

GOPD Nyrt. Hungary, Real Estate



Key metrics

| Scope credit ratios | 2020 | 2021 | Scope estimates | | |
|---|-------|-------|-----------------|-------|-------|
| | | | 2022E | 2023E | 2024E |
| Scope-adjusted EBITDA/interest cover | 25.2x | 56.6x | 6.4x | 5.7x | 5.9x |
| Scope-adjusted debt/EBITDA | 0.9x | 5.3x | 4.2x | 6.2x | 6.9x |
| Scope-adjusted loan/value ratio | 20% | 30% | 24% | 27% | 26% |
| Scope-adjusted funds from operations/debt | 177% | 17% | 25% | 13% | 12% |

Rating rationale

The rating reflects GOPD's strong dependence on subsidiary SunDell Estate Nyrt (rated by Scope at B/Stable) as well as its limited size that results in cluster risks, albeit mitigated by moderate financial leverage going forward.

GOPD's business risk profile is rather weak due to its small size and low diversification. The company is relatively new and most of its business is performed at subsidiary level. Its main subsidiary is SunDell, which operates exclusively in Budapest's fragmented residential development market, in which it has a low market share, with Scope-adjusted assets of around EUR 140m.

GOPD successfully issued a senior unsecured bond of HUF 5.5bn, guaranteed 80% by MFB, and gained the majority of and control in SunDell in line with our rating case. While the fixed yearly finance cost of 6.75% seemed high last year (other bonds were issued at around 3%-4%), it has become beneficial after the base rate in Hungary increased steeply to 13% (Sep 2022). Fixed-rate debt was raised for growth purposes. The financial risk profile is rather strong, albeit cash flows are volatile due to the low backlog and GOPD's small size.

Outlook and rating-change drivers

The Outlook for GOPD is Stable and assumes a Scope-adjusted loan/value (LTV) of below 50%, Scope-adjusted interest cover of more than 4x and the majority ownership and control in SunDell is maintained.

A positive rating action would require financial metrics to be sustained in line with the Stable Outlook while the business risk profile improved substantially, e.g. via more projects, a stronger backlog, more recurring-revenue streams and/or less dependence on SunDell.

A negative rating action might be warranted if the Scope-adjusted debt/EBITDA reached above 8x or financial metrics deteriorated below the rating base case. This could be caused by an underperformance of development projects, or lower dividend income than expected from SunDell, e.g. due to lower prices for residential real estate in its core market of Budapest or increasing input or labour costs.

Rating history

| Date | Rating action/monitoring review | Issuer rating & Outlook |
|-------------|---------------------------------|-------------------------|
| 25 Oct 2022 | Affirmation | B/Stable |
| 3 Dec 2021 | New | B/Stable |

Ratings & Outlook

| | |
|-----------------------|----------|
| Issuer | B/Stable |
| Senior unsecured debt | B |
| ISIN HU0000361076 | B+ |

Analyst

Barna Gáspár
+49 30 27891325
b.gaspar@scoperatings.com

Related Methodologies

[Corporate Rating Methodology; July 2022](#)

[European Real Estate Methodology; January 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



Rating and rating-change drivers

Positive rating drivers

- Majority control over SunDell, a real estate investment trust with strong dividend cash flows from residential real estate developments
- Strong financial policy envisaging moderate leverage, with LTV around 30% and Scope-adjusted debt/EBITDA of below 8x, and no dividend payout from GOPD to its shareholders in the medium term

Negative rating drivers

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

Positive rating-change drivers

- Improving business risk profile, 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

- Development of metrics below expectations and/or liquidity issues
- Scope-adjusted debt/EBITDA of above 8x

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 (ticker: [GOPD](#)), 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. (BSE ticker: [SUNDELL](#)). 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 | 2020 | 20201 | 2022E | 2023E | 2024E | |
| Scope-adjusted EBITDA/interest cover | 25.2x | 56.6x | 6.4x | 5.7x | 5.9x | |
| Scope-adjusted debt/EBITDA | 0.9x | 5.3x | 4.2x | 6.2x | 6.9x | |
| Scope-adjusted funds from operations/debt | 20% | 30% | 24% | 27% | 26% | |
| Scope-adjusted free operating cash flow/debt | 177% | 17% | 25% | 13% | 12% | |
| Scope-adjusted EBITDA in HUF m | | | | | | |
| EBITDA | 2,163 | 3,679 | 5,265 | 3,533 | 3,201 | |
| Scope-adjusted EBITDA | 2,163 | 3,679 | 5,265 | 3,533 | 3,201 | |
| Funds from operations in Scope-adjusted EBITDA in HUF m | | | | | | |
| Scope-adjusted EBITDA | 2,163 | 3,679 | 5,265 | 3,533 | 3,201 | |
| less: (net) cash interest paid | -86 | -65 | -820 | -616 | -547 | |
| less: cash tax paid per cash flow statement | -3 | -13 | -12 | -12 | -12 | |
| Other | | | -91 | -92 | -94 | |
| Change in provisions | 1,538 | -321 | 1,188 | 0 | 0 | |
| Funds from operations (FFO) | 3,612 | 3,279 | 5,530 | 2,813 | 2,549 | |
| Free operating cash flow in Scope-adjusted EBITDA in HUF m | | | | | | |
| Funds from operations | 3,612 | 3,279 | 5,530 | 2,813 | 2,549 | |
| Change in working capital | -75 | 298 | -6,842 | 253 | 394 | |
| Non-operating cash flow ¹ | -2,241 | -3,507 | 203 | -2,110 | -2,005 | |
| less: capital expenditure (net) | 1,823 | 799 | -4,993 | -495 | -495 | |
| Free operating cash flow (FOCF) | 3,118 | 870 | -6,102 | 461 | 443 | |
| Net cash interest paid in Scope-adjusted EBITDA in HUF m | | | | | | |
| Net cash interest per cash flow statement | -86 | -65 | -820 | -616 | -547 | |
| Net cash interest paid | -86 | -65 | -820 | -616 | -547 | |
| Scope-adjusted debt in Scope-adjusted EBITDA in HUF m | | | | | | |
| Reported gross financial debt | 2,097 | 19,649 | 22,000 | 22,000 | 22,000 | |
| less: cash and cash equivalents | -2,304 | -10,572 | -11,034 | -11,477 | -2,304 | |
| add: non-accessible cash ² | 2,304 | 10,572 | 11,034 | 11,477 | 2,304 | |
| Scope-adjusted debt (SaD) | 19,649 | 22,000 | 22,000 | 22,000 | 19,649 | |







¹ Release of advance payments for residential units

² No cash netting applied for B category ratings

Table of Content

| | |
|--|---|
| Key metrics | 1 |
| Rating rationale..... | 1 |
| Outlook and rating-change drivers..... | 1 |
| Rating history | 1 |
| Rating and rating-change drivers..... | 2 |
| Corporate profile | 2 |
| Financial overview..... | 3 |
| Environmental, social and governance (ESG) profile | 4 |
| Business risk profile: B | 5 |
| Financial risk profile: BB..... | 6 |
| Supplementary rating drivers: +/- 0 notches | 7 |
| Long-term debt ratings | 7 |

Environmental, social and governance (ESG) profile³

| 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)

Energy-efficient buildings are credit-positive for developers as energy costs are high

GOPD (similarly to SunDell) has a rather neutral ESG policy. Development projects relate to energy-efficient housing using modern construction materials and techniques, which have gained even more importance with the rising energy prices, helping to maintain demand and asset value and lowering asset vulnerability. By contrast, real estate with poor energy efficiency is losing value and constructions with high energy needs are becoming more expensive for developers.

The issuer is listed on the Budapest Stock Exchange and hence has high regulatory disclosure expectations, which provides transparency.

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: B

Industry risk profile: BB

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).

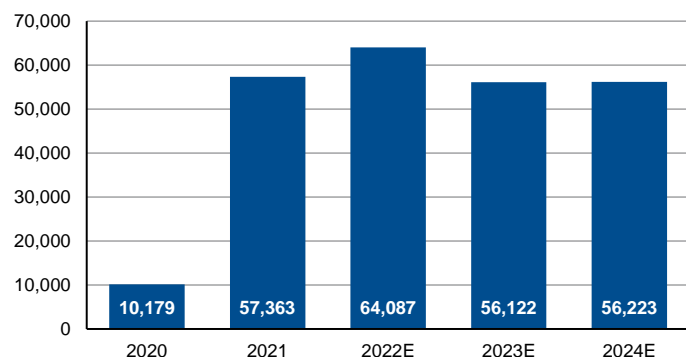
Following our updated methodology, we classify developers as commercial or residential. The update also resulted in residential developers having a lower industry risk of BB than the previous B that was applied to all developers.

Rising housing prices coupled with soaring mortgage retail rates affecting the industry

Demand for group assets strengthened on the back of government and central bank incentives to further promote private home ownership in H1 2022, especially among families, and green housing, including energy efficiency. However, the significant decrease of value-added tax on new homes (to 5% from 27%) has not slowed the price increase in the market as construction costs have also soared. The MNB increased the base rate to 13% by September 2022 from 0.6% in July 2021. Further increases of up to 25% are possible while governmental support is phased out.

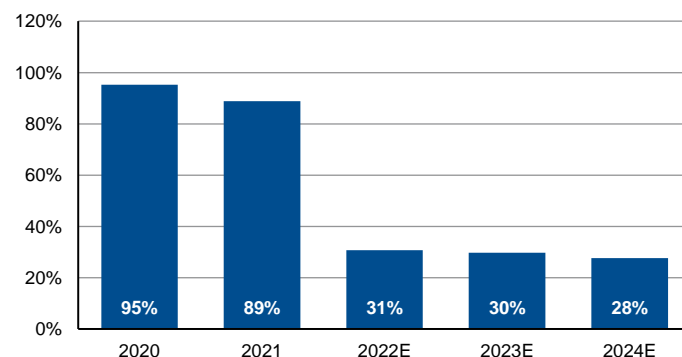
We therefore expect demand for new residential units to fall as a result of the increasing mortgage loan rates (hence mostly back to cash), but lead to less capacity constraints due to the cancellation of public infrastructure projects.

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 SunDell

GOPD's diversification is weak. Cash flow will come from a limited number of projects (2-3 plot developments a year for SunDell) and the residential development pipeline of SunDell (6-7 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. This leads to high concentration risk and volatility. We therefore expect profitability to stay volatile at above the peer average, with the Scope-adjusted EBITDA margin of above 25%, depending on the timing of project completions.

Capital structure change in 2021-22 used for growth

Financial risk profile: BB

SunDell has been consolidated since Q4 2021, meaning the revenues of its residential developments have been consolidated since 2022.

In 2021, Schweidel Investment (owned 49% by the Piukovics family) performed a capital increase of HUF 2bn in GOPD. GOPD successfully issued a HUF 5.5bn senior unsecured guaranteed bond in line with the rating case in late 2021 and gained majority interest in and control over SunDell. In 2022 MFB Invest and Hiventures invested HUF 9bn in SunDell to finance new investments, half of which was used to buy a premium plot in Budapest, which GOPD will incubate. The new landbank will support the group's residential for-sale and for-lease pipeline.

Our financial model is based on those forecasts, including our own assumptions and modifications.

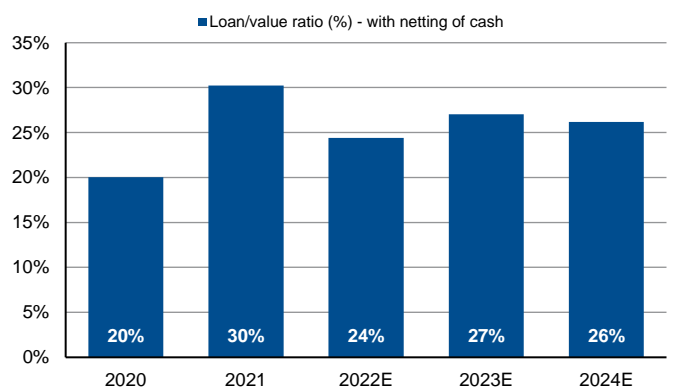
Our base case assumes that:

- SunDell pays HUF 2.5bn-3bn of dividends a year from 2022 (based on its 2021 result) in line with policy, of which GOPD will receive roughly half in line with its ownership.
- GOPD keeps majority control in SunDell (50%+1 shares) and the Piukovics family maintains majority control in GOPD (50%+1 shares)
- No dividend policy into the medium term.
- There are no pledge on shares of SunDell held by GOPD (except MFBI and Hiventures) and no pledge on plots acquired from bond proceeds.
- There are no factoring, leasing, overdraft, operating leasing or significant off-balance sheet items.
- Cash is netted (cash is excluded from our metrics because it generally only applies to entities rated BB or higher)

Low leverage for a real estate developer

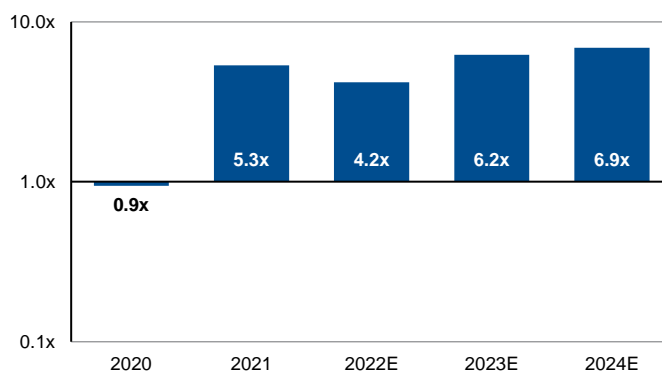
The Scope-adjusted debt/EBITDA ratio is reasonable for a real estate developer, at up to 7x in the next two years with an LTV of around 30%

Figure 3: Scope-adjusted LTV (%)



Sources: Scope (estimates)

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



Sources: Scope (estimates)

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

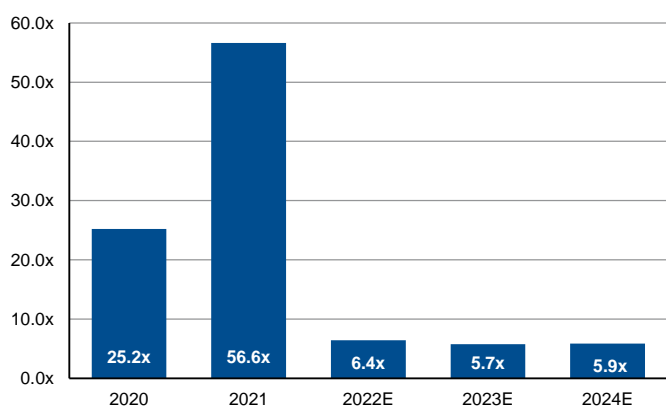
GOPD has a strong interest cover of above 4x. The revenue structure and cash flows are dependent on SunDell. All debt is fixed rate, which offers debt protection.

However, we flag the uncertainty around cash inflows from 2024, the execution risk for the future projects of both GOPD and SunDell, the high cluster risk due to the low number of projects, and the low existing stock.

Volatile cash flow and high cluster risk

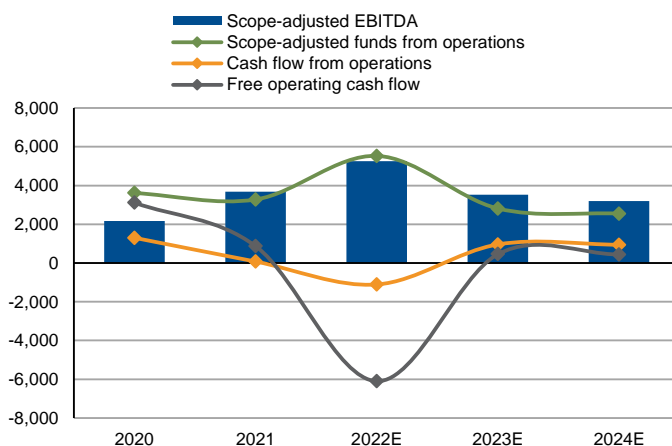
The company's is still very new, with negative free operating cash flow driven by the expansion of its land bank, especially in 2022. We expect free operating cash flow to return to positive territory in the coming years once material plot developments are completed as planned. Nevertheless, owing to further anticipated growth and the nature of real estate development, cash inflows and outflows will not necessarily match during the lifetime of projects. Furthermore, GOPD suffers from its still limited size, which also amplifies the volatility inherent in its business model.

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. GOPD has no short-term debt or large upcoming debt repayments while Scope-adjusted free operating cash flow/debt will be positive from 2023.

| Balance of Scope-adjusted EBITDA in HUF m | 2022E | 2023E | 2024E |
|---|-------------|------------|------------|
| Unrestricted cash (t-1) | 2,304 | 10,572 | 11,034 |
| Open committed credit lines (t-1) | 0 | 0 | 0 |
| Free operating cash flow | -6,102 | 461 | 443 |
| Short-term debt (t-1) | 0 | 0 | 0 |
| Coverage | 0.4x | n/a | n/a |

Supplementary rating drivers: +/- 0 notches

No notching was applied.

Long-term debt ratings

Senior unsecured debt rating: B

We assumed a hypothetical default in 2024 and applied reasonable discounts on assets. We assumed no additional senior secured debt on GOPD or on its special purpose vehicles.

Senior unsecured guaranteed bond (HU0000361076): B+

The financing's structure does not warrant upnotching as cash flow depends on dividends upstreamed from SunDell.

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

The issued HUF 5.5bn senior unsecured bond is guaranteed 80% by MFB (rated by Scope BBB+/Negative), based on which we keep the one notch uplift above the issuer rating, resulting in the bond (ISIN HU0000361076) rated at B+.



Appendix: Peer comparison (as at last reporting date)

| | GOPD Nyrt | SunDell Estate Nyrt. | Jaka Trade Kft | Kopaszi Gát Kft. | Wingholding Zrt |
|--------------------------------------|------------------|-----------------------------|-----------------------|-------------------------|------------------------|
| | B/Stable | B/Stable | B-/Stable | B+/Stable | B+/Stable |
| Last reporting date | 31 December 2021 | 31 December 2021 | 31 December 2021 | 31 December 2021 | 31 December 2021 |
| Business risk profile | B | B | B- | B+ | BB |
| Financial risk profile | BB | BB+ | B | B+ | B |
| Scope-adjusted EBITDA/interest cover | 5.2x | 4.7x | 2.6x | 4.4x | 3x |
| LTV | 27% | 33% | 50% | 46% | 59% |
| Scope-adjusted debt/EBITDA | 5.2x | 5.4x | 12x | 7.2x | 18.7x |

Sources: Public information, Scope



Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

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 Fund Analysis GmbH, Scope Innovation Lab GmbH, Scope ESG Analysis GmbH and Scope Hamburg 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.