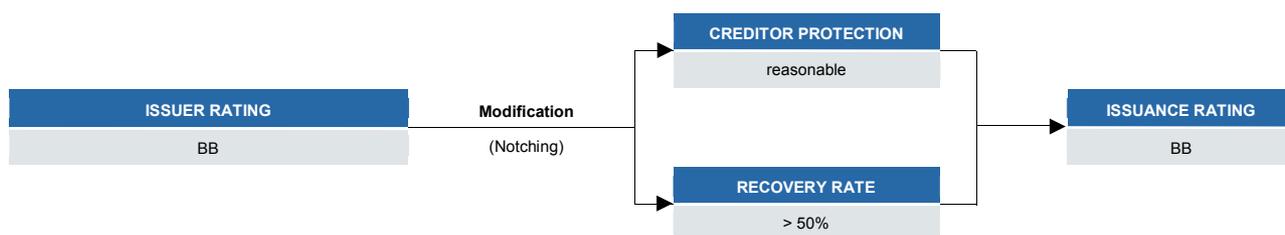


Issuance Rating

KÉSZ Holding Zrt. senior unsecured bonds (2021/2031) (ISIN HU0000360466)		9 June 2021	BB
		Issuance rating	
Industry	Construction	Issuance volume	HUF 20 billion
		Coupon rate	2.80% p.a.



ISSUER RATING	BB
<ul style="list-style-type: none"> Slightly increased business risks due to inherent exposure to cyclical and competitive construction industry Moderate financial risks due to stable earnings, moderately strong credit metrics and prudent financial policies No modification for operational risks or external influence 	

CREDITOR PROTECTION	reasonable
<ul style="list-style-type: none"> Final bond terms and conditions (8 June 2021) Partially amortising bond structure Reasonable, market standard terms esp. with view to termination rights, covenants and negative clauses 	

BOND RANKING	senior unsecured
<ul style="list-style-type: none"> Robust senior ranking Joint and several payment guarantee provided by three main group companies Bond proceeds to be utilized for working capital refinancing and business development investments 	

RECOVERY	> 50%
<ul style="list-style-type: none"> Hypothetical default scenario based on assumed liquidation of assets Expected recovery rate: > 50% 	

KEY DATA		
Listing	Yes	Secondary market listing 90 days post issuance (BÉT Xbond; HU0000360466)
Issuance volume	HUF 20 billion	Annual settlement date: 17 th of June
Denomination	HUF 50 million	400 bonds á HUF 50 million = HUF 20 billion (total issuance volume)
Coupon	2.80% p.a. fix	Annual coupon payments from 17 June 2022 (retrospective)
Repayment	partially amortizing	2026-2030: 10% p.a. and 17 June 2031: 50% balloon payment
Term to maturity	10 years	Term begins on 17 June 2021, maturity date is 17 June 2031
Collateral	none	Senior unsecured bond
Payment guarantee	joint and several	KÉSZ Építő ZRt. / KÉSZ Ipari Gyártó Kft. / Matech Magyar Technológiai Kft.

Rating rationale

Scope Hamburg GmbH has assigned a BB issuance rating to KÉSZ' 2021/31 senior unsecured bonds with a total nominal value of HUF 20bn. The rating was derived from KÉSZ' current issuer credit rating (BB), the bond's structural ranking, reasonable creditor rights and adequate recovery expectations of > 50% in a hypothetical bond default scenario.

***Robust senior ranking
 within post issuance
 capital structure***

KÉSZ' HUF 20bn senior unsecured bonds (2021/31; fixed annual coupon rate 2.80%) are governed by Hungarian law and are structured as partially amortising balloon notes with a term of 10 years. Overall, we assess the bonds to be subject to a robust senior ranking, as parts of the net proceeds from the offering shall be used to replace parts of existing senior debt financing. Nevertheless, a smaller proportion of effectively higher-ranking secured debt will remain or might increase post issuance. This situation could put future bondholders at risk of relatively low recovery in a default scenario.

***Reasonable creditor
 protection rights***

As outlined above, KÉSZ Group's assets will mainly remain pledged as collateral to the existing portfolio of (secured) bank loans/guarantees or trade credit. For holders of unsecured debt it is important to mitigate the risk of becoming significantly disadvantaged in the event of additional debt issues, when permitted. For private businesses we generally expect higher risks, as they are usually forced to raise new debt against any unencumbered assets should their credit quality deteriorate for some structural reasons. Nevertheless, a set of reasonable creditor protection clauses has been included into the final bond terms. In our view, the applied clauses such as pari passu, negative pledge, rating deterioration, dividend policy, group-level net debt/EBITDA or cross default will keep the issuers capital structure under control while ensuring equal rights of payment and equal seniority with any new debt issues. We also acknowledge the joint and several payment guarantees issued by the three main group companies KÉSZ Építő ZRt., KÉSZ Ipari Gyártó Kft. and Matech Magyar Technológiai Kft. as an additional element to enhance creditor rights.

***Expected recovery > 50%
 based on hypothetical
 default scenario***

Our recovery expectation for KÉSZ' senior unsecured bonds follows a hypothetical default scenario based on an assumed liquidation of assets. At present, KÉSZ Group's overall creditworthiness is driven by an only slightly increased probability of default mainly as a result of its operations in the construction sector which we assess as highly competitive and inherently exposed to economic cycles on the one hand, but KÉSZ' robust financial profile on the other hand (cp. BB issuer rating). In a hypothetical default scenario, however, we assume a further deterioration of the issuer's overall creditworthiness as a cause of prolonged market stress leading up to depressed long-term profit prospects, overcapacities (e.g. real estate, production sites, workforce) and stressed net asset values (e.g. shrinking valuation multiples). We also assume that ranking and size of debt claims could change prior to default, and that the issuer could be forced to pledge more assets to raise debt as its credit quality deteriorates. As a consequence, loss given default usually rises disproportionately the higher the probability of default is. This is especially true for unsecured debt. Nevertheless, we still expect adequate recovery rates of at least 50% for the holders of KÉSZ' senior unsecured bonds, as the bonds shall remain the primary source of external long-term funding. This supports KÉSZ Group in expanding into new and modern production facilities or real estate projects, which we expect to maintain higher values in distressed situations while being exempt from any unfavorable pledge agreements via reasonable credit protections (pari passu/negative pledge). Our assessment leads to the equalization of the bond issuance rating with the current issuer rating of KÉSZ Group (BB).

Rating History

	17 March 2021	9 June 2021
Issuer rating	BB	BB
Issuance rating	preBB	BB
Outlook	stable	stable

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

- Upgrade of KÉSZ Group's issuer credit rating
- Lasting improvement of the bond's expected recovery rate

Factors that could lead to a Downgrade

- Downgrade of KÉSZ Group's issuer credit rating
- Lasting deterioration of the bond's expected recovery rate

Issuance

HUF 20bn issue to fund refinancing and expansion

KÉSZ' HUF 20bn senior unsecured bonds (2021/31; fixed annual coupon rate 2.80%) are governed by Hungarian law and are structured as partially amortising balloon notes with a term of 10 years. The balloon payment (50%) is due at maturity (17 Jun 2031). According to the corporate plans the net proceeds from the proposed offering shall be used to refinance parts of the existing bank liabilities (e.g. working capital financing) and to fund the group's business development and expansion projects. More precisely KÉSZ plans to modernise and expand its construction capacities, develop commercial & residential real estate projects and to modernise its corporate infrastructure (e.g. IT, automation, vocational training). As of 31 Dec 2020 the company's capital structure contained long- and short-term bank liabilities in a total amount of HUF 16.3bn. Depending on the final utilization of funds and according to the corporate financial plan we expect total bank liabilities of c. HUF 6bn to remain post issuance (31 Dec 2021).

Non-public auction June 2021

KÉSZ Holding Zrt. (issuer) applied for MNB's "Bond Funding for Growth Scheme" (BGS) and initiated a non-public placement process under the advice of MKB Bank (issuing agent) in Q2 2021. Besides the Central Bank of Hungary (MNB) a further 15 institutional investors are invited to place their purchase orders until 15 Jun 2021 (auction date). Allocation of the bonds and settlement with the paying agent will take place until 17 Jun 2021 (settlement date). At a later stage (90 days post issuance) a secondary market listing of the notes at the Budapest Stock Exchange is obligatory (BÉT Xbond).

Final issuance rating assigned

The issuance rating is linked to KÉSZ' current issuer credit rating (BB; rating report 17 Jun 2021). The issuer rating is subject to a regulated, ongoing monitoring process and already takes account of the capital structure post issuance. Furthermore, the final issuance rating is assigned based on the final bond documentation as of 8 June 2021, confirming our preliminary assessment on structural ranking, creditor rights and recovery expectations.

Appendix 1: Execution

Notice

This report represents a supplement to the issuer rating report of 17 March 2021. The issuance rating is derived from the current issuer rating. The full rationale for the issuer rating notation can be found in the issuer rating report.

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Rating committee

- Dörte Mählmann, Director
- Kai Gerdes, Director

Rating, Solicitation, Principal Sources of Information

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

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:
 - Final bond documentation (as of 8 June 2021)
 - Use of the proceeds - Scenario analysis provided by the issuer
 - Management interview

Rating methodologies and definitions

- [Scope Hamburg GmbH Issue Rating Methodology as of December 2014](#)
- [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](#)

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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	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](#)

Disclaimer

KÉSZ Holding Zrt. (client and issuer) engaged Scope Hamburg GmbH to conduct a rating of the envisaged bond issuance (rated obligation) on 8 January 2021. Interviews with the issuer were conducted on 9 March 2021 and 7 June 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 9 June 2021. This rating report was given to the client on 9 June 2021, thereby concluding the rating process.

The rating is Scope Hamburg GmbH's opinion of the creditworthiness of a certain obligation. It is not a statement of fact. Scope Hamburg GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

The issuer 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 issuer 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 issuer exercising reasonable and commercial care. The issuer's representatives have issued a written certification of completeness to Scope Hamburg GmbH. However, the issuer 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 issuance, the issuer and the sector and business environment in which it operates will remain under observation. The representatives of the issuer 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.

Please note that summaries of contracts, laws and other documents contained in the rating report cannot replace careful study of the complete texts. Scope Hamburg GmbH cannot guarantee that the information used to prepare this report has not changed since it was collected and is still accurate at the time of publication. Scope Hamburg GmbH is under no obligation to complete the information that it considered when issuing the rating.

The dissemination and use of this rating report may be prohibited by law in certain jurisdictions. Scope Hamburg GmbH therefore recommends that any persons who come into the possession of this information inquire about and comply with any prohibitions that may be in place. Scope Hamburg GmbH assumes no liability of any kind with respect to the dissemination and use of the rating in any jurisdiction whatsoever.

Scope Hamburg GmbH

Hamburg, 9 June 2021