FRIDAY, 08/08/2025 - Scope Ratings GmbH

Scope upgrades Bayer Construct's issuer rating to BB- from B+; Outlook remains Stable

The rating action reflects improved earnings visibly and consistently strong credit metrics.

The latest information on the rating, including rating reports and related methodologies, is available **on this LINK.**

Rating action

Scope Ratings GmbH (Scope) has upgraded the issuer rating of Bayer Construct Zrt to BB- from B+, with Stable Outlook. Scope has also upgraded the senior unsecured debt rating to BB- from B+.

The upgrade reflects the issuer's ability to maintain good credit metrics, a trend expected to continue in the near term. These positive developments are underpinned by a solid order backlog and renewed earnings visibility beyond 2025, which have contributed to a stronger assessment of the financial risk profile.

The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Business risk profile: B+ (unchanged). The business risk profile continues to reflect Bayer Construct's solid competitive position, supported by high vertical integration, a robust order backlog, and relatively strong profitability. The assessment remains constrained by the company's limited scale and the high concentration of its order backlog.

In 2024, Bayer Construct reported consolidated revenues of HUF 222bn (up 46% YoY) and Scope-adjusted EBITDA* of HUF 30bn (up 8% YoY). As of end-March 2025, the order backlog stood at HUF 346bn (up 30% from year-end 2024), providing revenue visibility through 2025-27. Despite a still subdued Hungarian construction market, Bayer Construct has continued to secure new contracts and maintain a solid backlog, which is equivalent to 2.2x the three-year average revenue up to 2024.

However, two factors continue to constrain the business risk profile assessment due to their potential effect on cash flow: the company's dominant exposure to Hungary (despite a moderate revenue contribution from Romania) and high customer concentration. Regarding the latter, improvements remain limited despite strong order intake and an increasing number of projects. As of end-March 2025, the top 10 customers accounted for 95% of the backlog (up 9pp YoY), with 48% of contracts involving affiliated companies (down 6pp YoY). The backlog also remains concentrated around a few large-scale projects, most notably the newly awarded Paks-II related contract and the Zugló City Center project (19% of outstanding works; down from 38% as completion approaches).

The company's profitability, measured by the EBITDA margin, stood at 14% in 2024 (down 4.7pp YoY), reflecting higher material and outsourcing costs. Nonetheless, Bayer Construct's profitability remains above that of comparable construction peers, supported by its vertically integrated business model, lean organisation and strong operational efficiency.

Financial risk profile: BBB- (revised from BB-). The financial risk profile reflects Bayer Construct's solid credit metrics and moderate indebtedness. The main constraint is the potential cash flow volatility.

Debt protection, as measured by the EBITDA/interest cover, remains very strong (net interest received in 2024; 17.5x in 2023). This provides ample headroom against potential cash flow volatility inherent in construction activities. Scope expects that Bayer Construct will maintain interest coverage well above 7x, driven by assumed stable EBITDA and moderate interest burden, reflecting the high proportion of fixed-rate debt (72% of total debt as of end-2024) at a weighted average interest rate of 4.5%.

Leverage, as measured by debt/EBITDA, remained stable at 1.8x at YE 2024 (YE 2023: 1.9x). This level was supported by steady cash flow generation that limited reliance on external funding for working capital and investment needs. Scope expects leverage to remain below 3x, underpinned by scheduled customer advances that significantly reduce the need for additional debt issuance.

Following an intensive investment phase, capex is expected to gradually decline from 2025, easing pressure on both leverage and cash flow coverage, while steady customer payments are likely to continue.

Liquidity: adequate (unchanged). Bayer Construct's liquidity is adequate, with cash sources (unrestricted cash of HUF 1.8bn at YE 2024 and forecasted free operating cash flow of HUF 4.3bn in 2025) fully covering short-term debt of HUF 3.6bn due in the 12 months to end-December 2025. The liquidity assessment is further supported by the company's consistent track record of rolling over or repaying debt, the absence of significant debt maturities in the short term and the availability of undrawn credit limit (HUF 1.7bn unused as of YE 2024 that do not expire before YE 2025). Liquidity and refinancing risks are therefore manageable.

Scope highlights that Bayer Construct's senior unsecured bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 30.1bn) if the debt rating of the bond stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 15 days). Such development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period has been increased to one notch. Scope therefore sees no significant risk of the rating-related covenant being triggered.

Supplementary rating drivers: credit-neutral (unchanged). Supplementary rating drivers have no impact on the issuer rating.

Outlook and rating sensitivities

The **Stable Outlook** reflects Scope's view that Bayer Construct will successfully execute on its order backlog while maintaining good credit metrics, with a debt/EBITDA well below 3x on a sustained basis. The Outlook also reflects the good visibility on revenues in 2025-27 stemming from the backlog execution.

The **upside scenario** for the ratings and Outlook is:

1. Significant improvement in Bayer Construct's business risk profile, i.e. improved outreach, geographic diversification and reduced concentration in the order backlog, while maintaining moderate credit metrics.

The **downside scenarios** for the ratings and Outlook are (individually):

1. Debt/EBITDA exceeding 3x on a sustained basis.
2. Worsening of liquidity (deemed remote for the time being).

Debt rating

Scope has upgraded the rating on senior unsecured debt issued by Bayer Construct Zrt to BB- from B+. Scope expects an 'average' recovery (30%-50%) for outstanding senior unsecured debt in a hypothetical default scenario in 2026 based on the company's liquidation value.

Environmental, social and governance (ESG) factors

Overall, ESG factors have no impact on this credit rating action.

All rating actions and rated entities

Bayer Construct Zrt.

Issuer rating: BB-/Stable, upgrade

Senior unsecured debt rating: BB-, upgrade

**All credit metrics refer to Scope-adjusted figures.*

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, (General Corporate Rating Methodology, 14 February 2025; Construction and Construction Materials Rating Methodology, 25 January 2024), 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://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.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.

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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 and/or Outlook 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 31 August 2021. The Credit Ratings/Outlook were last updated on 8 August 2024.

Potential conflicts

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ISSUERS 1

INSTRUMENTS 1