OPUS Global Nyrt.
Hungary, Holding Companies

SCOPE BB STABLE

Key metrics

			Scope estimates	
Scope credit ratios	2020	2021	2022E	2023E
Total recurring cost cover (x)	3.2	4.7	2.1	2.7
Loan-to-value (LTV, %)	28	40	40	37
Liquidity (x)	3	52	47	-

Rating rationale

The ratings continue to reflect our view on OPUS' strong financial risk profile and very sound total cost coverage at holding company level. This is supported by a solid liquidity policy maintained during the recent transition phase despite active M&A connected to the reorientation of the energy segment. OPUS' financial risk profile is still strong despite a leverage deterioration in 2021, which was caused by the acquisitions of electricity distribution company TITASZ as well as the takeover of gas distributor TIGAZ both on a 50% basis (jointly executed with 50%-owned Status Energy Kft), for a total cash consideration of about HUF 37bn in 2021. The transactions were mainly funded with the new HUF 39bn bond placed under the Hungarian Central Bank's (MNB) Funding for Growth scheme, but also with divestiture proceeds from solar project Buzsak sold to MET Holding AG. Our expectation of a deterioration in credit metrics in 2021 is thus chiefly due to higher debt, while the acquired companies are not yet able to contribute to OPUS' dividend income.

The ability to pay dividends may also come into question for the main entities of the food processing division (Kall and Viresol) as well as for Hunguest (tourism), reflecting the effects of the coronavirus crisis (lockdowns, hotel refurbishments) as well as rising energy and raw material costs. Lockdown related project delays in the industrial division's important railway construction arm are very likely to have a negative consequence on the dividend level in 2022. As OPUS' industrials segment continues to provide the holding company's main source of recurring dividend income, this negatively impacts expected 2022 credit metrics, most notably total cost coverage. However, we believe that this will not be critical for the ratings as OPUS' total cost coverage has historically been much higher than the levels commensurate with the ratings. The ratings also reflect our view of OPUS' conservative and long-term 'buy-and-build' investment approach, focused on creating growth and value by exercising active operational control at the subsidiaries' level.

Outlook and rating-change drivers

The Stable Outlook incorporates our rating case of a broadly unchanged investment portfolio over the next one to two years, no material dividend payments to OPUS shareholders, a focus on developing the existing portfolio and no major M&A activity, as well as a total cost coverage of above 1.0x.

A positive rating action could be warranted by an improvement in the holding company's business risk profile related to concentration risks, especially with regard to dividend income. However, we do not foresee any material changes in this regard in the short to medium term.

Rating downside could be triggered by total cost coverage dropping below 1.0x on a sustained basis.

Rating history

Date	Rating action	Issuer rating & Outlook
19 Aug 2019	New	BB/Stable

Rating & Outlook

Issuer	BB/Stable
Short-term debt	-
Senior unsecured debt	BBB-
Subordinated hybrid debt	-

Analyst

Olaf Toelke
+49 69 6677389 11
o.toelke@scoperatings.com

Related Methodology and related research

Corporate Rating Methodology; July 2021

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

Positive rating drivers	Negative rating drivers
• Conservative buy-and-build strategy • Strong cost coverage ratio • No dividend payments • Critical size of energy segment	• High dividend concentration • Significant raw material price increases negative for food segment

Positive rating-change drivers	Negative rating-change drivers
• Improvement in dividend diversification	• Large debt-funded acquisition • Cost coverage of below 1x on a sustained basis

Corporate profile

OPUS Global is a Hungarian investment holding company. It is the result of a merger between OPUS and Konzum in 2019. With about HUF 200bn (EUR 600m) in market capitalisation, it is the fifth largest entity on the Hungarian stock exchange. The company's investment philosophy focuses on holding majority positions grouped into four defined industrial sectors (industrials, food processing, energy and tourism). As part of its long-term 'buy-and-build' approach, OPUS tries to identify undervalued companies and subsequently create growth and value by exercising tight operational control at its subsidiaries. Over the last few quarters, OPUS has made a couple of larger transactions, mainly in the energy division, which was already earmarked for transition out of traditional fossil energy and into renewables and service. In addition, the company's asset management division, which traditionally holds minority positions, has been significantly decreased to enable a focus on the four core divisions.

Financial overview

				Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021**	**2022E**	**2023E**
Total recurring cost cover	4.3	3.2	4.7	2.1	2.7
Loan-to-value, LTV (%)	39	28	40	40	37
Liquidity (x)	2	3	52	47	No short-term debt
Cash flows HUF m	**2019**	**2020**	**2021**	**2022E**	**2023E**
Recurring cash inflows	5,826	10,057	12,374	7,000	12,250
Non-recurring cash inflows	1,478	19,242	1,894	500	600
Balance sheet/ indebtedness in HUF m	**2019**	**2020**	**2021**	**2022E**	**2023E**
Gross asset value	164,564	171,250	222,360	242,360	257,360
Reported gross financial debt	32,868	29,563	68,561	67,600	67,600
less: accessible cash and cash equivalents	-12,466	-25,826	-27,234	-12,835	-13,236
add: cash not accessible	0	0	0	0	0
Guarantees and suretyships	43,201	44,529	47,000	45,000	44,000
Scope-adjusted debt	**63,604**	**48,265**	**88,307**	**99,765**	**98,364**

Table of Content

ESG profile1

Environment	Social	Governance
Resource management (Reduced water, energy, row materials consumption, Emission reduction, fuel efficiencies …)	Labor management	**Company control**, Supervisory boards, Key man risk
5,000	Safety	**Clarity / transparency** of financial disclosures, transparency of the communication / Ability to communicate
Product innovation (costs to transition, substitution of products & services, green buildings, clean tech, renewables…)	Clients and supply chain (geographical / product diversification)	**Corporate structure** complexity
Physical risks (business/assets vulnerability, diversification…)	Regulatory & Reputational risks	**Stakeholder management:** shareholder's payout & respect of creditors

Neutral assessment ofn ESG

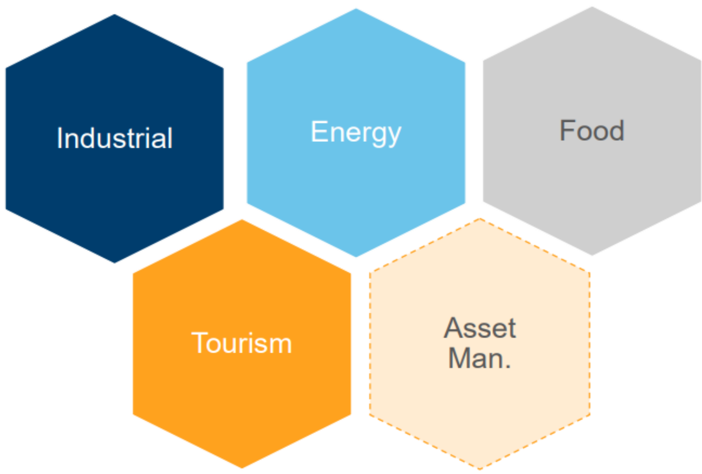
We assess corporate governance as neutral for OPUS' ratings. There is no direct majority individual shareholder: the Meszaros family has over 45% of the voting rights, above 50% including the Konzum PE stake. OPUS' position as one of the largest quoted companies on the Budapest stock exchange means that it is subject to transparency and disclosure regulations. We therefore believe that existing structures at the holding company ensure adequate corporate governance.

Business risk profile: BB-

Industry risk profile: BB

OPUS has a long-term, value-oriented 'buy-and-build' investment approach, involving an active entrepreneurial strategy exercising tight control at subsidiary level. This is also reflected by the company's targeting of majority positions which allow control. OPUS uses its own balance sheet to fund and finance subsidiaries.

Figure 1: Four pillars



[1] The ESG profile only evaluates the extent to which ESG factors are credit-relevant. Our evaluations are not mutually exclusive or collectively exhaustive as these factors overlap and evolve. We only consider an ESG factor relevant to our credit rating process if it has a ubiquitously discernible and material impact on the rated entity's cash flow profile and, by extension, its overall credit quality.

OPUS' exposure to four distinct, relatively non-cyclical and little-correlated sectors continues to support its business risk profile. The majority of industries represented in the portfolio have low and medium cyclicality. OPUS' construction subsidiaries have a large exposure to public projects such as railway infrastructure, telecoms and utility works, which is beneficial in the event of macroeconomic weakness.

In addition, most of the subsidiaries have significant growth potential, either due to a high order backlog (as is the case for M+M) or substantial, recent expansion capital expenditure (KALL and Viresol).

While OPUS' largest exposure by asset value was previously to the industrials and food processing segments (more than two thirds), this has changed to a more even representation of the four industries, reflecting recent investments both in the energy and the tourism segments. However, the holding company's industrial exposure still continues to be a mix of low-rated construction activities and highly rated food processing and energy. We believe that a blended mix of BB is representative of OPUS' current exposure to underlying industry representation.

OPUS' investment approach is conservative and less risky than a more timing-sensitive trading approach, accompanied by a lean cost structure (no dividend payments to OPUS shareholders), making the company's cost coverage relatively independent of the overwhelming part of the dividends received.

We believe that a 'buy-and-build' investment strategy has a positive impact on the credit quality of an investment holding. OPUS is focused on generating dividend income from all its subsidiaries in the medium term, which is only the case for a few subsidiaries at present. OPUS also provides an increasing amount of management services to its subsidiaries as an additional element of income derived. The ratings thus continue to reflect our view of OPUS' conservative and long-term 'buy-and-build' investment approach, focused on creating growth and value by exercising active operational control at subsidiary level.

Main portfolio companies

Industrials segment (2021 sales: HUF 159bn, +3% vs 2020; EBITDA margin: about 17%; order backlog HUF 88bn)

- **Meszaros es Meszaros** Zr**t.** (M+M; 51% owned directly): general contractor for typically large public procurement construction projects such as utilities (water, waste management, infrastructure), water and underground, as well as road and railways
- **R-Kord Kft.** (51% owned directly): general contractor for large public procurement projects in railway construction
- **RM International Zrt** (51% owned directly): holds a 50% participation in the consortium for the development of the high-speed railway connection between Budapest and Belgrade
- **Wamsler SE** (100% owned): German fireplace and stove manufacturer; largest player in CEE countries with a market share of about 7% (about a third in Hungary)

Food Processing segment (2021 sales: HUF 80bn, +29% vs 2020; EBITDA margin negative)

- **KALL Ingredients Kft.** (83% owned): corn processing with extensive product portfolio including isosugar and liquid sugars; just completed EUR 160m investment in modern plant
- **Viresol Kft.** (51% owned): wheat processor with extensive product portfolio including starches, industrial alcohol, gluten and raw material for fodder

- **Csabataj Zrt** (74% owned): mixed farming (livestock breeding, egg production and crop production)
- **Energy segment** (2021 sales: about HUF 60bn, EBITDA margin about 34%)
- **OPUS TITASZ** (50% owned): electricity distribution in the eastern part of Hungary, reaching more than 700,000 customers
- **OPUS TIGAZ** (49.57% owned): owns and operates Hungary's largest natural gas distribution network

Tourism (2021 sales: HUF 18.4bn, +11%; EBITDA margin 21%)

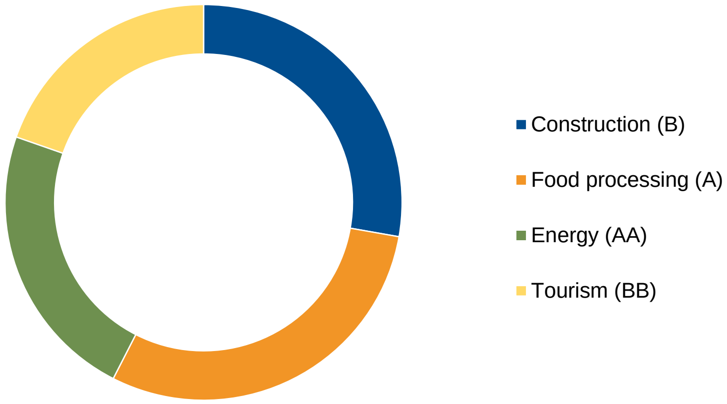
- **Hunguest Hotels Zrt.** (100% owned indirectly): among Hungary's leading hotel operators with 25 locations in Hungary, Austria, Montenegro and Romania

Improved diversification risk

We do not assess portfolio diversification purely in terms of a group's number of shareholdings. We also evaluate asset quality, underlying industry exposure, geographical exposure, concentration risk embedded in dividend exposure and net asset value.

Portfolio diversification – a very important ratings driver in our assessment of holding companies – has benefited equally from heavy investments in various participations over the past two years and from the merger.

Figure 2: Improved diversification by gross asset value



Source: OPUS

OPUS' portfolio diversification has improved as the significantly more sizeable energy segment now provides more balanced asset value diversification than before, when the holding company's portfolio was largely concentrated on two segments (industrials and food processing). We thus believe that diversification has improved in the last 12 months despite the fact that dividend income continues to be generated exclusively by the industrials division. OPUS' exposure to four distinct, relatively un-cyclical and little correlated sectors supports its business risk profile.

In addition, most of the subsidiaries have significant growth potential, either derived from a high order backlog (as is the case for 51%-owned construction company M+M and R Kord Kft.) or from substantial recent expansion and modernisation (food processing companies KALL and Viresol as well as tourism company Hunguest). We understand the food processing division's profitability was burdened by high input costs for energy and raw materials in 2021, which drove down the operating margin significantly in the full year despite considerable sales growth. It remains to be seen whether the division's entities can alleviate the situation by increasing their own selling prices in 2022.

Thus, while OPUS' diversification by divisional exposure improved due to the addition of the energy companies and growth in the food processing division, concentration risk with regard to dividend income continues to be very high, reflecting the non-energy division's inability to pay a dividend, at least in the short term. This also applies to Hunguest despite significant progress in terms of sales growth and EBITDA margin expansion in 2021 compared to the previous year. Geographic diversification is improving as the share of sales not generated in Hungary is expected to rise to above 10% in the next few years from about 7% two years ago.

Liquidity of holdings

The majority of OPUS' holdings are unlisted companies. This may appear negative in terms of the ability to generate liquidity from divestiture proceeds if needed. However, it also affords independence from market-timing requirements and potential stock price volatility. OPUS is not overly dependent on divestiture proceeds – except for its larger recent transactions – given its comfortable cost coverage. Compared to last year, however, the flexibility reserve in its asset management arm has been significantly depleted due divestments.

High dividend concentration

While OPUS' portfolio was formerly heavily concentrated on the construction and food processing divisions, culminating in a 90% dividend concentration from M+M, the energy division has gained ground over recent months. The overall order backlog for this division is at HUF 88bn (after the signature of a USD 2bn order for the construction of the Budapest-Belgrade high-speed railway project over the next few years). This will be beneficial in the event of macroeconomic weakness. The segment's EBITDA margin was a strong 34% in 2021 (compared to just 11% in 2019 in OPUS' former divisional structure). Given the recent acquisitions of both leading energy subsidiaries, TIGAZ contributed a nine-month period in 2021 and TITASZ a four-month period.

Thus, concentration risk with regard to dividend income continues to be very high, reflecting the food companies' and Hunguest's delayed ability to pay a dividend. Both food processing companies Kall and Viresol have suffered from very high raw material price increases in 2021 and the aim is to recover profitability in the current year by raising selling prices. For Hunguest, only small dividend payments to OPUS are allowed by the financing banks without written consent, but OPUS' management expects some intercompany loan repayment in due course. Thus, portfolio diversification by income does not support the ratings.

Financial risk profile: BBB-

Recurring cost cover estimated to decline in 2022

2021 saw greater credit metrics volatility than usual, which may continue in 2022, owing to: i) the large energy transactions executed; and ii) the effects of macroeconomic/ geopolitical crises over the last two years. However, we expect a certain 'normalisation' both with respect to future transactions and the credit metrics trend in the foreseeable future.

From a financial point of view, the rating reflects the increased amount of debt on the holding company's balance sheet at the end of 2021 as a consequence of both the existing 2019 bond (HUF 28.6bn, 10-year maturity, 2.8% coupon) and the second HUF 39bn bond issued in 2021 (10-year maturity, 3.2% coupon). Both the bond issuances and the sale of subsidiaries have led to strong cash generation to date, even after cash used for acquisitions and intercompany loans (predominantly for Hunguent). This strong liquidity provision – also required to be eligible for a state subsidy of HUF 17bn at 30% intensity (i.e. 70% of OPUS' own money needs to be invested over time) – serves as a buffer in the short term but will also need to be expensed operationally (intercompany loans totalling HUF 16bn in 2022 for Hunguest, Kall and Viresol, after about HUF 31bn was already passed on to the holding company's participations in 2021). Both large acquisitions of TITASZ and TIGAZ were structured in a way that preserves liquidity. This was enabled by a close joint-venture-like funding of both entities together with Status Energy Kft, which is controlled by the Meszaros family (also the largest owner of OPUS).

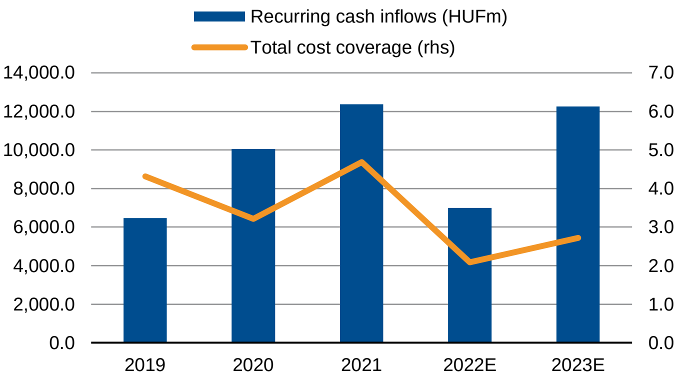
Management expects a significant cut in the dividend from the industrials segment in 2022, likely to be adopted as a precautionary measure ahead of a period of heightened geo-political uncertainty. This is the main reason for the projected halving of the cost coverage ratio in 2022. However, as the ratings only require cost coverage of 1x, this forecasted deterioration for 2022 does not have negative rating implications.

While OPUS continues to have no apparent cost coverage problems, leverage as expressed by the loan-to-value ratio (LTV; Scope-adjusted debt to the portfolio's net asset values) increased to about 40% in 2021, reflecting the significant debt increase compared to value, which was also negatively impacted by a HUF 7bn impairment for Kall due to this company's lower profitability. This does not constitute a 'danger level' for the ratings, also due to OPUS' conservative LTV calculation based on book values. At the same time, we continue to focus on the cost coverage ratio as the main driver for OPUS' financial risk profile, which is likely to remain at more than adequate levels going forward. Assuming a 40% cut in the industrials dividend – with no mitigation from other group companies – cost coverage is expected to be at about 2x, also reflective of higher interest charges for OPUS from the second bond. Some holdings are not permitted to pay back interest to OPUS due to bank restrictions. Assuming a 'one-off' dividend cut from the industrials division, our base case scenario foresees cost coverage recovering in 2023.

Our main rating base case assumptions for the next two years are the following:

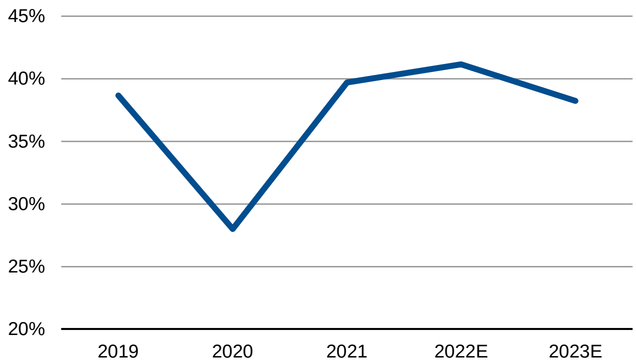
- Steep decrease in dividend income in 2022 on account of project delays at the railway construction companies. Dividends from the construction companies are expected to recover by 2023 while other group companies (Energy, Hunguest, Viresol, Kall) are expected to contribute more substantially in the medium term but still outside of the rating case horizon.
- No dividend payments to OPUS shareholders planned for the next three years, as announced by management
- Increase in recurring income again in 2023, reflecting fully recovered industrial dividends as well as an initial small consideration from TIGAZ and none from TITASZ and Hunguest. Some of the participations' ability to pay dividends are restricted by bank agreements and/or regulations preventing dividend upstreaming as long as subsidies are still being received.
- Cash fully available

Figure 3: Solid cost coverage to prevail



Source: Scope estimates

Figure 4: LTV expected to increase



Source: Scope

Projected LTV of about 40%

We forecast that LTV will increase to about 40% in the coming years, reflecting a slightly larger debt position in comparison to asset values. We note that the holding company's portfolio asset values reflect a conservative focus on book values in general as well as the significant coronavirus impact on Hunguest in particular.

Neutral financial policy

Financial policy is not relevant for the ratings at present. We view the history of the two founding parties of the merger (OPUS and Konzum) as positive, as both almost exclusively resorted to pure equity funding for portfolio expansion. While there has been some deviation over the past twelve months from management's formerly stated focus on integration and the realisation of growth at the core companies, there were significantly more sizeable M&As in 2020 and 2021 than we expected. However, these transactions were funded in a supportive way for debt-holders as the rating was not negatively affected.

Superior recovery for senior unsecured debt

We performed a recovery assessment for the senior unsecured debt category. For this assessment, we constructed a hypothetical default scenario, derived a liquidation value and then compared it with the now increased bond volume in order to determine its recovery rate. We calculated a superior recovery for OPUS' senior unsecured debt, mainly supported by very little secured bank debt ranking ahead and the comparatively high market value of the portfolio companies. Even discounting this value by 50% and adding guarantees and suretyships of about HUF 45bn, senior unsecured debt is still likely to be strongly recovered. We therefore affirm the senior unsecured debt category at two notches above the issuer rating, reflecting superior recovery prospects. Our assessment assumes no cross-default clauses in the portfolio companies' debt documentation.

Continuous conservative liquidity profile

OPUS continues to manage liquidity in a very conservative manner. This is both due to its provision of ample cash on the balance sheet (which is however also partly linked to Hunguest's subsidy eligibility as well as to the company's own investments in individual hotels in subsequent years) and its now zero dependence on bank debt (the low end-of-2021 exposure of about HUF 700m having been fully repaid meanwhile).

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Frankfurt am Main

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

Phone +49 69 66 77 389 0

Paris

23 Boulevard des Capucines
F-75002 Paris

Phone +33 6 62 89 35 12

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

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