S&P Global
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Research

Bulletin:

CPI Property Group Disposals In The Next 12-18 Months Should Support Its Balance Sheet

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PARIS (S&P Global Ratings) April 13, 2023--S&P Global Ratings said today that the credit metrics of CPI Property Group S.A. (CPI) should remain commensurate with our current rating level, supported by its public disposals program over the next 24 months.

As per its recently published 2022 results, we understand the company remains committed to deleveraging, mainly through its €2 billion asset disposals plan announced in August 2022 for the next 12-24 months, offsetting any further potential valuation declines. Although we still believe that the transaction market remains challenging and funding conditions unfavorable, we continue to assume around €1.0 billion of asset disposals per year over the next 24 months in our base case. We note that CPI already executed €400 million worth of disposals during the first quarter of 2023, with moderate, less than 10%, discounts to the latest appraised values. We also understand CPI currently has around €1.0 billion of letters of intent signed.

In addition, we conservatively assume a potential 5%-8% negative evolution of the portfolio value over the next 12-18 months after 1% devaluation during 2022, due to potential further yield expansion. This would be only partially mitigated by positive impact from indexation of rental income. Overall, we expect the company's debt-to-debt plus equity ratio to decrease from around 57.5% at end-2022 (50.9% in reported loan to value) to about 52%-55% over the next 12-24 months, improving the headroom at the current rating level (60% downside threshold). We take into account the company's financial policy target of a loan-to-value ratio of 40%, translating into an S&P Global Ratings-adjusted ratio of debt to debt plus equity of about 47%. However, we believe the company will only reach its financial policy target beyond our two-year rating horizon.

CPI reported a 7.6% like-for-like growth in rental income for 2022. We now expect 5%-8% like-for-like growth over 2023, slowing to 1%-3% in 2024, mostly reflecting indexation of leases in the current inflationary context. We still expect a broadly stable overall occupancy over the coming 24 months, which was down to 92.8% at end-2022, versus 93.8% at end-2021, mostly due to the offices segment.

Our nonannualized debt-to-EBITDA ratio of more than 21x at end-2022 was distorted due CPI's acquisition of Immofinanz in May and S-Immo in November, for which EBITDA contribution was therefore not fully captured. We still forecast this ratio will decrease to 14x-15x over the next 12-24 months, including full EBITDA contribution from recent transactions.

Our EBITDA interest coverage ratio stood at around 2.2x at the end of 2022. Although we expect this ratio to gradually deteriorate in the real estate sector over the coming years, due to rising interest rates, we still expect this ratio for CPI to remain well above its 1.8x downside threshold over the next 24 months, given its limited refinancing needs over the forecast horizon and our expectations that CPI will use disposal proceeds to reduce its gross debt level, in line with its strategy. CPI's next material debt maturity is the drawn portion of its bridge facility of around €1.6 billion maturing in the first half of 2025. At end-2022, CPI had approximately €1.0 billion of cash and cash equivalents and €815 million of undrawn bank lines maturing after the next 12 months. This should comfortably cover its upcoming short-term debt maturities of about €695 million in 2023 and about €845 million in 2024.

Although the company's portion of secured debt has increased following the acquisitions of Immofinanz and S-Immo, from around 11% of total assets (at fair value) in 2021 to 21% in 2022, we still expect this ratio to remain below 40%, the threshold under which we would typically notch down the unsecured debt issue rating. As a result, although unsecured debt issuance is structurally subordinated to other debt obligations, the subordination does not affect the rating on the unsecured debt. Thus, we rate them at the same level as the issuer credit rating.

This report does not constitute a rating action.