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# Crown Holding Kft.

February 2022

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| **Crown Holding Kft.** | | **Initial Credit Rating** |
|---|---|---|
| | Date of Rating Committee: | 20.01.2022 |
| | Date of Publication: | 04.02.2022 |
| **Issuer Rating** | **Long-term Rating:** | **BB-** |
| | Outlook: | Stable |
| **Bond Rating** | **Long-term Rating:** | **BB-** |
| | Outlook: | Stable |

*1) Prior to the present publication the credit rating and rating outlook was disclosed to the rated entity or related third party. Following that disclosure amendments in the credit rating and rating outlook have not been made;*
*2) During the last 2 years, BCRA Credit Rating Agency AD has not provided ancillary services to the rated entity or a related third party.*

***BCRA – CREDIT RATING AGENCY AD (BCRA)*** *is the third fully recognized rating agency in the EU, registered pursuant to Regulation No. 1060/2009 of the European Parliament and the Council. The credit ratings assigned by the BCRA are valid throughout the EU and are fully equal to those of the other agencies, recognized by the European Securities and Markets Authority, without any territorial or other limitations.*

On the 20th of January 2022, the **Rating Committee** of BCRA had a session, on which the assigning of initial credit ratings to Crown Holding Kft. was discussed. The session was headed by Dr. Kiril Grigorov - chairmen of the Rating Committee. The members of the Rating Committee reviewed numerous qualitative and quantitative risk factors included in the Initial Credit Rating Report, in accordance with our Corporate Rating Methodology. Accordingly, the Rating Committee decided to assign the following initial credit ratings:

– Long-term Issuer Rating: **BB-**, Outlook: **Stable**;

– Long-term Bond Rating: **BB-**, Outlook: **Stable.**

BCRA's officially adopted methodology for assigning a Corporate credit rating is used: *https://www.bcra-bg.com/files/Corporate_Methodology_2016_en.pdf)*

The users of the rating can find information on the meaning of each rating category, including the definition of default in the published Global rating scale on the BCRA's website: *https://www.bcra-bg.com/files/global_scale_en.pdf*

## Company Overview

**Table 1:** General Information

| | |
|---|---|
| Company name: | Crown Holding Kft. |
| Address: | 1052 Budapest, Deák Ferenc tér 3., Hungary |
| UIC: | 01 09 207175 |
| Main activity: | Renting and operating of own or leased real estate |
| Bond ISIN: | n/a (planned issue) |

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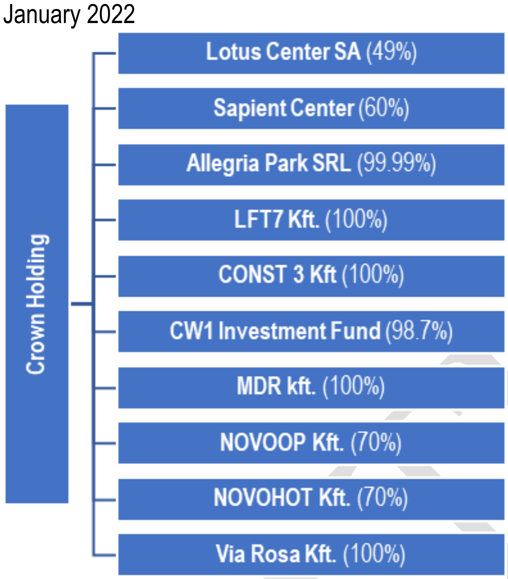
Crown Holding Kft. is an opportunist real estate investor, constantly looking for undervalued income-producing assets and potential development opportunities. The company has a diversified portfolio of commercial real estate - shopping malls, hotels, and office buildings at different locations from Oradea, Romania through Debrecen, Hungary to Budapest, Hungary.

Crown Holding is wholly owned by Mr. Sandor Mudura who is also the company's CEO.

Key companies (falling in the scope of planned bond issue) in the current structure of Crown Holding are presented in the following figure:

**Figure 1:** Key companies in Crown Holding's Structure as of January 2022




**Lotus Center SA** was incorporated in 2009 while Crown Holding acquired it in 2019. The entity owns a shopping center, which represents the prime shopping destination in Oradea, Romania. In 2021, Mr. Mudura acquired 51% of the ownership share in Lotus Center, however, 60% of the dividend and right to appoint directors and run the operation remains within Crown Holding. Hence Lotus will remain to be consolidated to Crown Holding. The Lotus Center has equity interests in multiple subsidiaries.

**Sapient Center SA** owns OSC, previously known as Tiago Mall - a shopping center. Crown Holding acquired OSC in 2019 and since then the property has been under refurbishment. Sapient Center is owned by Crown Holding 60%, Lotus Center SA 10%, and third party private individual 30%.

**Allegria Park SRL** is a retail park built on a single level, completed in 2018. In Q1 2020, Crown Holding acquired 99.9947% interest in Allegria Park SRL from Lotus Center.

**LFT7 Kft.** was incorporated in 2011 and acquired by Crown Holding in 2016. The company owns all retail and residential property at 7 Liszt Ferenc Square in Budapest, Hungary. Crown Holding intends to develop a 3 or 4 stars hotel with 70 rooms with no concrete project timeline presented till now.

**CONST 3 Kft.** is a subsidiary that develops the Raddison Collection Hotel in Budapest. Crown Holding and Radisson Hotels ApS have already signed the international management agreement and the project is in the construction phase.

**CW1 Investment Fund** is an investment fund that owns an office building in Debrecen, Hungary. The entity was incorporated in 2018.

**MDR Kft.** owns a property in the heart of the Central Business District of Budapest. The entity was acquired by Crown Holding in 2017.

**NOVOHOT Kft.** acquired the building of Novotel Szeged in 2018. **NOVOOP Kft.**, the operator of Novohotel Szeged has signed a long-term lease agreement with NOVOHOT.

**VIA ROSA Kft.** was founded as a subsidiary of Crown Holding in 2020. The company owns an empty site, ready for development of circa 29 000 sqm gross floor, situated close to the center of Ujpest, Budapest. The property was received as a contribution in kind from another company, also owned by Crown Holding.

The management team of Crown Holding has a long experience and wide range of expertise in Asset Management and Real Estate Development. Over the past years, cost-saving initiatives were implemented to reduce operational costs. The tenant portfolio has been revaluated and contracts with financially non-stable tenants have been terminated. Also, the management refinanced and restructured all the Crown Holding entities' bank loans, thus, achieving significant interest rate reduction.

Crown Holding intended to develop a hotel project (Nymphaea Resort) on 10 000 sqm land plot

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managed under the Novotel brand by Accord. OTP provided a EUR 12 mln credit line and the government of Romania granted RON 22 mln but the project has been put on hold.

In the meantime, Crown Holding has decided to move forward with upgrades and extension plans for its crown jewel income-producing assets, Lotus and Novotel. Also, the forthcoming commence of operations of the Radisson hotel in Budapest in 2022 represents a key milestone for the group's development.

In February 2022, Crown Holding aims to issue a **10 year unsecured bond with a face value of HUF 11.2 bln** (EUR 31.1 mln) under the Hungarian National Bank's Bond Funding for Growth Scheme. The principal repayment schedule envisages a 12.5% amortisation starting from the sixth year after issuance and a 50% balloon payment at final maturity. The issue targets a fixed annual coupon of 5.5%, however, it will depend on auction yield quotations.

Bond proceeds are earmarked to finance real estate direct and indirect acquisitions. Direct means acquisition of assets, and indirect means acquisition of Real Estate Investment Company or Real Estate Investment Fund. The minimum expected yield of future acquisitions is assumed at 6.5%.

## Operating Environment

### *Sovereign Ceiling*

Given the fact that Crown Holding owns and operates commercial properties in Hungary and Romania, the sovereign risk of these two countries is considered a definitive factor for the company's performance. The sovereign risk is assessed according to the unsolicited sovereign ratings of Hungary and Romania, assigned by BCRA. The full rationales, as well as the history of ratings, can be found at the following links:

- Hungary:https://www.bcra-bg.com/en/ratings/hungary-rating.
- Romania:https://www.bcra-bg.com/en/ratings/romania-rating

### *Sector Analysis*

Over the past five years (2016 - 2020), Real estate activities in Hungary have intensified, boosted additionally by rising investments, which continued increasing despite the crisis, and was mostly directed to the Office market. Modern rental offices outside Budapest, which concentrates the prime office stock, are located in Debrecen, Miskolc, Pécs and Szeged. Faced with the economic uncertainty created by the pandemic, office market participants weakened their activity. As a result, demand has been lagging the trend in previous years and the number of transactions decreased in 2020. In the second quarter of 2021, the office market showed signs of recovery in line with the overall macroeconomic development after the preceding suppressed quarters.

Tourism in Hungary has shown an outstanding performance until the outbreak of the COVID-19, driving the buoyant hotel market activity. Currently, hotel occupancy across the CEE region is low and the pandemic evolution continues to set the tone for further developments. The investments delayed due to the crisis, however, are expected to be completed by the end of 2022, as plans envisage almost half of the new rooms to be located in Budapest.

Romanian construction works on contract recorded double-digit growth rates in the last four years, even after the pandemic outbreak in 2020 with the leading contribution of the Residential segment. The amount of investments made in real estate activities, however, has been volatile. The crisis affected the Romanian commercial real estate market less than expected, being backed by the growing retail sales. As of Q3 2021, 30% of the retail stock is located in Bucharest and 70% in the regional cities, the most preferred of which are Timişoara, Constanţa and Oradea. Oradea enjoys a reputation for good governance and attracting significant amounts of EU development funds as well as private investments. The city is characterised with the highest retail stock density (of 1 047 m$^2$ per 1 000 residents) in Romania and with its competitive rent levels.

The suspension of many services activity during the state of emergency in 2020 negatively impacted the number of tenants of the retail segment, the last, however, has been moderately affected. In 2022, the retail modern stock is projected to continue expanding along with the restored investors and developers' confidence.

## Assets Portfolio

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Geographically the portfolio of income-producing assets is concentrated in two countries from the CEE region – Hungary and Romania which hinders the company's ability to weather possible local economic challenges. Also, Crown Holding's limited assets size is split into three commercial real estate submarkets and four different cities (Oradea, Budapest, Debrecen and Szeged) which results in insignificant relative market shares, except for the retail market in Oradea. In the highly competitive industry environment, this implies a lower resilience in a cyclical downturn because larger players might be better able to attract and retain tenants.

**Figure 2:** % of total operating revenues estimated for 2021

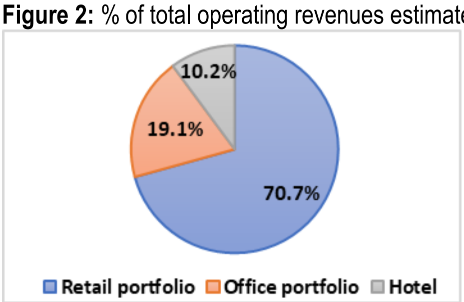
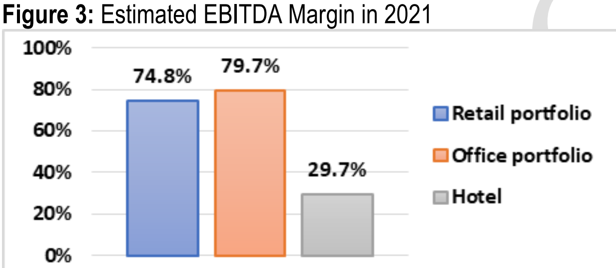
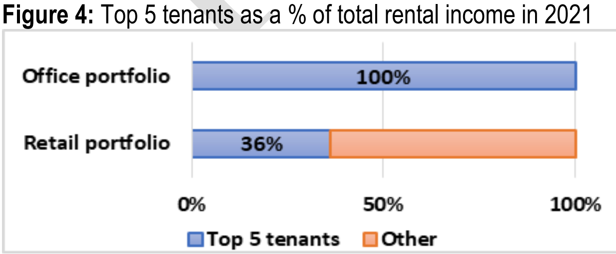



**Figure 3:** Estimated EBITDA Margin in 2021




The Romanian retail portfolio represents the main source of income for Crown Holding as it accounted for 70.7% of total operating revenues estimated for 2021, followed by the office portfolio with a relative share of 19.1%. Given the triple net lease terms, both office and retail portfolios have achieved high EBITDA margins of above 70% while the profitability of the hotel is much lower – about 30% in 2021.

**Figure 4:** Top 5 tenants as a % of total rental income in 2021

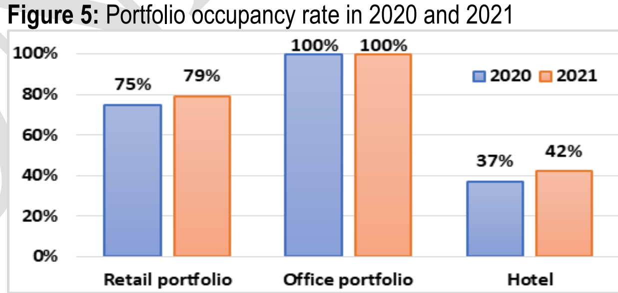



The tenant diversification is elevated, thus, possible termination of a small number of lease contracts may have a material effect on the company's revenue and profitability. Top 5 tenants account for 35% of total rental income generated by the Romanian retail portfolio in 2021, while tenants' concentration of the Hungarian office portfolio is 100% as both Debrecen office building and MDR are fully let to a single tenant.

Despite the large portfolio exposure to retail companies, the certainty of the group's future cash flow is backed by the good credit quality of main tenants and the sector diversification provided by the office portfolio.

Standing at 5.5 as of December 2021, the WAULT ratio is assessed as relatively moderate. Higher re-letting risks may arise after 2026 but track records show that a significant proportion of tenants extend their leases. For expired contacts, the new contract length for the commercial portfolio is defined as 5 years.

**Figure 5:** Portfolio occupancy rate in 2020 and 2021




The portfolio occupancy slightly improved on an annual basis, however, it remained below the normalised pre-pandemic level. At 79% in 2021, the occupancy rate of the retail portfolio was moderate, being affected by the slower renting-out of the newly refurbished OSC, while the occupancy of the flagship Lotus Center remained strong at 98%. The recovery of hotel occupancy was weak as it increased only slightly - from 37% in 2020 to 42% in 2021, compared to 64% in 2019.

The pandemic outbreak had no material impact on the office portfolio of Crown Holding as all tenants paid their obligations on time.

Concurrently, the hospitality sector has been severely impacted as the Hungarian government restricted all tourism (e.g. nonbusiness) relating stays. As located in the countryside and focusing on business

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travellers, Novotel was among the winners to remain open. The higher revenue per available room (REVPAR) for business travellers has contributed to operating at break-even during the extremely low occupancy period. Also, the Hungarian Government has decided to support the hospitality staffs' employment, thus, Novotel is eligible to receive app. HUF 8 mln grant per month.

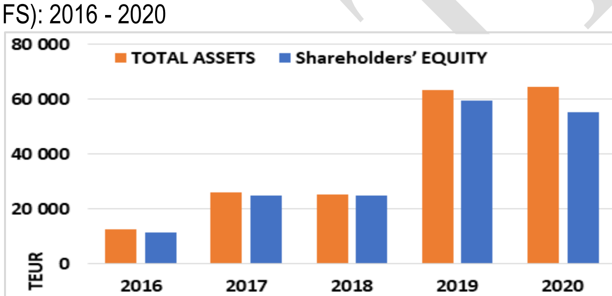
Romanian retail portfolio also has been impacted by pandemic restrictions as the local government ordered to close all malls for 3 months. As a result, Crown Holding provided a discount on rental fees and service charges which amounted to EUR 1.32 mln in Lotus Center, EUR 0.2 mln in Allegria and EUR 0.05 mln in OSC.

Also, renting out the freshly refurbished OSC has been gradually slower than normal as international tenants decided to "wait and see" last year. In the case of Allegria, a future tenant that will be responsible for 10% of GLA, has postponed moving into the mall.

In 2020, the Romanian government decided that retailers, affected by the pandemic, will benefit from aid for payment of debts in the amount of 15% of the turnover but not more than TEUR 150. This support was extended till the 30th of June 2022. Hence, Romanian entities reported no overdue debts.

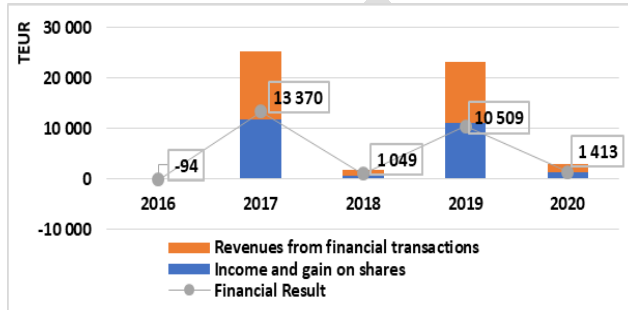
## Historical Financial Analysis

**Figure 6:** Total Assets and Equity of Crown Holding (stand-alone FS): 2016 - 2020




According to the stand-alone financial statements, total assets of Crown Holding have sustained a constant upward trend (except the minor decrease of 1.9% in 2018) throughout the entire analysed period (12.2016 – 12.2020), forming a cumulative growth of 420.4% with most pronounced increases recorded in 2017 and 2019. Accordingly, total assets expanded by 109.2% in 2019, driven by the increase in current assets related to the considerable Income and gain on shares, while the assets expansion of 149.9% in 2019 reflected the increase of Investments in related companies.

**Figure 7:** Financial result of Crown Holding (stand-alone FS): 2016 - 2020

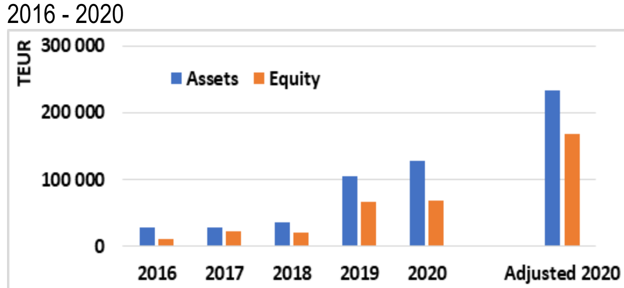



The financial result formed from gains on shares and revenues from financial transactions is volatile, which is typical for a holding company. The variations during the analysed period are presented in the above figure. Period-highest net profits were recorded in 2017 and 2019 - accordingly TEUR 13 370 and TEUR 10 509.

As a result of the accumulated positive financial results, the shareholders' equity increased by 385.9% cumulatively for the period 12.2016 – 12.2020.

Crown Holding is not regulatory obligated to prepare consolidated financial statements, thus, it started consolidating only from 2020. However, for rating purposes, BCRA has prepared a pro-forma consolidation of individual statements of the key companies in the holding group.

**Figure 8:** Consolidated Assets and Equity of Crown Holding: 2016 - 2020




On a pro-forma consolidated basis, total assets also posted an overall increase which was most pronounced in 2019 with annual growth of 194.2%. The cumulative expansion for the period 12.2016 –

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12.2020 was 362.1%, thus, the book value of assets reached TEUR 127 669 as of end-2020.

The difference between the book value and the market value of the owned assets is reflected in the consolidated balance sheet for 2020 by their revaluation which amounted to TEUR 106 133.

The equity also showed a significant cumulative increase of 617.3% for the period 12.2016-12.2020. The adjusted value increased by another 144.3%, reaching TEUR 167 480 as of end-2020, due to the subscription of TEUR 98 918 Revaluation reserves.

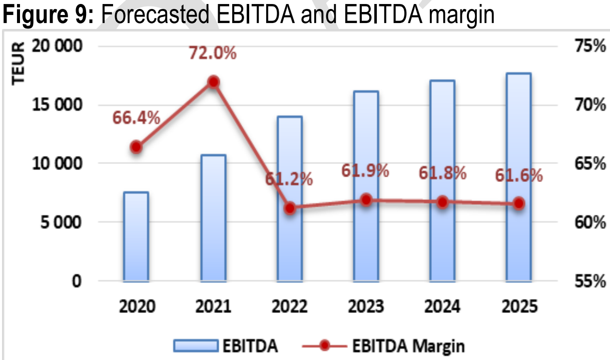
Total liabilities of the group expanded by 166.4% for the five-year analysed period with highest surges recorded in 2018 (+ 217.3%) and 2019 (+ 128.8%).

### Financial Forecast

The financial forecast for the period 2021-2025 was prepared based on expected cash flow data, provided by Crown Holding's management, which is assessed as relevant and broadly achievable given the company's track record of successful business development.

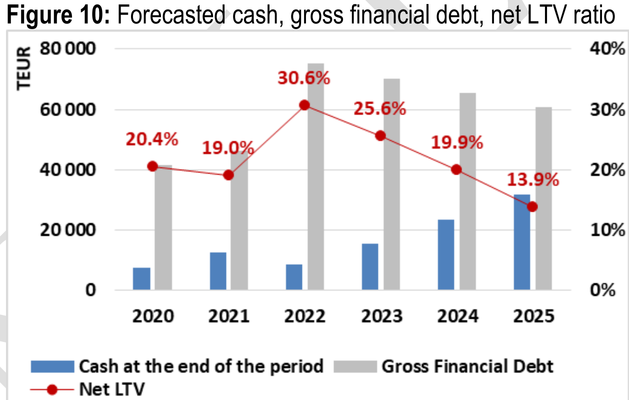
According to the cash flows estimates *(see Table 2)*, rental income derived from assets portfolio tend to generate solid internal financing, combined with a sustained low portion of non-recoverable costs. Lotus Center will remain the flagship asset in Crown Holding's portfolio but its relative share in total EBITDA is set to decline from 60.2% in 2021 to 44.1% in 2025. In this regard, the start of operations of the Radisson hotel in Budapest and the development of new real estate projects represents an important milestones as combined they are projected to generate about 25% of total EBITDA at the end of the forecasted period.

**Figure 9:** Forecasted EBITDA and EBITDA margin




If the revenue targets are successfully met, Crown Holding is expected to record a constantly increasing EBITDA - expanding from TEUR 7 554 in 2020 to TEUR 17 704 in 2025. Concurrently, the profitability will moderate slightly, due to the expansion of hospitability business activities that traditionally generate lower margins than the triple-net leased retail and office portfolios. Despite the decline, the EBITDA margin is expected to remain favourable, stabilising at 61-62% from 2022.

**Figure 10:** Forecasted cash, gross financial debt, net LTV ratio




Due to the planned bond issuance, gross financial debt will temporarily peak (at TEUR 75 185) and net LTV will increase from 19% in 2021 to 30.6% at the end of 2022. However, the company is expected to easily meet its debt service obligations with EBITDA-to-interest coverage of above 550% during the whole forecasted period and Net Debt-to-EBITDA ratio falling to 1.6 in 2025.

The long-term credit rating of an unsecured bond issue is equal to the rating assigned to the issuer. Accordingly, BCRA assigns an initial "**BB-**" long-term rating to the **planned unsecured bond issue** of Crown Holding.

**General conclusions**: The issuer credit rating of Crown Holding is backed by its sound financial metrics, namely high profitability, and moderate leverage, as well as by the success of its development strategy. On the other side, the company is operating in the highly cyclical real estate industry with a small relative market share which represents a rating constraint.

The outlook is **stable**, indicating that risks are broadly balanced. Despite the expected increase in gross financial debt, we believe that the company will be able to generate more than sufficient cash flow to timely service its obligations.

The following factors could lead to a rating **upgrade** and/or a positive change in outlook:
1) strengthening of company's market position through a decline in assets portfolio concentration, better cash flow visibility and increase in relative market share;
2) sustaining favourable financial results and high profitability;
3) reduction in indebtedness.

The following factors could lead to negative outlook change and/or a rating **downgrade**:
1) material increase in leverage;
2) unreached revenue targets in case of unsuccessful business development of the Radisson hotel and new real estate projects.

The long-term credit rating of the **planned unsecured bond issued** is based on the indicative parameters of the future issue, provided by Crown Holding's management.

**Table 2:** Forecasted Cash Flow and Key Financial Indicators

| TEUR | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **Cash at the beginning of the period** | **628** | **7 256** | **12 527** | **8 623** | **15 266** | **23 227** |
| Operating revenues | 11 374 | 14 842 | 22 917 | 26 063 | 27 605 | 28 754 |
| OPEX | -4 396 | -6 575 | -11 885 | -13 808 | -14 451 | -14 961 |
| **Operating Income** | **6 977** | **8 267** | **11 032** | **12 255** | **13 154** | **13 794** |
| Depreciation | -577 | -2 417 | -2 995 | -3 873 | -3 895 | -3 910 |
| **EBITDA** | **7 554** | **10 684** | **14 027** | **16 128** | **17 049** | **17 704** |
| Taxes | -964 | -1197 | -1669 | -1 735 | -1 838 | -1 886 |
| Changes in net working capital | 839 | 885 | 587 | 201 | 97 | 54 |
| **Cash Flow from Operating activities (CFO)** | **7 429** | **10 372** | **12 945** | **14 594** | **15 308** | **15 872** |
| Acquisition cost | 0 | 0 | -42 067 | 0 | 0 | 0 |
| Project CAPEX | -396 | -11 162 | -358 | -458 | -167 | -379 |
| Maintenance CAPEX | -576 | -576 | -576 | -576 | -576 | -576 |
| **Cash Flow from Investing activities (CFI)** | **-972** | **-11 737** | **-43 001** | **-1 034** | **-743** | **-954** |
| Debt repayment or borrowings | 944 | 6 840 | 28 178 | -4 774 | -4 653 | -4 477 |
| Capital increase/decrease | 143 | 749 | 0 | 0 | 0 | 0 |
| Interest payable | -1 064 | -1 114 | -2 386 | -2 498 | -2 268 | -2 210 |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax shield | 147 | 161 | 361 | 354 | 317 | 302 |
| **Cash Flow from Financing activities (CFF)** | **170** | **6 635** | **26 153** | **-6 918** | **-6 604** | **-6 385** |
| **Total Cash Flow** | **6 628** | **5 270** | **-3 903** | **6 642** | **7 961** | **8 533** |
| **Cash at the end of the period** | **7 256** | **12 527** | **8 623** | **15 266** | **23 227** | **31 760** |

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| | | | | | | |
|---|---|---|---|---|---|---|
| Gross Financial Debt | 41 357 | 46 202 | 75 185 | 70 227 | 65 390 | 60 729 |
| Net Financial Debt | 34 101 | 33 676 | 66 562 | 54 962 | 42 164 | 28 969 |
| Net Debt-to-Equity | 0.28 | 0.24 | 0.46 | 0.36 | 0.26 | 0.17 |
| EBITDA Margin | 66.4% | 72.0% | 61.2% | 61.9% | 61.8% | 61.6% |
| Net LTV | 20.4% | 19.0% | 30.6% | 25.6% | 19.9% | 13.9% |
| EBITDA interest cover | 7.1 | 9.6 | 5.9 | 6.5 | 7.5 | 8.0 |
| Net Debt-to-EBITDA | 4.51 | 3.15 | 4.75 | 3.41 | 2.47 | 1.64 |
| Leverage (TL/TA) | 30.5% | 27.0% | 35.7% | 33.1% | 30.4% | 27.8% |