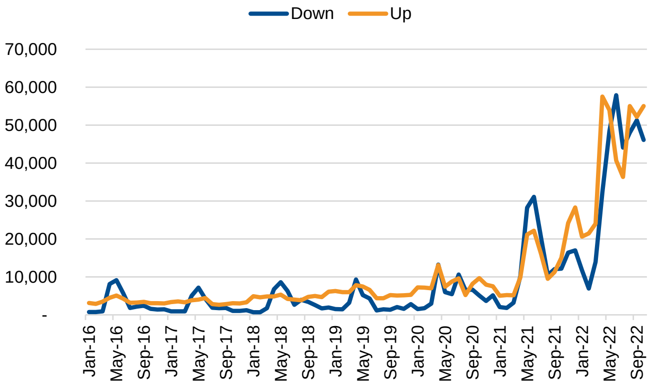
Energy Strategy 2030, which makes the integration of new renewable energy capacities much more difficult. Adverse regulatory changes could include retroactive tariff cuts (similar to those in France, Romania, the Czech Republic or Spain) or a mechanism under which solar power plants operators have to cover more of the national grid operators' costs for grid balancing related to the non-controllable feed-in of volatile energy from their power plants.

Figure 5: Day-ahead electricity prices and 1y baseload forwards (EUR/MWh) (weekly averages)



Source: Bloomberg, Scope

Figure 6: Monthly aFRR (balancing) capacity tenders average prices (HUF/MW)



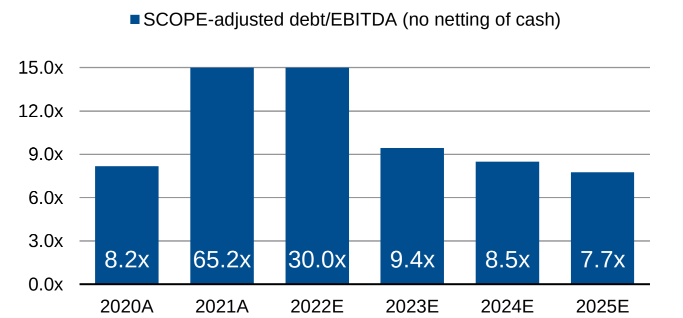
Source: HUPX, Scope

Financial risk profile: B

Highly indebted company for an extended period

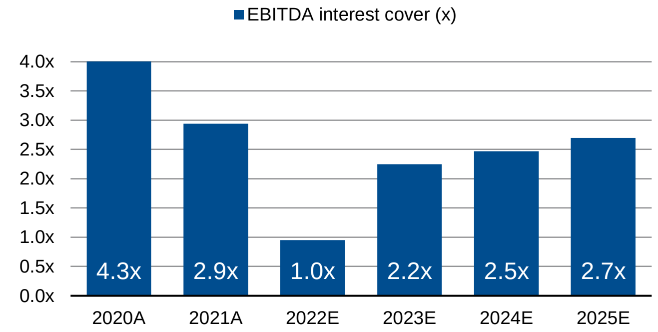
The rating remains strongly constrained by the financial risk profile (assessed at B). Credit metrics are heavily influenced by significant capex of around HUF 71bn in 2021 and 2022 (only slight cost overruns) related to the acquisition of project development rights and the execution of construction works, mainly financed by the HUF 65bn bond under the MNB scheme and a loan from the shareholder. Gearing will likely remain substantial over the next few years as investments are fully funded by interest-bearing debt at the level of the rated entity (i.e. no non-recourse project debt). After this, free operating cash flow is expected to become positive and help with deleveraging. The leverage metrics of Scope-adjusted debt/EBITDA and Scope-adjusted funds from operations/debt are expected to remain weak, at around 8-9x and 5-8% respectively. This incorporates the interest-bearing shareholder loan treated by us as debt with no equity (while the loan's interest can be deferred and compounded, other features under our rating framework that would allow partial equity treatment are lacking). In the medium term, a scaling-back of debt would make deleveraging possible, backed by solid free operating cash flow sustained at above HUF 4bn over the next few years. Deleveraging over the medium term also assumes no material shareholder distributions in cash, e.g. through dividend payouts.

Figure 7: Leverage (SaD/EBITDA and FFO/SaD)



Source: MET HSP, Scope estimates

Figure 8: Debt protection



Source: MET HSP, Scope estimates

Modest EBITDA interest cover

Debt protection, as measured by Scope-adjusted EBITDA interest coverage, is expected to remain weak until YE 2022, when the newly commenced power plants begin to contribute earnings and eventually push up interest coverage to a modest range of 2.0x to 3.0x. This assumes that interest on shareholder loans is not deferred and compounded at the discretion of the rated entity. We also flag that significant adverse regulatory changes related to feed-in tariffs or significant costs related to balancing could still negatively affect operating cash flow and hence interest coverage.

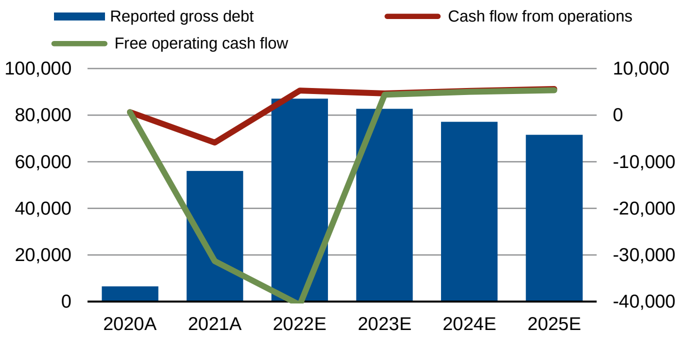
Debt service coverage ratio provides some creditor protection

We highlight the establishment of a debt service coverage ratio covenant of slightly more than 1x for external debt, applicable until the HUF 65bn bond matures, provides some creditor protection. Our rating case forecasts comfortable headroom before the threshold can be breached. However, a breach could still occur in the event of a material underperformance of the future asset portfolio, adverse regulatory changes relating to eligible feed-in tariffs or material costs arising from the balancing for solar power plant operators in Hungary.

Positive FOCF and discretionary cash flow allow for deleveraging from 2023 onwards

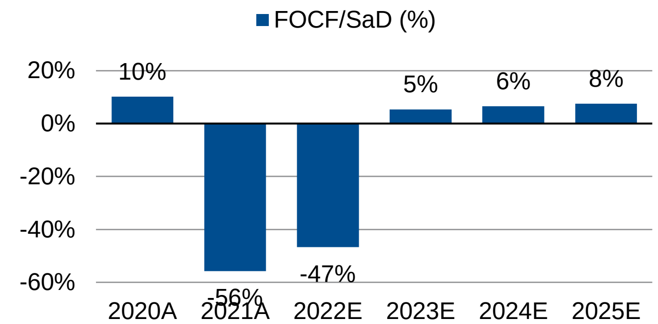
For the medium term, deleveraging is possible through the scaling-back of debt, backed by solid free operating cash flow which we expect at sustained level of above HUF 4bn from 2023E onwards reflecting management's plan to maintain a steady state from when the new solar power plants are operational until the bond matures in 2031 and keep maintenance capex very low. This also assumes no dividend payouts for the time being (shareholder remuneration is broadly provided through the interest payment on shareholder loans).

Figure 9: Cash flow profile that provides deleveraging potential and expected reduction of gross debt exposure (HUF '000s)



Source: MET HSP, Scope estimates

Figure 10: Cash flow cover

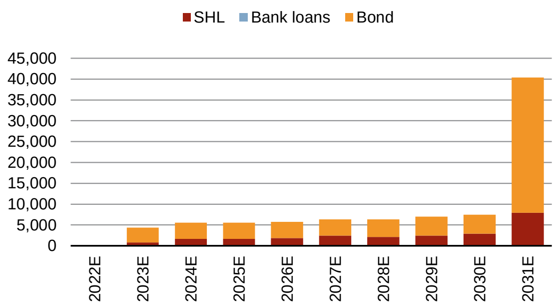


Source: MET HSP, Scope estimates

Adequate liquidity

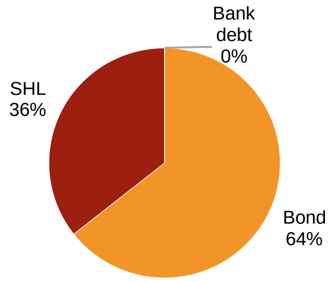
MET HSP's liquidity position is deemed to remain adequate over the next few years. Expected debt repayments from the amortisation of the MNB bond and the envisioned reduction of the shareholder loan exposure, both starting in 2023, are likely to be fully covered by available cash after scheduled maintenance capex. This is backed by expected free operating cash flow of more than HUF 4.0bn annually and a cash buffer of about HUF 1.0bn expected at YE 2022. We expect that the company's available cash sources will remain fully sufficient to cover non-discretionary debt repayments that refer to the amortisation payments for the MNB bond. As MET HSP has discretion about the repayment of its shareholder loan exposure (no fixed repayment schedule), we deem it likely that the rated entity will not require any external refinancing over the next few years until the final redemption of the MNB bond in 2031 (HUF 32.5bn).

Figure 11: Expected maturity schedule (in HUF '000s)



Source: Scope estimates

Figure 12: Expected funding structure after completion of portfolio ramp-up at YE 2022E



Source: Scope estimates

Balance in HUF m	2021	2022E	2023E	2024E
Available cash (t-1)	856	10,916	1,180	1,245
Open committed credit lines (t-1)	-	-	-	-
Free operating cash flow	-31,293	-40,698	4,435	4,993
Short-term debt (t-1)	652	38	4,371	5,578
Coverage	**negative**	**negative**	**128%**	**112%**

Supplementary rating drivers: -1 notch

Negative rating adjustment for governance

The rating incorporates a negative adjustment of one notch, reflecting governance and structure weaknesses (negative ESG factor related to governance). While management determines strategy, finances (budget) and operations, the following point poses some credit risk:

- The rated entity's management also holds functions within MET Holding AG, meaning that they hold management positions at sister companies or the parent company. This raises concerns over the alignment of management's interests with those of stakeholders, which include creditors of the rated entity and the management of group companies. This could materialise as services not being billed in line with the lean management of the rated entity or profit being distributed to the detriment of creditor interests.

Credit-neutral financial policy

Despite the rated entity's expansionary business model through largely debt-financed new generation capacities, we deem the company's financial policy to be neutral for the following reasons:

- Highly leveraged investment plans are rather common for companies which operate comparable renewable energy power plants. Such high debt levels are granted due to the stable cash flow generation of power generators eligible for feed-in tariff schemes.

- Based on the company's business plan, it will exclusively focus on the operation and maintenance of the solar parks after the initial expansion plans have been executed, therefore the company will not require further debt in the future.
- Positive element of a minimum DSCR[4] of 1.1x which provides some creditor protection.
- Dividends payments/distribution of profit to the parent is not ruled out but not planned over the next few years. Bond covenants include a restriction for dividend pay-out of 75% of consolidated profit and profit reserve (t-1). Management is expected to propose profit distribution based on the financial condition and the business environment of the company. We flag that future dividend/profit distributions are likely (starting potentially in 2025 once operating and free operating cash flow provide sufficient headroom for debt rescaling and dividend payments).

Shareholder structure is credit-neutral

We consider MET HSP's ultimate 100% shareholder, Swiss energy trading company MET Holding AG, to have a higher credit quality than MET HSP. However, we assess parent support as credit-neutral given the rated entity's independence from its ultimate shareholder.

Long-term rating

Senior unsecured debt rating: B+

Senior unsecured debt is rated at B+, one notch higher than the rated entity's issuer rating.

Following the company's recapitalisation in 2021 through the issuance of a HUF 65bn bond issuance, no debt is ranking superior to senior unsecured debt. This is likely until 2031, when the planned bond matures, given the negative pledge.

Our recovery expectations for senior unsecured debt are based on a liquidation value reflecting the good recoverability of the company's major unencumbered assets. Although a bailout by the ultimate parent in a hypothetical insolvency of the rated entity is not ruled out, we believe an insolvent company would be liquidated, primarily through the sale of various power plants. We expect a 'superior' recovery for senior unsecured debt (by and large the outstanding debt exposure from the HUF 65bn corporate bond), which reflects a sufficiently high advance rate for property, plant and equipment. However, for the time being, we refrain from granting a two-notch uplift for such recovery expectations given the remaining execution risks on the full ramp-up of the solar power plant portfolio and realised performance data as well as the aforementioned regulatory risks.

[4] (EBITDA – capex – corporate taxes + received non-repayable grants) divided by debt service payments (excluding payments related to shareholder loans).

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