

📅 WEDNESDAY, 11/09/2024 - Scope Ratings GmbH

Scope affirms BB-/Stable issuer rating of Metál Hungária Holding Zrt.

The affirmation is driven by Scope's expectation that MHH's solid credit metrics will be maintained despite a challenging global construction market with high inflation and interest rates, supported by an adequate order backlog.

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 BB-/Stable issuer rating of Metál Hungária Holding Zrt. (MHH). Concurrently, Scope has affirmed the senior unsecured debt rating of BB-.

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). MHH's business risk profile remains driven by its position in the niche roofing and cladding segment, which has continued to grow, allowing MHH to capitalise on this trend and reinforce its solid market position. Revenue grew 18% in 2023 to HUF 84.3bn (EUR 220m)¹ following an exceptional year for MHH. For 2024, revenue is forecasted to reach HUF 70.0bn, in line with revenue generated in 2022.

Hungary's emergence as a crucial hub for global car manufacturers, drawing significant investments from both European and Asian OEMs, has not only bolstered the automotive sector but also increased the demand for high-quality construction materials used in building and expanding automotive production facilities. This shift has directly benefited companies like MHH, which remains well-positioned as a market leader in Hungary for light-structure roof coverings and façade cladding. The company's specialised expertise in providing these materials, which are essential for modern industrial structures, combined with its good access to capital and longstanding relationships with large multinational corporations, continues to serve as a substantial barrier to new entrants, thereby protecting its market share.

A decline in FDI, coupled with labour shortages and rising costs due to inflation, could pressure the sector. MHH's management acknowledges that the rapid growth of recent years is unlikely to continue, with revenue expected to normalise around HUF 60bn in 2025. The company faces risks from its reliance on Hungary's cyclical construction industry and a small number of large clients, which could lead to increased cash flow volatility.

Customer concentration remained high in 2023, with the top three clients contributing HUF 36.0bn (41%) and the top 10 contributing HUF 56.1bn (64%) of total revenue. The year was driven by major projects from clients like Mercedes and BMW. However, for 2024, with these big projects largely completed, the top three customers are now expected to account for just 33% of revenue. This shift is positive, as it reduces the company's vulnerability to a small number of clients and enhances revenue diversification.

MHH's operating profitability, as measured by the Scope-adjusted EBITDA margin, was solid at 16% in 2023, following an exceptional 19% margin in 2022, which benefited from a drop in material

prices. The margin is expected to normalise around 14% for 2024 and 2025. The company's order backlog, while reduced, remains adequate at HUF 39.0bn as of H1 2024. Similar to previous years, MHH is likely to secure several large projects currently out for tender, helping to maintain consistent revenue in the coming years.

Financial risk profile: BBB+ (unchanged). The financial risk profile continues to benefit from strong debt protection, low leverage and good cash flow cover.

Debt protection remains strong, with Scope-adjusted EBITDA interest cover* consistently exceeding 10x in recent years (2023: 19.5x). Interest-bearing debt increased to HUF 18.5bn, as at YE 2023 (YE 2022: HUF 14.0bn), as MHH introduced a short-term working capital line of HUF 5.4bn to provide additional liquidity across the 80 projects the company is currently active on. With no significant top-line growth expected in 2024 and 2025, the likelihood of drawing additional financing remains low, keeping total debt levels stable over the next 18 months. The issuer benefits from the low cost of financing from bonds issued in 2020 and 2021. Scope forecasts that interest cover will stay comfortable at around 10x, supported by positive free operating cash flow (FOCF), which will help reduce leverage and future interest costs. However, limited backlog visibility beyond 2025 poses some risk.

Leverage, as measured by the debt/EBITDA, was low at 1.7x in 2023 (2022: 1.3x), driven by EBITDA growth to HUF 13.5bn in 2023 (2022: HUF 13.7bn). Although Scope-adjusted EBITDA is expected to decline in 2024 and 2025, the impact on leverage is likely to be limited due to expected positive FOCF, which reduces the need for additional financing. Potential risks include delays in converting the backlog into contracted revenue or delayed payments, given that a third of revenue is in accounts receivable. However, these risks are mitigated by MHH's strong relationships with its substantial, reliable multinational clients, making delays in payment unlikely.

FOCF remained positive in 2023 and is expected to improve further in 2024. This improvement is directly linked to a decrease in revenue from HUF 84.3bn in 2023, to a forecasted HUF 70.0bn in 2024, which reduced the company's working capital needs, thereby enhancing cash flow. As such, FOCF/debt is expected to remain positive in over the next two years, however, Scope highlights that it is prone to significant fluctuations.

Volatility stems from larger-scale projects, which require a greater concentration of cash flow sources and higher pre-financing (working capital). However, this is somewhat offset by the decision on the part of several large multinational developers to provide interest-free advances to sub-contractors to avoid project delays.

Liquidity: adequate. MHH's liquidity is adequate, with cash sources (unrestricted cash of HUF 5.9bn as of end-2023) and forecasted FOCF of HUF 11.5bn in 2024) fully covering its short-term financial obligations, including short-term debt of HUF 6.3bn due in the 12 months to end-December 2024. The company has been able to sustain its entire operations from its FOCF. Liquidity is further strengthened by a range of committed credit facilities, of which HUF 1.7bn was undrawn as of end-2023.

The senior unsecured bond (ISIN: HU0000360920) issued in November 2021 under the Hungarian Central Bank's bond scheme has an accelerated repayment clause. The clause requires MHH to repay the nominal amount of the bond (HUF 6.1bn outstanding as H1 2024) in case of rating deterioration (two-year cure period for a B/B- rating, repayment within 30 days after the bond rating

falls below B-, which could have default implications). Considering the current debt rating, there is good headroom on the covenant, supported by the issuer's stable credit profile.

Additionally, MHH has a financial covenant that would trigger immediate bond repayment. During the entire term of the bonds, MHH needs to uphold the following: i) net debt/EBITDA must not exceed 4.0x for any financial year prior to the 2026 financial year; and ii) net debt/EBITDA must not exceed 3.0x for fiscal year 2026 and any fiscal year thereafter. Based on Scope's forecasts, with Scope-adjusted debt/EBITDA peaking at 2.8x in 2026, Scope expects full compliance with the financial covenants of both bonds.

Supplementary rating drivers: credit-neutral. Supplementary rating drivers have no impact on the issuer rating.

Outlook and rating sensitivities

The **Outlook is Stable** and reflects Scope's view that credit metrics will remain solid, with debt/EBITDA expected to revert to a range of 2.0-3.0x over the next 18 to 24 months. This is underpinned by the company's ability to execute its order backlog, ensuring solid revenue visibility for 2024-2025. Despite challenges from the global construction downturn and an uncertain macroeconomic environment, the company is expected to maintain controlled leverage. However, the overall rating is still limited by the company's comparatively weaker business risk profile, despite its robust financial performance.

The **upside scenario** for the ratings and Outlook is:

- Remote at present but may be warranted if the company improved diversification by segment and/or geography to reduce the reliance of its top line on FDI, leading to an improved assessment of its business risk profile.

The **downside scenario** for the ratings and Outlooks is:

- Debt/EBITDA increased above 3x. This could be triggered by: i) an adverse operational development leading to reduced profitability and operating cash flows; or ii) higher dividend and dividend-like pay-outs in excess of FOCF.

Debt rating

Scope has affirmed the BB- rating on senior unsecured debt issued by MHH. Scope expects an 'average' recovery for outstanding senior unsecured debt in a hypothetical default scenario in 2025 based on MHH's going concern status. As the company specialises in façade cladding and roof covering, its enterprise value is tied to 'soft' assets, such as access to long-term customers and technical knowledge in engineering and manual labour, rather than 'hard' assets.

The estimated EBITDA at default is HUF 7.8bn, implying an enterprise value at default of HUF 23.4bn. Scope expects an 'average' recovery for the company's senior unsecured debt (HUF 11.3bn in bonds at default and HUF 0.3bn in guarantees) resulting in the affirmation of the debt class rating at BB-, the same level as the issuer rating.

Environmental, social and governance (ESG) factors

Overall, ESG factors have no impact on this credit rating action.

All rating actions and rated entities

Metál Hungária Holding Zrt.

Issuer rating: BB-/Stable, affirmation

Senior unsecured debt rating: BB-, affirmation

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

1. EUR: HUF = 383, on 31 Dec 2023

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; Construction and Construction Materials Rating Methodology, 25 January 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://cerp.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.

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 these 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/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.

Lead analyst: Patrick Murphy, Analyst

Person responsible for approval of the Credit Ratings: Sebastian Zank, Managing Director

The Credit Ratings/Outlook were first released by Scope Ratings on 30 March 2020. The Credit Ratings/Outlook were last updated on 14 September 2023.

Potential conflicts

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ISSUERS 1

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