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Scope assigns B/Stable issuer rating to Hungarian real estate developer GOPD Nyrt.

The ratings are primarily driven by the company's dependence on its subsidiary, SunDell Estate Nyrt., and its moderate leverage. The lack of recurring revenues and the concentrated project pipeline are rating constraints.

The latest information on the rating, including rating reports and related methodologies, is available on this [LINK](#).

Rating action

Scope Ratings GmbH (Scope) has today assigned a first-time issuer rating of B/Stable to Hungarian real estate developer GOPD Nyrt along with a debt category rating on senior unsecured debt of B.

Scope has also assigned a preliminary rating of (P)B+ to the planned HUF 5bn senior unsecured bond (2022-32) guaranteed 80% by state-owned MFB Hungarian Development Bank.

Rating rationale

The rating reflects GOPD's strong dependence on its subsidiary, SunDell Estate Nyrt., as well as its limited size that results in cluster risks, albeit mitigated by moderate financial leverage going forward. Most importantly, the ratings assume the successful placement of a HUF 5bn senior unsecured bond with an 80% guarantee from state-owned MFB Hungarian Development Bank by the end of Q1 2022, with proceeds to be used for gaining majority ownership in SunDell and developing further plots.

GOPD develops real estate and owns shares in real estate development companies, leading to an industry risk of B. Scope rates GOPD's business risk profile at B-, in particular for its rather weak market position and low diversification.

The company is relatively new and most of its business is performed at subsidiary level. Its most important subsidiary is SunDell, for which it develops plots. SunDell ([rated by Scope at B/Stable](#)) operates exclusively in Budapest's fragmented residential development market, in which it has a low market share, with Scope-adjusted assets of around EUR 90m. Nevertheless, SunDell has moderate visibility in its core market, also thanks to the HUF 12bn (EUR 35m) of projects it has developed and sold in the past five years.

GOPD's diversification is weak. Cash flow is expected from a limited number of projects (2-3 plot developments a year for SunDell) and dividend upstream from SunDell (behind which are 6-7 residential project developments). As a real estate investment trust, SunDell enjoys tax exemptions and is expected to have significant dividend upstream.

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 government incentives to promote home ownership and energy-efficient housing, especially among families.

GOPD's profitability is highly dependent on the profitability, dividends and limited number of residential developments of subsidiary SunDell. This leads to high concentration risk and volatility. Scope therefore expects profitability to stay volatile, at above-average levels compared to peers, with above 30% Scope-adjusted EBITDA margin going forward, depending on the timing of project completions.

GOPD's financial risk profile, rated at BB, is capped at SunDell's level despite its somewhat better metrics. This is because GOPD is highly dependent on SunDell and is expected to become its majority owner and consolidate the entity. Going forward, the standalone Scope-adjusted loan/value ratio is forecasted to increase to around 55% at the close of the transaction – which is rather conservative for a developer. The Scope-adjusted debt/Scope-adjusted EBITDA ratio is expected in the range of 4.5x-5.0x in the coming two years, although volatility may be high. GOPD benefits from its Scope-adjusted EBITDA interest coverage exceeding 4x going forward and no upcoming debt repayments in the coming years. The company is also expected to benefit from a gradual reduction in cash flow volatility via the larger and thus more granular project portfolio of SunDell and the ramp-up of recurring revenue from SunDell's leased properties. The high volatility of cash flows caused by the clustered project pipeline and lack of recurring revenues at this point are credit-negative for both GOPD's and SunDell's financial risk profiles.

Liquidity is adequate in Scope's financial base case. The company has no short-term debt outstanding and the new bond to be issued under the Hungarian National Bank's Bond Funding for Growth Scheme will only start amortising from the fifth year at the earliest.

Outlook and rating-change drivers

The Outlook for GOPD is Stable and incorporates the assumption of a Scope-adjusted loan/value ratio of around 50% and Scope-adjusted interest cover of more than 4x. Furthermore, the Outlook incorporates a successful placement by the end of Q1 2022 of a HUF 5bn senior unsecured bond guaranteed by MFB and gaining and keeping majority ownership and control in SunDell.

A positive rating action would require the issuer to show sustained financial metrics in line with Scope's Stable Outlook while substantially improving its business risk profile, e.g. via more projects, more recurring revenue streams and/or less dependence on SunDell.

A negative rating action might be warranted if the Scope-adjusted debt/EBITDA is more than 8x or financial metrics developed below Scope's base case expectations. This could be caused by an underperformance of the company's own development projects, or less dividend received than expected from SunDell, e.g. as a result of lower prices for residential real estate in its core market Budapest or increasing input or labour costs.

Long-term and short-term debt ratings

Scope expects the issuer to successfully issue the planned HUF 5bn bond. The planned tenor is 10 years with a fixed coupon. The amortisation schedule assumes repayment of 10% yearly from the fifth year, with 50% outstanding at maturity. The proceeds are earmarked for the purchase of SunDell shares and for plot purchases and developments.

Scope's assessment reflects the standalone perspective but assumes the majority share of SunDell is gained with no negative effects on dividends (covenants, change of control).

Scope assumed no senior secured debt on GOPD level, no corporate guarantees or suretyships offered by GOPD and no pledge on the controlling majority of SunDell shares owned by GOPD.

Scope assumed a hypothetical default scenario for the year 2023 and applied reasonable discounts on the company's asset base (plots and shares of SunDell). While the liquidation scenario may point towards an 'above-average' recovery due to the high share value of SunDell, Scope did not grant a rating uplift due to

the structuring of the financing, as GOPD cash flows are highly dependent on the dividend upstream from SunDell. This translates into a B debt class rating for senior unsecured debt, in line with the issuer rating.

The planned HUF 5bn senior unsecured bond will be guaranteed 80% by MFB (**rated by Scope at [BBB+/Stable](#)**), based on which Scope assigns a (P)B+ preliminary rating to the senior unsecured debt guaranteed by MFB. Scope expects in this case an 'above-average' recovery for outstanding senior unsecured guaranteed debt in a hypothetical default scenario based on a distressed liquidation value, resulting in one notch of uplift above the issuer rating.

Stress testing & cash flow analysis

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (Corporate Rating Methodology, 6 July 2021; Rating Methodology: European Real Estate Corporates, 15 January 2021), are available on <https://www.scooperatings.com/#!/methodology/list>.

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited. Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://www.scooperatings.com/#!/governance-and-policies/regulatory-ESMA>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scooperatings.com/#!/governance-and-policies/rating-scale>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://www.scooperatings.com/#!/methodology/list>.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

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Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.

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The Credit Ratings/Outlook were first released by Scope Ratings on 3 November 2021.

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