TUESDAY, 17/10/2023 - Scope Ratings GmbH

Scope affirms B issuer rating on GOPD Nyrt, changes Outlook to Negative

Additional contracted debt and increased development costs are causing a significant deterioration of the financial risk profile, whereas pre-sales providing a backlog of above one year supports the rating.

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

Rating action

Scope Ratings GmbH (Scope) has affirmed the B issuer rating on Hungarian real estate developer GOPD Nyrt. and changed the Outlook to Negative from Stable. Scope has also affirmed the B senior unsecured debt rating and B+ senior unsecured rating on the bond guaranteed 80% by MFB Hungarian Development Bank (ISIN HU0000361076).

Rating rationale

The Outlook change to Negative from Stable reflects the significant impact on Scope-adjusted EBITDA/interest cover of the additional debt contracted by GOPD to purchase shares of its strategic subsidiary, SunDell Estate Nyrt, in H1 2023. Furthermore, Scope-adjusted EBITDA was negative in 2022 and H1 2023, driven by higher-than-expected development costs and the realisation of capitalised costs on plot incubations and housing developments. As a result, Scope has revised down the financial risk profile of GOPD to B from BB. The business risk profile remains unchanged at B.

The financial risk profile of GOPD deteriorated more than SunDell's due to significant additional costs realised by GOPD but also the additional debt taken on for purchasing SunDell shares to maintain the controlling interest.

The rating also considers GOPD's strong dependence on the real estate developments of and up-streamed cash dividends from subsidiary SunDell (rated B/Stable) to pay debt service. Scope notes GOPD received roughly half of the HUF 3.6bn of dividends distributed by SunDell in H1 2023, in line with its ownership share and Scope's rating case.

Significant inflation in Hungary (14.5% in 2022; 17.6% expected in 2023 by the Hungarian central bank) and interest rates hikes are having a significant impact on the housing market in Budapest, where GOPD operates. Prices of newly built residential properties fell 15%-25% in real terms over the last 12-18 months owing to minimal nominal price growth. Household wages have increased below inflation, and a potential increase in demand has been nullified by rises in retail mortgage interest rates and monthly instalments. As a result, the affordability index in Budapest is now similar to Warsaw's and Ljubljana's price-to-income ratios but higher than Bucharest's. This has resulted in demand shocks, with fewer transactions and a reluctance among banks to grant mortgages. Higher interest rates in western Europe have also caused international investors to shun the market, while Russian investors, major buyers of premium properties, are also no longer present.

GOPD's Scope-adjusted loan/value ratio stood at 28% at end-2022 (down 2pp YoY) while Scope-adjusted debt/EBITDA was negative at the end of 2022 and in H1 2023 (compared to 5.3x in 2021).

Going forward, the loan/value ratio is forecasted to stay at around 30% in a stressed case and Scope-adjusted debt/EBITDA to recover to around 10x (without netting of cash).

Scope-adjusted EBITDA interest cover was also negative in 2022 and H1 2023 due to the negative EBITDA. Scope expects it to recover above 2.0x in 2023 due to strong cash generation driven by the handover of flats in Sundell's flagship projects into 2024. Scope-adjusted EBITDA interest cover is expected to decrease towards 1.2x by YE 2025 due to the increasing interest burden on the new loan and the limited visibility on revenues and hence EBITDA after 2024.

Liquidity is adequate in Scope's financial base case. The company has minimal short-term debt outstanding and the GOPD 2031/A bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme will only start amortising in 2026, while amortisation for SunDell will start in 2025. The adequate liquidity is despite the low cash balance at H1 2023 as a high number of apartments will be handed over in November 2023. Liquidity could come under pressure if all planned projects were to commence and create a significant amount of work in progress and finished inventory while cash generation lags due to slower-than-expected sales on luxury apartments in two projects. Liquidity risk is mitigated by the planning flexibility of when to commence construction. Liquidity shall significantly improve with the handovers in Q4 2023. The liquidity assessment is also supported by GOPD's proven good access to capital markets for both debt and equity.

The housing units developed by GOPD are energy-efficient (ESG factor: credit-positive) and well above minimum legal requirements. Such housing is more in demand than old or renovated housing and less energy-efficient projects. SunDell and GOPD were 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 the group constructs new 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).

No notching was applied for supplementary rating drivers. Scope considers that GOPD Nyrt. is strongly reliant on its strategic subsidiary SunDell Estate Nyrt. GOPD holds 54.77% of shares in SunDell as of 30 June 2023. In this regard, Scope notes the significant interlinkages between these companies, as GOPD has very limited cash flow generation besides that from SunDell and sells incubated plots to SunDell for residential housing developments. GOPD does not provide explicit parent support to SunDell.

One or more key drivers of the credit rating action are considered an ESG factor.

Outlook and rating-change drivers

The Outlook for GOPD was changed to Negative from Stable, reflecting in particular the interest coverage ratio's projected deterioration.

A downgrade might be warranted if Scope-adjusted debt/EBITDA were to move towards 15x and/or EBITDA/interest cover towards 1.0x, or if liquidity weakened. This could be caused by underperformance of SunDell, the realisation of further (capitalised) costs by GOPD, as well as spending on share transactions and/or shareholder remuneration.

A positive rating action might be warranted as follows: i) a return to a Stable Outlook would require a recovery in profitability, resulting in a Scope-adjusted EBITDA/interest cover of well above 1.0x, no deterioration in liquidity while GOPD maintains its majority ownership and control over SunDell; or ii) an upgrade, which Scope deems a remote scenario, would require an improvement in financial metrics as well as the business risk profile, e.g. via more projects, a stronger backlog, more recurring-revenue streams and/or less dependence on SunDell.

Scope notes that GOPD Nyrt's senior unsecured bond issued under the Hungarian Central Bank's bond scheme has accelerated repayment clauses. The clauses require GOPD to repay the nominal amount of HUF 5.5bn in case of a rating deterioration (2-year cure period for a B/B- rating, immediate repayment after the bond rating falls below B-, which could have default implications).

Long-term debt ratings

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%. Bond repayment is in five tranches starting from 2026, with 10% of the face value payable yearly and a 50% balloon payment at maturity. Furthermore, GOPD consolidates the two bond issuances of SunDell.

The bond proceeds were used for developing housing projects and acquiring a landbank. In addition to the rating deterioration covenant, bond covenants include a list of other soft covenants.

Scope assumed a hypothetical default at YE 2025 and applied reasonable discounts on the company's asset base. While the liquidation scenario may point towards an 'above-average' recovery, Scope did not grant a rating uplift due to the structuring of the financing and the possibility of further debt issuances. This translates into a B debt class rating for senior unsecured debt, in line with the issuer rating.

The HUF 5.5bn senior unsecured bond is guaranteed 80% by MFB Hungarian Development Bank (rated by Scope at BBB/Stable), based on which Scope affirms the senior unsecured debt guaranteed by MFB at B+. 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.

The rating was prepared with the application of Scope's General Corporate Rating Methodology, 15 July 2022. The application of the General Corporate Rating Methodology, 16 October 2023, does not have an impact on the 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 Outlook, (General Corporate Rating Methodology, 16 October 2023; European Real Estate Rating Methodology, 25 January 2023), 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 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 Outlook and the principal grounds on which the Credit Ratings and Outlook are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

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

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The Credit Ratings/Outlook were first released by Scope Ratings on 3 November 2021. The Credit Ratings/Outlook were last updated on 25 October 2022.

Potential conflicts

See www.scoperatings.com under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings.

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ISSUERS 1

INSTRUMENTS 1