Credit Rating Announcement

01 April 2021

Scope affirms BB/Stable issuer rating on OPUS Global Nyrt

The rating action reflects Scope's neutral view on the holding company's credit quality following recently announced transactions in its energy division.

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 affirmed its BB/Stable issuer rating on OPUS Global Nyrt. Scope has also affirmed the company's senior unsecured debt rating at BBB-, including on the HUF 28.6bn bond issued in 2019 under the Bond Funding for Growth Scheme of the Hungarian National Bank (MNB).

Rating rationale

The ratings continue to reflect Scope's view on OPUS' strong financial risk profile and very sound cost coverage on the holding level, which continue to be supported by a sound liquidity policy in the context of an active M&A phase aimed at reorienting its energy segment. OPUS can easily fund the executed acquisition of electricity distributor E.ON Tiszántúli Áramhálózati Zrt. (Titasz) and the upcoming takeover of gas distributor Tigáz Zrt (from MET Holding AG), through recurring revenues, strong and rising dividend income from core construction activities, divestiture proceeds from Mátrai Erőmű and solar project Buzsák, and new debt. The two transactions are executed on a 50% basis for the holding company and jointly executed with 50%-owned Status Energy Kft. OPUS plans to issue another bond with a volume of HUF 39bn under the MNB Bond Funding for Growth Scheme. This issuance and the large investments decided are likely to cause some deterioration in key credit metrics from 2021. This is not critical, however, because cost coverage was already far above the level needed for the ratings.

Portfolio diversification has improved in the last 12 months since the energy segment was expanded. There is now a more even spread of business in terms of asset values than when the portfolio was largely concentrated on two segments, industrials and food processing. This improvement is despite all dividends being generated by the main industrials company, Mészáros Építőipari Holding Zrt.

Concentration risk on dividend income continues to be very high, reflecting delays in dividend payments from the food and tourism companies. Specifically, Scope expects a delay of at least two years for tourism subsidiary Hunguest Hotels due to the Covid crisis and necessary refurbishments. Thus, while income diversification does not support the ratings at present, diversification by value is significantly better as there is sizeable value in the companies that are not paying dividends at the moment. In addition, Scope believes that the underlying asset values are conservative, also regarding recovery assumptions (just 50% of asset values used).

The rating also reflects the increased balance sheet debt at the end of 2021, through the existing 2019 bond (HUF 28.6bn) and the envisaged bond (HUF 39bn). These issuances and the sales of subsidiaries have led to strong cash inflow, even after deducting cash used for acquisitions and intercompany loans (predominantly for Hunguest Hotels). This strong liquidity provision serves as a buffer in the short term but will need to be expensed for intercompany loans and the acquisition of Tigáz. The two large acquisitions, Titasz and Tigáz, have been structured to preserve liquidity, enabled by a close joint-venture-like funding of OPUS together with Status Energy. Also supportive in this context is the sale of the Buzsák solar park to MET Holding AG for a significant windfall.

While cost coverage seems to cause no issues, leverage as expressed by LTV (Scope-adjusted debt to portfolio net asset value) is likely to increase above 40% in the current year, reflecting the significantly increased debt. While this does not threaten the ratings, Scope has maintained the main driver of the financial risk profile as the cost coverage ratio, which is likely to continue be high at about 3x in 2021. The LTV ratio might also be (conservatively) distorted by the use of underlying asset values reflective of historical book values – especially for the industrial and food processing companies – and thus are likely understated.

Outlook and rating-change drivers

The Stable Outlook incorporates a broadly unchanged investment portfolio over the next 1-2 years, no material dividend payments to OPUS shareholders, a focus on developing the existing portfolio, no major M&A activity (other than the transaction planned for the energy division), and cost coverage of above 1.0x.

A positive rating action could be warranted by improved concentration risks, especially for dividend income. However, Scope does not foresee material changes in this regard in the short to medium term.

A downgrade could be triggered by total cost coverage reaching below 1.0x on a sustained basis.

Long-term and short-term debt ratings

Scope has affirmed its BBB- debt rating on senior unsecured debt issued by OPUS Global Nyrt. The debt category rating reflects the ranking of the debt below an insignificant amount of senior secured bank debt and accounts for a significant and growing portfolio net asset value. Senior unsecured debt will be enlarged by the new HUF 39bn bond to be placed in 2021. Scope expects a 'superior' recovery (70%-90%) for outstanding senior unsecured debt in a hypothetical default scenario in 2022. Even discounting this value by 50% and adding guarantees and suretyships of about HUF43 bn, the bond is still likely to be fully recovered. The senior unsecured debt rating thus continues to be two notches above the issuer rating, reflecting the superior recovery prospects.

Scope's assessment assumes no cross-default clauses in the portfolio companies' debt documentation.

No short-term rating was assigned.

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

Methodology

The methodology used for these Credit Ratings and Outlook (Corporate Rating Methodology, 26 February 2020), is available on https://www.scoperatings.com/#!methodology/list.
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-scale. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://www.scoperatings.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.scoperatings.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.scoperatings.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 Credit Ratings were not requested by the Rated Entity or its Related Third Parties. The Credit Rating process was conducted:

With the Rated Entity or Related Third Party participation	YES
With access to internal documents	YES
With access to management	YES

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.
Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory The information and data supporting the Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.
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
Lead analyst: Olaf Toelke, Managing Director
Person responsible for approval of the Credit Ratings: Werner Staeblein, Executive Director
The Credit Ratings/Outlook were first released by Scope Ratings on 29 August 2019. The Credit Ratings/Outlook were last updated on 26 August 2020.

Potential conflicts

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

Conditions of use/exclusion of liability

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Scope Ratings GmbH is part of the Scope Group with headquarters in Berlin and offices in Frankfurt, London, Madrid, Milan, Oslo and Paris. As the leading European credit rating agency, the company specialises in the analysis and ratings of financial institutions, corporates, structured finance, project finance and public finance. Scope Ratings offers a credit risk analysis that is opinion-driven, forward-looking and non-mechanistic, an approach which adds to a greater diversity of opinions for institutional investors. Scope Ratings is a credit rating agency registered in accordance with the EU rating regulation and operating in the European Union with ECAI status.

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