

21 May 2021 - Scope Ratings GmbH

No impact on SunDell Estate's B/Stable rating from 2020 annual results and recent acquisition

Following a monitoring review of Hungarian real estate developer SunDell Estate Nyrt., Scope takes no action regarding the issuer rating of B/Stable. The instrument rating of B+ for senior unsecured debt also remains unchanged.

Scope Ratings GmbH (Scope) reviews its ratings either yearly, or every six months in the case of sovereigns, sub-sovereigns and supranational organisations. Monitoring reviews are unrelated to the calendar that outlines public finance rating actions.

Scope performs monitoring reviews to determine whether outstanding ratings remains proportionate. Monitoring reviews are conducted either by performing a portfolio review in terms of the applicable methodology/ies, latest developments, and the rated entity's financial and operational aspects relative to similarly rated peers; or through targeted reviews on an individual credit. Scope publicly announces the completion of each monitoring review on its website.

Scope completed the monitoring review for SunDell Estate Nyrt.'s B/Stable on 18 May 2021. This monitoring note does not constitute a rating action nor does it indicate the likelihood of a credit rating action in the short term. The latest information on the credit ratings in this monitoring note along with the associated rating history can be found on www.scoperatings.com.

Key rating factors

Scope sees SunDell's business and financial risk in line with its current base case assumptions, after the release of the full year 2020 audited financials. The rating continues to primarily reflect the issuer's limited size. This results in cluster risks, which will, however, be mitigated by moderate financial leverage going forward. As expected in Scope's existing base case, the successful placement of a HUF 10bn senior unsecured bond in Q4 2020 led to the complete refinancing of all other financial debt with part of the bond proceeds.

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

Asset quality remains a credit-positive factor for SunDell's business risk. The issuer is focussed on medium-priced residential projects in Budapest for which there is 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. The internal rate of return should be around 10% and the Scope-adjusted EBITDA margin in a typical range for a developer of 20%-30% going forward, depending on the timing of project completions.

The financial risk profile (rated BB) benefits from Scope-adjusted EBITDA interest coverage significantly exceeding 1x going forward. It is also supported by Scope's expectation of a gradual reduction of the 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. Moderate leverage with a loan-to-value below 40%, based on Scope-adjusted debt/Scope-adjusted assets for the next two business years, is also positive. The high volatility of cash flows caused by the clustered project pipeline and a lack of recurring revenues are credit negative for the financial risk profile.

Liquidity remains adequate in Scope's financial base case since SunDell will not have any short-term financial debt maturing until the first 30% amortisation tranche of the HUF 10bn bond, which is planned to come due in 2025.

The methodologies applicable for the reviewed 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>. This monitoring note is issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. Lead analyst Denis Kuhn, Associate Director

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