

Scope affirms the issuer rating of SunDell Estate Nyrt. at B/Stable.

Strong performance in 2021, a significantly increased project pipeline supported by recent equity issuance in 2022 of HUF 9bn and a HUF 5.5bn green bond issued in 2021 support the affirmation in a challenging environment.

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 issuer rating of SunDell Estate Nyrt. at B/Stable. Scope has also affirmed the senior unsecured debt rating at B+.

Rating rationale

Scope affirms the current ratings on the issuer and senior unsecured debt based on a better business risk profile (assessed at B) due to an increased project pipeline (up 30% YoY), better diversification and higher margins. The ratings are also supported by a recent HUF 9bn equity issuance to MFB Invest and Hiventures (members of the Hungarian Development Bank) representing a 16.55% interest in the shares of the issuer. Additionally, SunDell successfully issued a HUF 5bn senior unsecured green bond with 10% oversubscription in mid-2021 at a fixed coupon of 3.65%. Both provide sufficient financing to execute on the enlarged project pipeline.

The ratings are constrained by a low recurring share of revenues from a very small lease portfolio and by inflation which puts pressure on margins. Furthermore, the macroeconomic outlook is not supportive, with increasing interest rates in Hungary making housing significantly less affordable.

The current ratings still reflect primarily the issuer's limited size, which result in not only cluster risks but also decreased pre-sales for developments, affecting the backlog, though partially mitigated by the rather low leverage going forward.

Revenues doubled YoY in 2021 and EBITDA increased to HUF 2.6bn despite a significant share of handovers delayed to 2022. Early 2022 sales are high due to the limited timeframe of the state-supported green housing programme (Zöld Otthon Program) providing cheap retail mortgage loans, which is boosting demand.

As a residential real estate developer, SunDell is exposed to the highly cyclical real estate industry with medium barriers to entry and low substitution risk. Scope views real estate development as the riskiest sub-segment in real estate and assigned an industry risk of BB for homebuilder companies, giving credit for housing being a basic need and following a change in Scope's European real estate methodology.

With a total asset value of EUR 132m by end of 2021 (up 39% YoY), SunDell is an emerging real estate developer in a highly fragmented market. With its large developments in Zugló, Budapest, the company grew significantly in the number of residential apartments developed, followed by expansion to several areas of Budapest. The company has a good track record of EUR 130m of sold apartments in the past five years, which shows a large improvement compared to EUR 35m from 2015-2019.

SunDell's focus remains mid-priced residential real estate units in Budapest and opportunistic premium projects such as the Kodály Körönd and Hárshegy developments. Expansion to other locations has started opportunistically and should bear fruit in the medium term.

As the number of projects has increased significantly and deliveries speed up, Scope sees increased albeit still rather low operating profitability subject to medium volatility.

Scope assessed the issuer's financial risk profile at BB+, which includes a one-notch upgrade.

At the end of 2021, the company's Scope-adjusted loan/value ratio stood at 31% while Scope-adjusted debt/EBITDA was at 5.6x. Going forward, the loan/value ratio is forecasted in the range of 30% to 40% and Scope-adjusted debt/EBITDA at 4x-6x. These are relatively low for a developer and leave enough headroom to either lease properties at sufficient cap rates to cover financing costs and tackle a moderate downturn of the properties' fair values, or tap external financing sources to cover construction costs if needed.

Recent equity investments help keep leverage low while boosting the project pipeline of properties for sale and for the investment portfolio.

Scope-adjusted EBITDA interest cover is strong with 4.4x at YE 2021 and Scope expects it to stay at above 4x due to strong cash generation forecasted. The contracted fixed-rate debt protects cash flows in the current environment in Hungary where interest rates are rising strongly.

SunDell has no short-term debt. Liquidity is adequate based on the high balance sheet cash, the recent equity injection and expected cash flows.

Outlook and rating-change drivers

The Outlook for SunDell is Stable and incorporates the assumption of Scope-adjusted debt/EBITDA at 4x-6x, Scope-adjusted interest cover at more than 4x and the execution of sales at expected prices on its growing project pipeline.

A positive rating action would require increased visibility on sales to beyond one year (likely expressed by a backlog of above 1x) or a substantial share of recurring EBITDA while credit metrics remain in line with Scope's rating case.

A negative rating action might be warranted were the issuer to show a Scope-adjusted interest cover moving towards 1.0x, Scope-adjusted debt/EBITDA moving towards 15x or weaker liquidity. This could be caused by underperformance of its development projects, e.g. as a result of increasing input prices or demand shocks due to soaring inflation rates.

Long-term debt ratings

The issuer has issued two senior unsecured bonds totalling HUF 16.5bn which will start amortising in 2025 and 2026, respectively, and refinanced all other outstanding bank debt. Scope assumed a hypothetical default scenario for the year 2023 and applied reasonable discounts on the company's asset base, resulting in an 'above-average' recovery expectation.

This translates into a B+ debt class rating for senior unsecured debt, one notch above the issuer rating.

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, 6 July 2021; European Real Estate Rating Methodology, 25 January 2022), 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 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/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. The Credit Ratings/Outlook were last updated on 28 June 2021.

Potential conflicts

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