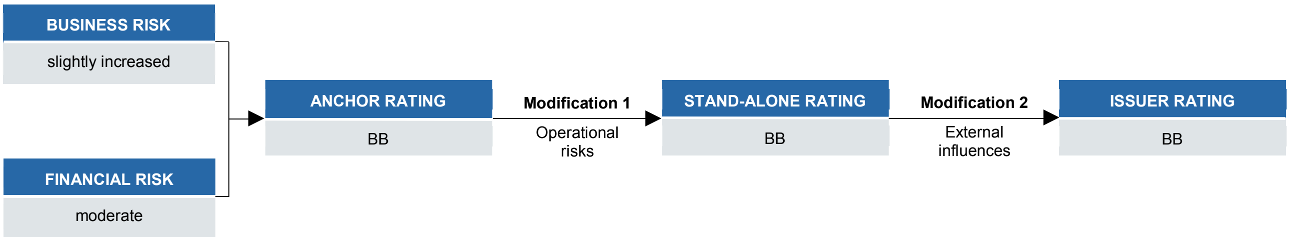
ScopeHamburg

Issuer Rating

KÉSZ Holding Zrt.		17 March 2021	BB
		Issuer rating	
		Outlook	stable
Industry	Construction	2020 Revenue*	HUF 125.6bn
		2020 Employees*	> 1,500

* preliminary group accounts



BUSINESS RISK	slightly increased

- Inherent exposure to cyclical and competitive construction industry in Hungary and higher-risk CEE countries
- Positive near-term construction sector outlook
- Leading and long-established market position in domestic markets

OPERATIONAL RISKS	± 0

- Operational risk profile consistent with the anchor rating; no modification required

FINANCIAL RISK	moderate

- Largely stable, yet rather tight, earnings metrics
- History of robust working capital management, moderately strong credit metrics and prudent financial policies
- Adequate financial flexibility demonstrated by solid liquidity sources and high standing in credit markets

EXTERNAL INFLUENCES	± 0

- Assessment of intra-group or public-sector relations causes no modification

Key financial ratios *	2017act	2018act	2019act	2020pre	2021plan	2022plan
EBITDA margin (%)	7.8	5.6	5.0	5.1	6.7	7.6
ROCE (%)	16.3	9.5	7.7	12.1	21.9	24.7
Equity-to-total assets ratio (%)	32.6	32.8	26.8	25.4	25.4	29.2
Leverage (%)	16.7	23.1	26.9	17.8	7.6	0.0
Total liabilities / EBITDA	7.8	9.7	12.9	11.6	8.6	7.3
Net debt / EBITDA	0.8	1.4	1.7	0.9	0.2	0.0
EBIT interest coverage	7.6	5.5	4.5	6.5	10.9	11.8
EBITDA interest coverage	10.2	9.4	9.1	11.2	15.7	15.9

* adjusted on the basis of Scope Hamburg's analytical principles

Rating Rationale

Scope Hamburg GmbH assigns a first-time BB issuer rating to KÉSZ Holding Zrt. The underlying factors combine slightly increased business risks, moderate financial risks and no further modifications. The rating outlook is stable.

Business risk profile slightly increased

KÉSZ Group's business risks are slightly increased in our view. The factors weighing on our assessment include the inherent exposure to the cyclical and competitive construction industry in Hungary and higher-risk CEE countries, and the still slightly unclear pandemic impact from prolonged shutdowns or suspended construction projects. Despite concerns about capacity constrains (e.g. labour), which keeps the sector's profit margins tight in our view, we expect an upturn in construction activity for 2021/22 mainly fuelled by state incentives (VAT cuts, public procurement, subsidy schemes) and catch-up effects. Factors supporting our business risk assessment include KÉSZ' long-established and strong market position, a long track-record of stable project executions and KÉSZ' grown business model with a high potential for further expansion. KÉSZ' market position is underpinned by a reputable project portfolio and international presence in the CEE region. Furthermore, we think that KÉSZ's long-pursued vertical integration strategy provides barriers to entry and creates strategic benefits for the access to raw materials, new markets and more profitable and complex tenders.

Financial risk profile moderate

KÉSZ Group's financial risks are moderate in our view. As a key strength we value the track record of largely stable gross margins of between 15% and 16%, which indicates generally good project execution and cost management skills as well as a relatively flexible cost base and adaptable operations to us. Furthermore, we are confident that KÉSZ Group is capable of achieving its medium-term targets based on a fairly solid contracted backlog (2021: 81%; 2022: 44%), providing good visibility, while the current market outlook is fairly supportive in our view. However, with EBITDA currently around 5.0%, the operating margin will stay slightly below average over the near-term in our opinion, due to market-wide high operating costs and highly competitive tenders. Another key financial strength for us is KÉSZ' solid capital structure, which is subject to moderately strong credit metrics such as a still moderate analytical equity ratio, a history of fairly stable current- and turnover ratios and a relatively modest exposure to (long-term) financial debt. KÉSZ' good financial flexibility rests on strong cash sources, unutilised overdraft/guarantee facilities and a good standing in credit markets, demonstrated by solid relationships with banks, prudent financial policies and a decent investor appetite for the announced 2021/31 corporate bond.

Assessment on operational risk and external influence leads to no modification

KÉSZ Group's operational risks are neutral in our view. In particular, we acknowledge the trustee managed ownership structure which we think strongly supports a positive alignment of interests and long-term business viability. Furthermore, we think that KÉSZ Group has adequate structures, processes and systems in place to control its operations and to handle its operational risks appropriately and in consistence with the anchor rating. Therefore, a rating modification is not required. The further assessment of external factors which might have an impact on KÉSZ's stand-alone rating, such as intra-group or public-sector relations, triggers also no modification according to our methodology.

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

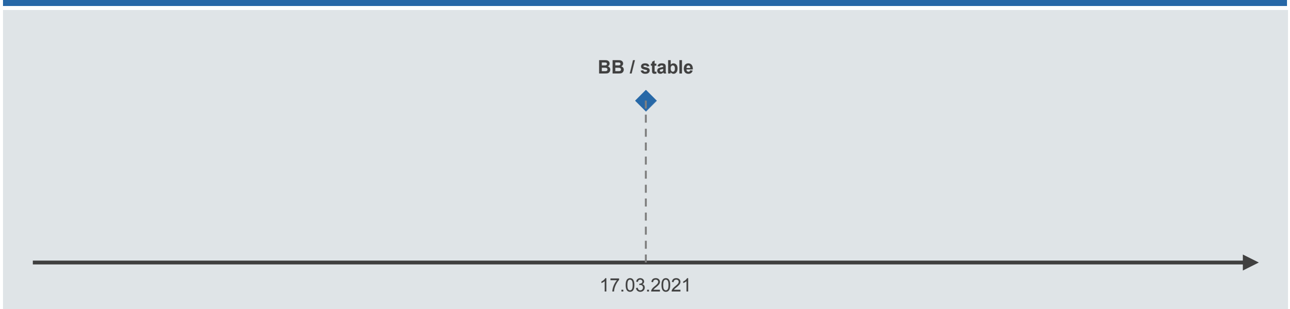
- Sustainable and lasting increase of the group's profit margins reflecting an improved competitive position or corporate growth through further diversification
- Substantial and lasting improvement of the group's capital structure and debt coverage potential (e.g. Scope Hamburg's adjusted EBIT interest coverage > 9.0 or equity ratio > 35%)

Factors that could lead to a Downgrade

- Persistent market stress or deterioration of the group's competitive position combined with an adverse impact on the groups cash or working capital position
- Substantial and lasting deterioration of the group's capital structure and debt coverage potential (e.g. Scope Hamburg's adjusted EBIT interest coverage < 3.0 or equity ratio < 25%)
- Adverse changes to the groups ownership structure (trusteeship) or long-term financial policies (e.g. through private equity investors)
- Downgrade of Hungary's sovereign credit rating

Rating History

KÉSZ Holding Zrt.



Company

Among the largest independent Hungarian construction companies with long and reputable track record of large-scale projects

KÉSZ Group (KÉSZ) is one of the largest construction companies in Hungary whose story started as a family business in 1982. Today, KÉSZ Group's two main divisions are KÉSZ Engineering & Technologies (KÉSZ ET; 90% of revenues), which includes the entire construction business of the group and KÉSZ Business Solutions (KÉSZ BS; 10% of revenues). The latter compiles all the economic services that support the operation of the group's own assets on the one hand, and, on the other hand, offers property management, business and commercial services. As an independent Hungarian group of companies KÉSZ aims to become one of the leading construction companies in the CEE region through equity investments and project developments in domestic and international markets. As the domestic leader in building constructions KÉSZ has built numerous prominent industrial facilities, office buildings, shopping and logistic centres, sports venues or hotels and housing facilities (e.g. Kossuth Lajos Square, Mercedes-Benz factory, LEGO factory, Budapest Airport Sky Court, Sheraton Hotel, Duna Arena Swimming Complex). Besides building construction KÉSZ Group had early extended its portfolio into steel structure manufacturing and design, which resulted in a steady growth of export trade based on its own domestic manufacturing capacities (c. 15,000 tons/year). As of today, KÉSZ has implemented more than 3,100 projects and has 5 million m2 references in more than 12 countries. The group employs more than 1,500 people (2019: 1,307) and announced revenues of around HUF 126bn on a preliminary basis for 2020 (2019: HUF 97.2bn). For the years ahead KÉSZ plans to grow its revenues to a level of around HUF 170bn (2022) based on an already contracted backlog of 81% for 2021 and 44% for 2022.

KÉSZ Holding Zrt. is the group's holding company

KÉSZ Holding Zrt., the group's holding company, was formed in 2007 to provide a clearer company structure and to professionalise the investment and asset management activities within Hungary and abroad. By today, the group comprises 59 consolidated subsidiaries including branches in Rumania, Ukraine, Russia, Serbia, Croatia and Germany. The operational function of KÉSZ Holding is to implement, adjust and monitor corporate strategic and financial goals for KÉSZ Group in line with the long-term targets of the corporate owner. In 2021 KÉSZ Holding Zrt. aims to issue a HUF 20bn bond in the frame of the Hungarian National Bank's *Bond Funding for Growth Scheme* (BGS) to support the group's working capital financing needs and to secure long-terms funding for group wide expansion plans.

Corporate assets held and managed through a trust

The assets of KÉSZ Group are held and managed through a recently established trustee management structure: In 2018 Mr Mihály Varga, the founder of KÉSZ Group, entrusted a professional asset management organization to ensure the long-term preservation of the managed assets in accordance with a formal trust agreement. The shares of the managing trustee (PRIORI Vagyonkezelő PLC.) were ultimately transferred to an Austrian-based private foundation (VITALIS Privatstiftung), which will remain the long-term owner of the trustee.

Appendix 1: Execution

Notice

This rating report is a commented version of the rating report that provides more detailed information on the factors underlying the rating notation and the outlook of the rating.

Analysts

- Matthias Peetz, Senior Analyst (lead analyst)
- Katia Winkler, Analyst
- István Braun, Senior Analyst

Contact:

Tel.: +49 (0) 40/60 77 81 200
info@scopehamburg.com

Rating committee

- Dörte Mählmann, Director
- Holger Ludewig, Director

Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

[x] Solicited Rating

[ ] Unsolicited Rating
- [ ] No participation of the rated entity or related third party
- [ ] With participation of the rated entity or related third party
  - [ ] Access to internal documents
  - [ ] Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
  - Audited, consolidated financial statements 2017, 2018, 2019
  - Preliminary financial statements 2020 and financial plan 2021-2024
  - Overview on the funding portfolio (loans / guarantees) and construction backlog
  - Corporate presentation on strategy, business units, sector analysis, organisational structure
  - Management interview

Rating methodologies and definitions

- Methodology: Issuer Rating as of May 2016
- Basic Principles for Assigning Credit Ratings and Other Services as of July 2020
- Guidance Regarding the Consideration of ESG Factors in Scope Hamburg Credit Ratings as of March 2020

Scope Hamburg GmbH

Stadthausbrücke 5
20355 Hamburg
Tel.: +49 (0) 40/60 77 81 200

info@scopehamburg.com
www.scopehamburg.com

Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of Scope Hamburg, AAA rated obligations demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of Scope Hamburg, AA rated obligations demonstrate a very high credit quality with a very low default risk.
A	In the opinion of Scope Hamburg, A rated obligations demonstrate a high credit quality with a low default risk.
BBB	In the opinion of Scope Hamburg, BBB rated obligations demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of Scope Hamburg, BB rated obligations demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of Scope Hamburg, B rated obligations demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of Scope Hamburg, CCC rated obligations demonstrate a very low credit quality with a high default risk.
CC	In the opinion of Scope Hamburg, CC rated obligations demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of Scope Hamburg, C rated obligations demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated obligations have defaulted, as defined by the rating agency.
PLUS (+) **MINUS (–)**	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

* For more explanations and definitions please refer to:
[Basic Principles for Assigning Credit Ratings and Other Services as of July 2020]

Appendix 3: Definition of financial ratios

Earnings power

EBITDA margin

EBITDA margin
Numerator
EBITDA
Denominator
Total revenues

Returns

ROCE
Numerator
Adjusted operating result (= EBIT)
Denominator
Net debt + economic equity (= capital employed)

Return on total assets (ROA)
Numerator
Adjusted operating and financial result + interest expense
Denominator
Adjusted total assets

Cash flow return on investment

Cash flow return on investment (Cash flow ROI)
Numerator
EBITDA
Denominator
Adjusted total assets

Capital structure

Indebtedness

Equity-to-total assets ratio
Numerator
Adjusted equity (= economic capital)
Denominator
Adjusted total assets

Leverage
Numerator
Net debt
Denominator
Net debt + economic equity (= capital employed)

Net debt

Net debt
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS/factoring transactions
- Cash and cash equivalents

Deleveraging potential

Total liabilities / EBITDA
Numerator
Total assets - economic capital (= total liabilities)
Denominator
EBITDA

Net debt / EBITDA
Numerator
Net debt
Denominator
EBITDA

Interest coverage

EBIT interest coverage
Numerator
Adjusted operating result (= EBIT)
Denominator
Interest expenses

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expenses

Disclaimer

KÉSZ Holding Zrt. (client and rated entity) engaged Scope Hamburg GmbH to conduct a rating on 08 January 2021. A management interview of the rated entity was conducted on 09 March 2021.

The Rating Committee of Scope Hamburg GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 17 March 2021. This rating report was given to the client on 22 March 2021, thereby concluding the rating process.

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The rated entity is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The rated entity has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Scope Hamburg GmbH. However, the rated entity cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Scope Hamburg GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

The rating is published on Scope Hamburg GmbH's website (www.scopehamburg.com) or published for subscribers (e.g. on a portal) and will be followed by a subsequent one-year monitoring process. During this period, the rated entity and the sector and business environment in which it operates will remain under observation. The representatives of the rated entity remain subject to a full disclosure obligation during this period. Any change in Scope Hamburg GmbH's rating assessment will result in a change in the published rating notation, meaning that this notation represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if a follow-up rating is performed.

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Scope Hamburg GmbH

Hamburg, 22 March 2021

