

28 Jun 2021 - Scope Ratings GmbH

Scope affirms B/Stable issuer rating for SunDell Estate Nyrt.

Scope Ratings affirms the B/Stable issuer rating as well as the senior unsecured debt rating for SunDell Estate Nyrt. after receiving updated company planning that includes a contemplated placement of a HUF 5bn senior unsecured green bond.

The latest information on the rating, including rating reports and related methodologies, is available on this [LINK](#).

Rating action

Scope Ratings GmbH (Scope) affirms the issuer rating of SunDell Nyrt. at B/Stable. Senior unsecured debt is affirmed at B+.

Rating rationale

Scope affirms the current ratings on the issuer and senior unsecured debt following an updated business plan of the issuer. The current rating still reflects primarily the issuers limited size resulting in cluster risks, however mitigated by moderate financial leverage going forward. After the successful placement of a HUF 11bn senior secured bond in 2020, the updated business plan contemplates a placement of an additional HUF 5bn senior unsecured green bond in Q3 2021, which Scope has incorporated in its financial base case. Scope's assessment of the business risk profile and the financial risk profile remain intact in case of a successful placement of the bond.

Scope's assessment of the issuer's business risk profile (assessed B) - also remains intact, reflecting the market position, diversification and profitability levels, which remain in line with Scope's financial base case after the 2020 audited full year numbers. The company is still a small, albeit growing, real estate developer with an exclusive geographical focus on the Budapest residential development market. Diversification remains a rating constraint, due to the limited number of projects and the concentration on one asset class in one local market, namely residential development in Budapest. While Scope expects the company to increase market share in this segment, diversification is expected to remain a constraint on the issuer's business risk. Although the plans of the company to increase its recurring income streams via the build-up of a permanent rental portfolio are deemed credit-positive, this remains largely un-executed at this point in time.

Asset quality remains a credit positive factor for the company's business risk as the issuer is focussed on medium priced residential projects within Budapest that enjoy a relatively robust demand thanks to their affordability, which is also supported by several government incentives to promote home ownership, especially among families.

Profitability is expected to stay volatile due to the clustered project pipeline, but at above average levels compared to peers of circa 10% internal rate of return and Scope-adjusted EBITDA margin in a typical range for a developer of 20% to 30% going forward, depending on the timing of project completions.

The financial risk profile (assessed BB) benefits from a Scope-adjusted EBITDA interest coverage significantly exceeding 1x going forward as well as an expected gradual reduction of volatility in cash profits via the larger and thus more granular project portfolio as well as the ramp-up of recurring revenue from leased properties. It is also supported by moderate leverage of below 40% loan-to-value (LTV) based on Scope-adjusted debt/Scope-adjusted assets for the next two business years. Credit negative for the financial risk profile is the high volatility of cash flows that is caused by the clustered project pipeline and the issuers lack of recurring revenues at this point.

Liquidity is deemed adequate in Scope's financial base case since the issuer will not have any short-term financial debt maturing until the first 30% amortization tranche of the HUF 11bn bond placed in 2020 which is planned to come due in 2025.

Outlook and rating-change drivers

The Outlook for SunDell is Stable and incorporates the assumption that the issuer shows Scope-adjusted LTV of less than 40% and Scope-adjusted interest cover of more than 1.7x while successfully executing sales at expected prices on its growing project pipeline. Furthermore, the outlook incorporates a successful placement of a HUF 5bn senior unsecured green bond within Q3 2021.

A positive rating action would require the issuer to show financial metrics in line with Scope's Stable outlook on a sustained basis while substantially improving its business risk profile, e.g. via increasing its recurring revenue streams.

A negative rating action might be warranted if the issuer shows Scope-adjusted LTV of more than 60% or Scope-adjusted interest cover of less than 1.7x on a sustained basis. This could be caused by underperformance of its development projects, e.g. as a result of lower prices for residential real estate in its core market Budapest.

Long and short-term debt instrument ratings

Scope expects the issuer to successfully issue the planned HUF 5bn senior unsecured green bond within Q3 2021. Planned tenor is 10 years with a fixed coupon, paid out annually. The amortization schedule assumes repayment in five tranches of 10% each in the years 2026, 2027, 2028, 2029 and 2030 respectively and a 50% bullet repayment at the end of the tenor. The proceeds are earmarked for the development of residential real estate – majority to be sold with planned build-up of portfolio to be leased. About HUF 4bn are earmarked for ongoing and future construction and development costs. Scope did not assume any additional senior secured debt on SPV or holding level in addition to the unsecured bond volume.

Scope assumed a hypothetical default scenario for the year 2022 and applied reasonable discounts on the company's asset base. In this liquidation scenario Scope expects an above average recovery, thus allowing for a one-notch uplift on the company's issuer rating. This translates into a B+ debt class rating for senior unsecured debt.

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, (Corporate Rating Methodology, 26 February 2020; Rating Methodology: European Real Estate Corporates, 15 January 2021), are available on <https://www.scooperatings.com/#!methodology/list>.

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services,

while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

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.scooperatings.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.scooperatings.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.scooperatings.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.scooperatings.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 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/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings 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.

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The Credit Ratings/Outlook were first released by Scope Ratings on 30 October 2020

Potential conflicts

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

Scope Ratings provided the following Other Services to the Rated Entity and/or its Related Third Parties within the two years preceding this Credit Rating action: Rating Assessment Service.

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