SCOPE | Ratings

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Scope downgrades Bayer Construct Zrt. to B from BB- and revises Outlook to Negative

The downgrade reflects elevated risks tied to a concentrated order backlog, as well as heightened reputational and financial risks linked to the Zugló City Center project and the impact of recent changes to Scope’s General Corporate Rating Methodology.

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

Rating action

Scope Ratings GmbH (Scope) has downgraded the issuer rating of Bayer Construct Zrt to B from BB- and assigned a Negative Outlook. Scope has also downgraded the senior unsecured debt rating to B from BB-.

The rating action resolves the under-review status for a possible downgrade, initiated on 30 April 2026 following changes to Scope's General Corporate Rating Methodology.

The downgrade reflects a one-notch negative adjustment under Supplementary Rating Drivers for reputational considerations. This is driven by increased uncertainty following recent developments related to the Zugló City Center project, and the potential for contractual disputes and lengthy legal proceedings, which could lead to financial underperformance in the near future.

In addition, Scope's more conservative assessment of Bayer Construct's Business and Financial Risk Profiles under the updated General Corporate Rating Methodology resulted in a Preliminary Credit Assessment of B+. In line with the methodology's weakest-link approach, greater weight is assigned to factors that constrain credit quality, particularly the company's concentrated order backlog, high customer concentration and limited geographic diversification. Consequently, the assessment of Bayer Construct's competitive positioning and cash flow cover is more conservative, despite good historical credit metrics. Going forward, however, Scope expects these metrics to weaken due to slower backlog execution and lower order intake.

The revision of the Outlook to Negative is driven by increasing uncertainty regarding future order intake and the risk of slower backlog replenishment in a challenging market environment. It also incorporates the risk that recent developments may adversely affect business prospects and stakeholder confidence, potentially weakening operational performance over time.

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 (revised from B+). The Business Risk Profile reflects Bayer Construct's good competitive position, although limited to Hungary, supported by its high degree of vertical integration, an order backlog providing revenue visibility through 2026-27, and relatively strong profitability, which, however, might be impacted by changing market conditions, as well as the contractual disputes. The assessment also remains constrained by the company's limited scale and the high concentration of its order backlog.

In 2025, Bayer Construct reported consolidated revenues of HUF 238bn (up 7% YoY) and Scope-adjusted EBITDA* of HUF 33bn (up 8% YoY). As of end-March 2026, the order backlog stood at HUF 411bn (up 19% from end-March 2025), providing revenue visibility through 2026-27. However, a significant portion of the backlog is expected to be recognised beyond 2027, limiting its contribution to near-term revenue generation. As a result, the turnover is expected to decline despite the currently elevated backlog. Despite subdued conditions in the Hungarian construction market, the company has reportedly secured new contracts during 2025 and maintained a robust backlog, which is equivalent to around 2x its three-year average revenue up to 2025. The backlog remains concentrated around two sizeable projects – the Paks-II related contract and the Lang development project, which together account for slightly more than 50% of outstanding works. Any material delays, reversals or changes related to these projects could materially impact Bayer Construct's future performance and cash flow generation.

The company's profitability, measured by the EBITDA margin, stood at 14% in 2025 (up 0.1 pp YoY), which remains above that of comparable construction peers, supported by its vertically integrated business model, lean organisation, and operational efficiency. Scope expects profitability to normalise towards 10% from 2026 onwards, alongside lower turnover, reflecting the completion of high-margin projects, slower backlog replenishment and still elevated labour and building material costs.

Financial Risk Profile: BB+ (revised from BBB-). The Financial Risk Profile reflects Bayer Construct's solid historical credit metrics and moderate indebtedness. The assessment remains constrained by the company's exposure to cash flow volatility, inherent in its concentrated backlog.

Assuming no adverse effects from the contractual disputes, Scope expects EBITDA/interest cover to remain strong, above 15x, (the company received net interest in 2025), as operating performance normalises. Interest cover is supported by the high proportion of fixed-rate debt (75% of total debt as of end-2025) at a weighted average interest rate of 5.7%.

Leverage, as measured by debt/EBITDA, is expected to increase to around 2.3x in 2026 from the low 1.5x at YE 2025 (YE 2024: 1.8x), driven by lower EBITDA, and could further deteriorate into 2027 in the absence of successful and timely execution of the current backlog.

Cash flow cover remains adequate but is subject to the inherent volatility of the construction sector. Although Bayer Construct has historically demonstrated an ability to manage working capital requirements and fund investments through operating cash flows and scheduled advances, cash flow generation remains dependent on the execution and timing of a relatively small number of large projects. As a result, delays in project execution, changes in customer payment schedules or cost overruns could result in greater volatility than typically observed in more diversified contracted order backlog.

Following an intensive investment phase, capex is expected to gradually decline from 2026, easing pressure on free operating cash flow and supporting financial flexibility.

Preliminary Credit Assessment: B+. Scope's Preliminary Credit Assessment of the company is mainly driven by its Business Risk Profile, with Bayer Construct's concentrated order backlog representing the most significant source of potential credit stress going forward.

Supplementary Rating Drivers: -1 notch. Scope applies a one-notch negative adjustment for governance and structure. The adjustment reflects heightened uncertainty and reputational risks (ESG factor: credit-negative) associated with recent developments surrounding the Zugló City Center project and the formal notice from the Hungarian National Asset Management ("MNV") regarding its intention to withdraw from the office purchase transaction. While the direct financial implications remain uncertain, Scope believes these developments could negatively affect Bayer Construct's business prospects, stakeholder confidence and financial flexibility over time.

Liquidity: adequate (unchanged). Bayer Construct's liquidity is still adequate, supported by the company's consistent track record of rolling over or repaying debt, and the absence of significant debt maturities in the short term. Availability of long term and undrawn credit facilities is very limited, and therefore liquidity management is dependent on the ability of Bayer Construct to generate positive free cash flow and to renew maturing loans, even during a period of significantly lower turnover.

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). Following today's downgrade of the senior unsecured debt rating to B, Bayer Construct has entered the grace period. This means the company must ensure the debt rating returns to B+ before the grace period ends on 6 August 2028, unless the rating falls below B-. If the debt rating does not return to B+ within the grace period, the company could face severe liquidity constraints and enter a default, unless it obtains refinancing that covers the early repayment of the outstanding bond amount or it proactively obtains an investor waiver related to the repayment acceleration.

External Rating Drivers: credit-neutral. External Rating Drivers are deemed credit-neutral.

One or more key drivers of the credit rating action are considered an ESG factor.

Outlook and rating sensitivities

The **Negative Outlook** incorporates heightened uncertainty and reputational risks related to the Zugló City Center project, following MNV's formal notice regarding its intention to withdraw from the office purchase transaction. It also reflects Scope's view that Bayer Construct remains exposed to elevated business risks arising from the high concentration of its order backlog. The reported order backlog is highly concentrated on a limited number of projects and counterparties, which represents a cluster risk for cash flows.

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

1. Improving order backlog and execution, along with reduced concentration risks

2. Continuous ability to generate positive free operating cash flow, supporting liquidity

3. Resolution of uncertainties surrounding the Zugló City Center project, with no material adverse impact on business prospects or financial flexibility

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

1. Material decline in the order backlog without adequate replenishment, impairing revenue visibility and earnings generation

2. Worsening of liquidity

3. Adverse developments related to the Zugló City Center project that materially weaken business prospects or financial flexibility

Debt rating

Scope has downgraded the rating on senior unsecured debt issued by Bayer Construct Zrt to B from BB-, in line with the issuer rating. Scope expects an 'average' recovery (30%-50%) for outstanding senior unsecured debt in a hypothetical default scenario in 2027, based on the company's liquidation value.

Environmental, social and governance (ESG) factors

Scope acknowledges the potential reputational and indirect risks to emerge over time following recent developments surrounding the Zugló City Center project. These considerations are reflected in the one-notch negative adjustment applied under Supplementary Rating Drivers.

All rating actions and rated entities

Bayer Construct Zrt.

Issuer rating: B/Negative, downgrade and Outlook change

Senior unsecured debt rating: B, downgrade

**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 Outlook, (General Corporate Rating Methodology, 24 April 2026; Construction and Construction Materials Rating Methodology, 24 April 2026), are available on 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 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 scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): registers.esma.europa.eu/cerep-publication. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at 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 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 Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity 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 these 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 Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings and Outlooks were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and Outlooks 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 30 April 2026.

Potential conflicts

See scoperatings.com under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings, as well as a list of Ancillary Services and certain non-Credit Rating Agency services provided to Rated Entities and/or Related Third Parties.

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