THURSDAY, 17/10/2024 - Scope Ratings GmbH

Scope downgrades GOPD’s issuer rating to B- from B and maintains the Negative Outlook

The downgrade is based on the sustained deterioration of credit metrics and liquidity with increased reliance on dividend cash flows from subsidiary SunDell Estate Nyrt.

The latest information on the rating, including rating reports and related methodologies, is available on this **LINK**.

Rating action

Scope Ratings GmbH (Scope) has downgraded the issuer rating on Hungarian real estate developer GOPD Nyrt. to B- from B and has maintained the Negative Outlook. Scope has downgraded the senior unsecured debt rating to B- from B. Concurrently, Scope has withdrawn the B- senior unsecured debt rating due to business reasons and has affirmed the B+ rating of the senior unsecured guaranteed bond (ISIN HU0000361076).

The downgrade is driven by inadequate liquidity, as GOPD has had minimal cash generation so far in 2024, with a minimal cash balance as at 30 June 2024, facing an increased debt service (standalone) in 2025, reliant solely on dividends from its subsidiary SunDell Estate Nyrt. (‘SunDell’)[1]. SunDell’s cash position and projected cash generation ensures the coverage of SunDell’s debt service in 2025, with limited margin for weaker-than-expected cash generation to enable the required dividend upstream.

The Negative Outlook reflects the increased liquidity risk to GOPD's debt service in 2025, mainly due to the additional amortising secured bank debt contracted in 2023, and the continued low/negative standalone profitability.

The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Business risk profile: B (unchanged). Scope’s assessment of GOPD’s business risk profile is primarily driven by the assessment of its main subsidiary, SunDell. SunDell is the fifth largest developer on the Budapest residential market, which entails limited diversification, focus on a handful of new energy efficient housing projects in Budapest, and thus more volatile profitability.

With a total asset value of EUR 153m as at end-2023, GOPD via SunDell remains an emerging real estate developer in a highly fragmented market. However, SunDell has a strong track record of more than 1,000 apartments sold with total value of above EUR 130m since 2019 and is thus seen to have decent market visibility. In addition to its shares in SunDell, GOPD acts as an incubator of landbanks for SunDell.

SunDell shows a concentrated development pipeline with currently eight running projects in its portfolio with advanced construction comprising of circa 1,200 units (partially sold) and has in building permit status two projects with 600+ units. Geographical distribution of the company’s revenues remains rather weak, given the issuer’s main focus on the Budapest residential market. Therefore, diversification is a rating constraint in all segmentations (geographical, real estate segment, tenant quality, focus on a single real estate sub segment – homebuilder). From 2025 onwards SunDell’s project pipeline will be very concentrated on its largest development to date, the Duna Riverbank. This highly constrains the diversification assessment as cluster risk is increasing.

Lease portfolio accounted for 30% of total assets as at end-2023 representing EUR 35-40m in gross asset value, which is expected to double in the medium term by adding 100 apartments to the existing 21 apartments and a hotel. Nevertheless, the lease portfolio remains concentrated and very small and does not offer a real diversification in terms of revenues (below 5% of revenues in 2023 and forecasted below 10% of revenues for 2025-26).

The operating profitability GOPD is highly dependent on (i) the profitability of SunDell and (ii) the number of plot developments. The dependence on two to three development assets and dividend upstream from a single company leads to high concentration risk and high volatility.

While Scope-adjusted EBITDA margin* has been negative in the last two years (2022-23) due to the realisation of capitalised costs, it is expected to hover around 15% going forward, supported by significant handovers in line with presale rates at SunDell level.

Demand is still catching up. While retail mortgage interest rates have not decreased enough to support fast sales and hence an increasing internal rate of return, construction and labour costs are falling, so Scope sees no real pressure on this side. As such, the agency expects moderate internal rates of return for the company’s development pipeline to remain in line with those for delivered projects.

Financial risk profile: B- (revised from B). GOPD’s financial risk profile is driven by its high leverage which the company developed gradually, weak EBITDA interest cover and inadequate liquidity with pure reliance on dividend cash flow from its main subsidiary.

The debt of GOPD is higher compared to SunDell’s as GOPD has one additional bond of HUF 5.5bn issued in 2022 and a 4-year loan of HUF 3.4bn contracted in 2023. Debt/EBITDA was negative in 2022-23 due to the negative EBITDA.

At the end of 2023, the company’s loan/value ratio stood at 36% (up 7pp YoY) while debt/EBITDA was negative. Going forward, loan/value ratio is forecasted to stay below 40% and debt/EBITDA to remain very volatile but below 15x.

The projected debt/EBITDA of around 15x in 2024 reflects Scope’s expectations of significantly lower revenue arising from sale of residential units in 2024 of HUF 8bn (down from HUF 20.3bn in 2023) as well as an EBITDA of HUF 1.4bn in 2024 (up from negative HUF 1.6bn in 2023) as GOPD’s subsidiary (SunDell) adapted its handovers to the shifting market conditions and reduced its offerings while demand throughout 2024 is also lower compared to 2023 due to persistent high mortgage rates. Scope expects debt/EBITDA to decrease well below 10x in 2025 due to improving demand on the back of decreasing interest rates and moderate operating profitability as most large developments are handed over, and due to decreasing gross debt as the bonds start amortising (HUF 3.3bn in 2025, HUF 1.1bn in 2026) and the loan amortises with HUF 1.1bn yearly.

The loan/value ratio of around 30-40% is rather conservative for a developer and leaves headroom for the company to either lease properties at sufficient cap rates to cover financing costs, to tackle a moderate downturn of the properties fair values or to tap external financing sources to cover construction costs if needed. Furthermore, GOPD may sell some of its shareholdings in SunDell.

GOPD had a negative EBITDA/interest cover in 2022-23 due to its negative EBITDA. Scope forecasts a weak EBITDA/interest cover around 1.2x in 2024 and staying above 1.5x thereafter. The forecast is driven by the EBITDA generated at handovers planned from Q4 2024 onwards and the interest composed of the bond coupons, the interest payment of the MFB loan and the option fee payments under the MFBI participation.

Liquidity: inadequate (revised from adequate). The inadequate liquidity reflected by a negative one-notch adjustment is based on the fact that GOPD has had minimal cash generation so far in 2024, with a minimal cash balance as at 30 June 2024, facing an increased debt service (standalone) of HUF 2.0bn in 2025, and is solely dependent on dividends from its subsidiary SunDell.

SunDell’s cash position and projected cash generation ensures the coverage of SunDell’s debt service in 2025 with projected handovers of at least HUF 3.0bn in Q4 2024 and HUF 17.2bn in 2025 resulting in free operating cash flow of HUF 4bn in 2024 and HUF 6bn in 2025, with limited margin for weaker-than-expected cash generation to enable the required dividend upstream.

Liquidity risk, however, is considered to be manageable due to the ability of both GOPD and SunDell to incur further debt in light of GOPD's partially unpledged shares and SunDell's high level of unencumbered assets, as well as the issuer's ability to sell a minority interest in SunDell while retaining majority ownership and control.

Scope highlights that GOPD’s senior unsecured bonds issued under the Hungarian National Bank’s Bond Funding for Growth Scheme have a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 5.5bn) if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B- (immediate accelerated repayment). Such a development could adversely affect the company’s liquidity profile. The rating headroom to entering the grace period is 0 notches. Given the tightening rating headroom, the company must address its credit weaknesses to avoid entering the grace period or the more severe event of the debt rating being downgraded below B-. In addition to the rating deterioration covenant, bond covenants include a list of other soft covenants.

Supplementary rating drivers: credit-neutral. No notching was applied for supplementary rating drivers. Scope notes the significant interlinkages between GOPD and SunDell, as the parent has very limited cash generation besides that from SunDell and sells incubated plots to SunDell for housing developments.

Outlook and rating sensitivities

The **Negative Outlook** reflects the increased liquidity risk to GOPD's debt service in 2025, mainly due to the additional secured bank debt contracted in 2023, and the continued low/negative standalone profitability, which casts doubt on the issuer's internal cash generation capability and makes it dependent on cash generation at the subsidiary level (SunDell).

The **upside scenario** (return to a Stable Outlook) for the ratings and Outlook are (collectively):

1. Improved profitability resulting in an EBITDA interest cover of at least 1.25x
2. Improved liquidity with visibility of cash available for next twelve months debt service after SunDell dividends early 2025

The **downside scenarios** for the ratings and Outlook are (individually):

1. EBITDA interest cover of below 1.25x
2. No visibility on cash available for debt service on GOPD level for the following twelve months after SunDell's decision on dividend payments early 2025
3. Loss of majority ownership and/or control over SunDell

Debt rating

In December 2021, GOPD issued a HUF 5.5bn senior unsecured bond (ISIN: HU0000361076) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond has a tenor of 10 years and a fixed coupon of 4.95%. The bond notional is guaranteed 80% by MFB Hungarian Development Bank. Bond repayment is in five tranches starting from 2026, with 10% of the face value payable yearly and a 50% balloon payment at maturity in 2031.

Furthermore, GOPD consolidates the two bond issuances of SunDell.

In November 2020, SunDell issued a HUF 11.0bn senior unsecured bond (ISIN: HU0000360078) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond has a tenor of 10 years and a fixed coupon of 3.25%. Bond repayment is in three tranches: 30% in 2025, 30% in 2027 and 40% balloon payment at maturity in 2030.

In July 2021, SunDell issued a HUF 5.5bn senior unsecured bond (ISIN: HU0000360649) under the same bond scheme. The bond has a tenor of 10 years and a fixed coupon of 3.65%. Bond repayment is in five tranches starting from 2026, with 10% of the face value payable yearly and a 50% balloon payment at maturity in 2031.

The bond proceeds were used for developing residential housing projects and acquiring a landbank.

Consolidated debt at GOPD level includes the three aforementioned senior unsecured bonds totalling HUF 22.0bn (of which HUF 18.7bn outstanding as at YE2025) and a senior secured bank loan of HUF 3.4bn (out of which HUF 1.7bn outstanding as at YE 2025).

Scope assumed a hypothetical default at YE 2025 and applied appropriate discounts to the company's asset base. Since SunDell's debt is not guaranteed by GOPD, Scope only considered GOPD's asset base, i.e. mainly land banks and shares in SunDell, in calculating the liquidation value.

The senior unsecured debt rating has been downgraded in line with the issuer rating to B- from B and concurrently Scope has withdrawn the senior unsecured debt class rating.

Scope expects ‘superior’ recovery for outstanding senior unsecured guaranteed bond in a hypothetical default scenario based on a distressed liquidation value, resulting in a two-notch uplift above the issuer rating. This translates into a B+ rating for GOPD’s bond (ISIN: HU0000361076) and is based on a guarantee of MFB Hungarian Development Bank (rated by Scope at **BBB/Stable**)[2] for 80% of the bond notional. The assessment is further supported by an unencumbered asset ratio of above 100% on GOPD standalone level (and on SunDell level).

Environmental, social and governance (ESG) factors

The housing units developed by subsidiary SunDell are energy-efficient and well above minimum legal requirements. Such housing is more in demand than old or renovated housing and less energy-efficient projects. SunDell was one of the first in the market to develop environmentally conscious and sustainable residential buildings with low energy and water needs and a high share of green areas. Since SunDell constructs its buildings, its properties are guaranteed to have an energy performance certificate of at least ‘BB’ under Hungarian law, considered a nearly zero-energy building (nZEB).

All rating actions and rated entities

GOPD Nyrt.

Issuer rating: B-/Negative, downgrade

Senior unsecured debt rating: B-, downgrade and withdrawal

Senior unsecured (guaranteed) debt instrument (ISIN: HU0000361076) rating: B+, affirmation

**All credit metrics refer to Scope-adjusted figures.*

Rating driver references

1. Issuer rating of main subsidiary: SunDell Estate Nyrt.
2. Issuer rating of guarantor: MFB Magyar Fejlesztési Bank Zrt.

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, (General Corporate Rating Methodology, 16 October 2023; European Real Estate Rating Methodology, 28 March 2024), are available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.

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.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://scoperatings.com/governance-and-policies/regulatory/eu-regulation. 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.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. 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://scoperatings.com/governance-and-policies/rating-governance/methodologies.

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, the Rated Entities' Related Third Parties 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 and/or Outlook 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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Potential conflicts

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ISSUERS 1

INSTRUMENTS 1