BCRA
est. 2002

BULGARIA
95, Evlogi Georgiev blvd.
1142 Sofia
Tel. (+359 2) 9876363
bcra.eu

Crown Holding Kft.

January 2023

Radostina Stamenova, Lead Financial Analyst
stamenova@bcra.eu
Ventzislav Petrov, Financial Analyst
v.petrov@bcra.eu
Kalina Dimitrova, Economic Analyst
k.dimitrova@bcra.eu

Crown Holding Kft.		Initial Rating	Rating Review
	Date of Rating Committee:	20.01.2022	24.01.2023
	Date of Publication:	04.02.2022	25.01.2023
Issuer Rating	Long-term rating:	BB-	BB-
	Outlook:	Stable	Stable
Bond Rating	Long-term rating:	BB-	BB-
ISIN: HU0000361472	Outlook:	Stable	Stable

1) The credit rating and the rating outlook were disclosed to the rated entity or related third party. Following that disclosure amendments in the credit rating and rating outlook have not been executed;

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 of 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 January 24, 2023, the **Rating Committee** of BCRA had a session, in which the Report on the annual credit rating review of Crown Holding 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 Rating Report. Accordingly, the Rating Committee took the following decision:

BCRA **affirms** both the Long-term Issuer rating and the Bond rating of Crown Holding at **BB-** and maintains the **stable outlook** related to them.

The officially adopted methodology of BCRA for assigning a corporate credit rating has been used: https://bcra.eu/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://bcra.eu/files/global_scale_en.pdf

Table 1: General information about the rated entity

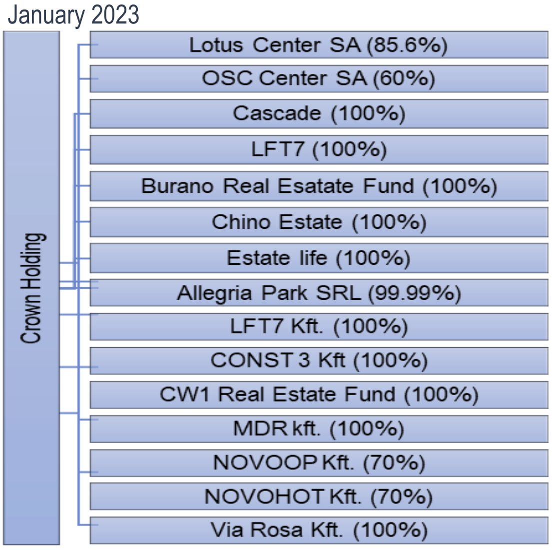
Issuer:	Crown Holding Kft.
Head Office:	1052 Budapest, Deák Ferenc tér 3., Hungary
Main Activities:	Renting and operating of own or leased real estate
Registration number:	01-09-207175
LEI:	2330007B46WU4T654359
Bond ISIN:	HU0000361472

Company Overview

Crown Holding is a limited liability company, founded in 2015 and headquartered in Hungary. The company is active in the commercial real estate sector in Hungary and Romania. The main field of activity of Crown Holding is asset management but indirectly through its subsidiaries, it is engaged in real estate development, real estate investment and real estate management. The group has a diversified portfolio of commercial real estate-shopping malls, hotels, and office buildings at different locations in Romania and Hungary.

The share capital of Crown Holding is wholly owned by Mr. Sandor Mudura who is also the CEO of the company.

Figure 1: Key companies in Crown Holding's structure as of January 2023



During the last year, the holding structure has expanded as the company invested the proceeds from the February 2022 bond issuance in the following shares and assets: i) 100% fund shares of Burano Real Estate Investment Fund; ii) 100% shares of Cascade Building; iii) 100% shares of Chino Invest; iv) 100% shares of Estate Life.

As Crown Holding owns shares in more than 30 companies, Figure 1 presents the current holding structure, focusing only on key companies that own income-generating assets and on those that are financed through external debt.

Lotus Center SA owns a shopping center, which represents the prime shopping destination in Oradea, Romania. Mr. Mudura directly acquired 51% of the ownership share in Lotus Center in 2021 but in July 2022, Crown Holding reacquired the previously sold shares for EUR 11.2 mln and its ownership share increased to 85.59%.

OSC Center SA owns a shopping center in Oradea, Romania. Crown Holding acquired the controlling interest in 2019.

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.

Burano Real Estate Investment owns a prime office building in Budapest. Crown Holding acquired 100% of fund shares in March 2022.

Cascade Building is a Romanian entity owning a prime office building in Bucharest, Romania. Crown Holding acquired the property with part of the bond proceeds, following a transaction closed in August 2022.

LFT7 Kft. owns a retail and residential property in Budapest, Hungary.

CONST 3 Kft. is a subsidiary that develops the Raddison Collection Hotel in Budapest. The project is near its completion with a planned grand opening in October 2023.

CW1 Investment Fund is an investment fund that owns an office building in Debrecen.

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. The hotel is operated by another subsidiary of Crown Holding - ***NOVOOP Kft***. which has signed a long-term lease agreement with NOVOHOT.

VIA ROSA Kft. owns an empty site, ready for development, situated close to the center of Ujpest, Budapest.

Chino Invest is a Hungarian entity owning an industrial plot/building in Budapest.

Estate Life is a Hungarian entity owning an industrial plot/building in Budapest.

Over the past few years, Crown Holding's portfolio has grown significantly. Accordingly, the company is now focusing on stabilizing its core portfolio, integrating newly acquired assets, fully leasing out unoccupied areas, and completing the development of the Radisson Collection hotel in Budapest.

Operating environment

Hungarian commercial real estate market

The Hungarian commercial real estate market attracts enduring investor interest owing to its strong occupation and leasing agreements that comply with international standards. The lasts are being contracted in euros with annual rent updates in line with inflation.

Following a relatively robust performance in H1 2022, the real estate investment market in Hungary has started to anticipate the negative effects of uncertainty and monetary tightening. According to CBRE, investments in Q3 2022 were EUR 104 mln or only a third of the volume recorded in Q2 2022, while cumulative investment turnover in the first nine months of 2022 amounted to EUR 670 mln, which represented a decline of 17% against the same prior-year period. Interest in office investments has remained strong and dominant as office accounted for 75% of the turnover in Q3 2022.

Naturally, the excess space, rising inflation and rapidly tightening monetary stance are putting pressure on investors' yields The prime rental yields in Hungary, however, remained favourable, reaching 5% for offices, 5.50% for the industrial market, and 5.35% for shopping centres as of Q3 2022.

Albeit still falling by about 30% short of the pre-pandemic levels, the demand for new office space particularly in Budapest has been high in recent years. Total leasing activity in Q3 2022 expanded by 24% in annual terms. Considering the composition of demand, renewals accounted for the largest share (33%) of TLA, followed by new leases in existing stock with a relative share of 23% and pre-leases with 22%. Driven by the high leasing activity, real estate prices in the city and the surrounding Pest County have largely exceeded those in the remaining country districts. The overall vacancy rate for Budapest reached 11% in Q3 2022, increasing by 1.1 pps compared to the previous quarter.

Debrecen and Szeged, the cities where the other Hungarian assets of Crown Holding are located, are the second and the fourth city in terms of population in Hungary. Both are classified as emerging tier II cities whose economic prospects benefit from strong university backgrounds. Modern rental offices outside Budapest are concentrated namely in Debrecen, Miskolc, Pécs and Szeged.

Hungarian Hotel Market

In January-November 2022, the total number of overnight stays in Hungarian hotels recorded a 58.6% increase compared to the same period in 2021, which was still affected by epidemiological restrictions. The strong rebound has been driven mainly by the return of foreign tourists. Domestic guests spent 19% more tourism nights and foreign guests more than twice as many tourism nights, 114% more than in the same period of the previous year. However, the estimated hotel occupancy rate in Hungary, like in other CEE countries, has remained slightly below the pre-crisis period.

The most popular tourism region in Hungary is the Budapest–Central Danube Region. Accordingly, Budapest has been the most popular location with a very strong appeal for foreign tourists. Szeged, on the other hand, is a well-known destination in Hungary but often not as so familiar to foreign travelers, thus, retaining a great development potential.

In 2022, hotel room rates rose nationwide in line with inflation. With regard to the average gross room price, hotels in Budapest are the most expensive in the CEE region, exceeding the regional average by about 18%, according to the October 2022 Commercial Real Estate Report of the MNB.

Around 2 700 new hotel rooms are expected to be completed in Hungary in 2023 and 2024 (MNB), however, supply chain disruptions and costlier construction materials might cause delays in certain hotel openings. On the other hand, the demand for hotel accommodations is also facing challenges due to the rising inflation that erodes disposable income.

Romania retail market

Romanian market offers some of the most attractive yields in the CEE region. About 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. The strong competition among the shopping centres in Bucharest has in the last 4-5 years encouraged developers to extend their retail investments in the regional cities. Nowadays, development activity in the retail property markets primarily focuses on refurbishments and extensions of existing shopping centres, as well as the construction of smaller retail parks and retail convenience schemes in regional towns.

The rental level in prime shopping center locations recorded an average annual increase of about 10% in Q3 2022. The lower average monthly rents in the segment of shopping centres in secondary and tertiary cities are continuing to attract developers with their favourable risk/return profile. However, new challenges such as economic uncertainty, monetary tightening cycle and geopolitics may impact real estate investment by delaying decision-making, while consumer sentiment and disposable income are negatively impacted by rising inflation.

Assets Portfolio

Crown Holding's portfolio of assets can be analytically divided into three subgroups - Retail Portfolio, Office portfolio, and Hospitality Portfolio. Besides them, Crown Holding owns several development plots with a total market value of EUR 22.4 mln.

Figure 2: Market value of Crown Holding's assets portfolio

The retail portfolio consists of 3 shopping malls, all of them being located in Oradea, Romania, with a combined 84 471 m^2 GLA and a total market value of EUR 119.4 mln.

Two new buildings (Cascade and Buda Business Center) were added to the office portfolio of Crown Holding during the last year. Accordingly, now it encompasses 4 properties – two in Budapest, one in Debrecen, and one in Bucharest. Their total GLA is 27 498 m^2 and the estimated market value is EUR 58.5 mln.

The hospitality portfolio is formed by two assets – the operating Novotel Szeged and Radisson Collection Hotel in Budapest which is still under development. According to the management of Crown Holding, the development is at 74%, the mock-up room is accepted and room design is underway. The commencement of business activities is expected in Q3 2023.

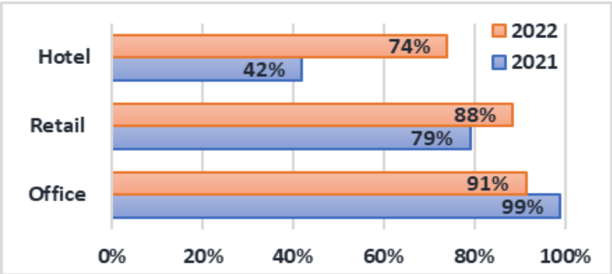
Geographically the portfolio of income-producing assets is concentrated in two countries from the CEE region – Hungary and Romania which hinders the company's ability to weather possible local economic challenges. Also, Crown Holding's assets are split into three different commercial real estate submarkets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

The Romanian retail portfolio represents the main source of income for Crown Holding as it has accounted for about 2/3 of total group's income. Given the triple net lease terms, both office and retail portfolios are achieving high EBITDA margins of above 70% while the profitability of the Novotel Szeged hotel is slightly below 30%.

The tenant concentration is elevated, thus, the possible termination of a small number of lease contracts may have a material effect on the company's revenue and profitability. Top 5 tenants accounted for about 1/3 of the total rental income generated by the Romanian retail portfolio, while tenants' concentration of the office portfolio is close to 100% as two of the buildings are almost 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 the main tenants and the sector diversification provided by the office portfolio.

Figure 3: Occupancy rates of Crown Holding's portfolio of assets in 2021 and 2022



The occupancy rate of the retail portfolio improved to 88% in 2022, from 79% a year ago, due to the successful renting-out of the refurbished OSC, while the average occupancy of the office portfolio slightly declined to 91%, reflecting the lower occupancy of the newly acquired buildings - Cascade and Buda Busines Centre.

The pandemic outbreak and restriction on tourism-related stays had a material impact on the hospitality business, resulting in weak occupancy of

Novotel Szeged hotel. However, the average occupancy rate rapidly improved to 74% in 2022, thus, well exceeding the pre-crisis rate of 64%.

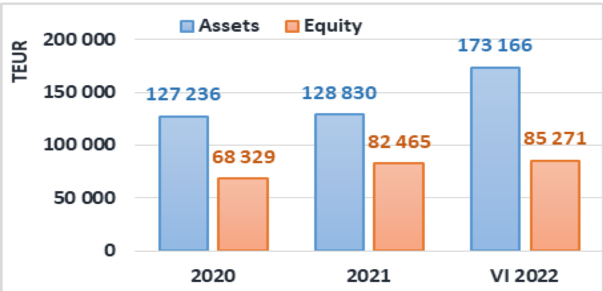
Given its GLA, market value, and forecasted rental income, Lotus Center in Oradea, Romania, stands out as the flagship asset of Crown Holding.

Financial Analysis

After three years of relatively limited changes, the total assets (based on stand-alone FS) of Crown Holding peaked at TEUR 96 015 as of end-June 2022, which represented an increase of 61%[1] against their value at the end of 2021. The increase reflected the accumulation of bond proceeds. Till the mid of 2022, almost half of their amount has been invested in new assets, while the other part has been kept at disposal in bank deposits. It should be noted that the preliminary mid-year financial statements do not encompass all the transactions made with bond proceeds and 99% of them have been already invested by the end of 2022.

Typically for a holding company, financial investments are dominating the structure of stand-alone assets with a relative share of 59.6% as of end-June 2022. Accordingly, Lotus Center and Alegria Park represented the largest investment of Crown Holding.

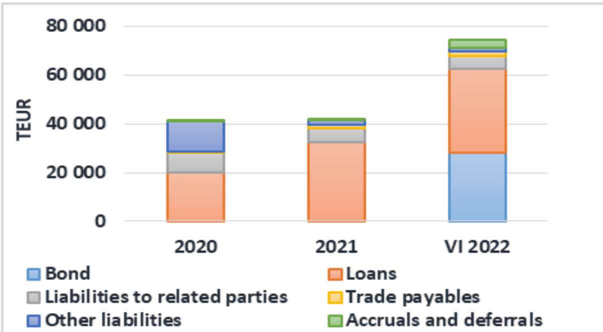
Figure 4: Assets and Equity of Crown Holding, according to consolidated FS: 2020 – H1 2022



Given its size, the rated company is not regulatory obligated to prepare consolidated financial statements according to the Hungarian Accounting Standards (HAS) but has started preparing them voluntarily since 2020. Although the consolidation shows a more accurate picture of Crown Holding, it still has some analytical limitations. In the standalone statements, some of the SPVs do not revalue real estate assets to fair value. As the basis for consolidation is the standalone statements, the value of the assets in the consolidated financial statements does not represent the fair value of the assets. Also, it should be noted that Lotus, the crown jewel of the group, was not consolidated in 2021 and as the repurchase of shares transaction took place just after the half-year end, the preliminary mid-2022 consolidation is not based on having 85.59% of ownership in Lotus as well.

On a consolidated basis, the total assets of Crown Holding expanded from TEUR 128 830 at the end of 2021 to TEUR 173 1666 as of end-June 2022. Concurrently, the structure of assets has temporally changed with liquid assets accounting for 11.6% of total assets, compared to 5.7% at the end of 2021, while tangible assets retained their dominating share, albeit slightly decreasing to 54.8%.

Figure 5: Consolidated liabilities of Crown Holding: 2020 - VI 2022

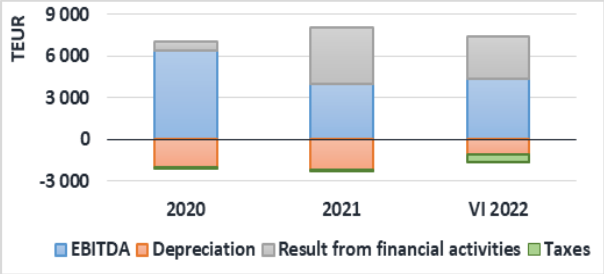


Broadly in line with the expansion of assets portfolio, the group's liabilities have been on the upside since 2018. Following the successful bond issuance, total liabilities peaked at TEUR 74 462 as of end-June 2022, which represented an increase of TEUR 32 468 against the end of 2021. Besides the bond liabilities of the parent company (HUF 11.2 bln or TEUR 28 229), the interest-bearing financial debt of the group included TEUR 34 431 investment and development loans drawn by the subsidiaries, accounting for 46.2% of consolidated liabilities. Liabilities to related parties represented loans granted by the shareholders without an expiry date.

Property management and maintenance costs (paid to external parties) occupy the largest portion of the company's operating expenditures. However, they are almost fully passed to tenants as service charges, thus, forming a favourable low-cost operational structure. Accordingly, the company's operating activity has achieved high profitability.

[1] Cited growth rates are calculated using original values in HUF, while presented values in EUR are converted using the official EOP exchange rate of the Hungarian Nation Bank.

Figure 6: Net financial result achieved by the group: 2020-VI 2022



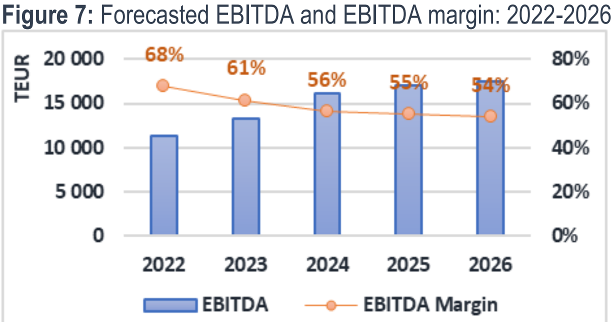
Net sales revenue robustly grew by 26% in 2021 and the net financial result achieved by the group expanded to TEUR 5 824, from TEUR 4 960 in 2020. According to the preliminary data for the first half of 2022, the favourable upward trend has been sustained as the group booked a profit of TEUR 5 838, which is more than the result for the whole 2021.

Reflecting the accumulated positive financial results, the equity sustained an upward trend as well, reaching TEUR 85 271 as of mid-2022.

Financial Forecast

A financial forecast for the period 2022-2026 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. The forested cash flows and key financial indicators in 2022-2026 are presented in a table in the Appendix.

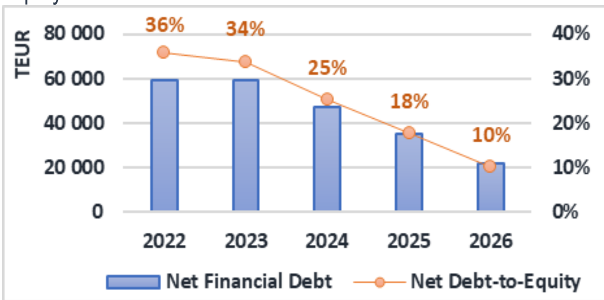
Figure 7: Forecasted EBITDA and EBITDA margin: 2022-2026



According to cash flow estimates, 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 contribution to total EBITDA is set to decline from almost 50% in 2022 to 37% in 2026. In this regard, the start of operations of the Radisson hotel in Budapest represents an important milestone as it is projected to generate about 18% of total EBITDA at the end of the forecasted period.

If revenue targets are successfully met, Crown Holding is expected to record a constantly increasing EBITDA - expanding from EUR 11.4 mln in 2022 to EUR 17.5 in 2026. 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 about 55% from 2024.

Figure 8: Forecasted Net Financial Debt and Net Debt-to-Equity ratio: 2022-2026



Due to the bond issuance, gross financial debt will temporarily peak at EUR 60.4 mln and net LTV will reach 26% at the end of 2022. However, the company is expected to easily meet its debt service obligations with EBITDA-to-interest coverage ranging between 430% and 730% during the forecasted period and Net Debt-to-EBITDA ratio falling to 1.24 in 2025.

Bond Rating

Table 2: Main Bond parameters

Issuer	Crown Holding Kft.
Date of issue	23-Feb-22
ISIN	HU0000361472
Face value	HUF 11.2 bln
Currency	Forint (HUF)
Tenor	10 year
Coupon	fixed, 5.5% p.a.
Amortization	12.5% p.a. from the sixth year
Baloon	50% on maturity

In February 2022, Crown Holding issued a 10-year unsecured bond with a face value of HUF 11.2 bln in an auction within the framework of the Bond Funding for Growth Scheme, launched by the National Bank of Hungary. The average price of the issuance was above the nominal value (~102%), thus, Crown Holding received the proceeds of HUF 11.41 bln, embarked to finance direct real estate acquisitions and indirect acquisitions of real estate funds, already commented in the report.

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 bond has a fixed annual coupon of 5.5%.

Bond Financial Covenants are set as follows: 1) consolidated Net Debt/Total Equity ratio shall be maintained at a maximum level of 1.2x and the Net Debt-to-Total Assets ratio shall be kept at a maximum level of 50%, and 2) EBITDA interest cover ratio at consolidated level is not allowed to fall below 150% during the term of the bond.

Accordingly, the prepared financial forecast does not indicate for possible breach of the financial covenants. Given the fact that the debt issue is not secured with any collateral, the bond rating corresponds to the rating assigned to the issuer.

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 represent a rating constraint. The rating of the unsecured **bond** (HU0000361472) issued by Crown Holding corresponds to the rating assigned to the issuer.

The rating **outlook** is stable, indicating that risks are broadly balanced. Despite the temporary increase in gross financial debt, we believe that Crown Holding will be able to generate more than sufficient cash flow to timely service its debt obligations without difficulties.

The following factors could lead to a **positive change in outlook** and/or **rating upgrade**:

1) strengthening of the 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 a **negative change in outlook** and/or **rating downgrade**:

1) material increase in leverage;
2) unreached revenue targets, resulting in negative EBITDA.

APPENDIX

Table 3: Crown Holding - Financial Forecast for the period 2022-2026

TEUR	2022	2023	2024	2025	2026
Cash at the beginning of the period	**6 770**	**1 062**	**2 448**	**10 309**	**15 034**
Operating revenues	16 794	21 581	28 768	30 939	32 401
OPEX	-8 205	-11 543	-16 420	-17 788	-18 828
EBIT	**8 589**	**10 039**	**12 347**	**13 151**	**13 573**
Depreciation	-2 775	-3 192	-3 827	-3 859	-3 917
EBITDA	**11 364**	**13 231**	**16 174**	**17 010**	**17 489**
Taxes	-1 069	-1 382	-1 615	-1 734	-1 809
Changes in NWC	-1 922	199	-60	-138	-155
Cash Flow from Operating activities (CFO)	**8 373**	**12 048**	**14 499**	**15 139**	**15 525**
Acquisitions	-41 167	0	0	0	0
Asset disposal	143	0	0	0	0
Other CAPEX	-5 768	-10 058	-904	-2 273	-1 354
Cash Flow from Investing activities (CFI)	**-46 792**	**-10 058**	**-904**	**-2 273**	**-1 354**
Loans borrowing/repayment	1 871	991	-4 102	-7 313	-3 714
Bond principal borrowing/repayment	28 000	0	0	0	0
Interest payable	-1 557	-3 026	-2 849	-2 668	-2 427
Financial income	4 397	1 432	1 217	1 841	1 575
Capital increase/decrease	0	0	0	0	0
Cash Flow from Financial activities (CFF)	**32 712**	**-603**	**-5 734**	**-8 140**	**-4 566**
Change in Cash	**-5 708**	**1 386**	**7 861**	**4 726**	**9 606**
Cash at the end of the period	**1 062**	**2 448**	**10 309**	**15 034**	**24 641**
*Gross Financial Debt **	*60 442*	*61 433*	*57 331*	*50 018*	*46 303*
Net Financial Debt	*59 380*	*58 985*	*47 022*	*34 983*	*21 663*
Net Debt-to-Equity	*35.8%*	*33.7%*	*25.2%*	*17.6%*	*10.2%*
EBITDA Margin	*67.7%*	*61.3%*	*56.2%*	*55.0%*	*54.0%*
Net LTV	*26.0%*	*24.9%*	*19.8%*	*14.8%*	*9.1%*
EBITDA interest cover	*7.30*	*4.37*	*5.68*	*6.38*	*7.21*
Net Debt-to-EBITDA	*5.23*	*4.46*	*2.91*	*2.06*	*1.24*
Leverage (TL/TA)	*30.1%*	*29.3%*	*26.7%*	*23.4%*	*21.2%*

**Total amount of outstanding interest-bearing financial liabilities, excluding loans provided by the shareholders.*

Note: Values in HUF and RON are converted into EUR using the following fixed projected rates: HUF/EUR=400 and RON/EUR=4.92.