Tear Sheet:

CPI Property Group S.A.

September 26, 2023

Primary contact

Kathleen Allard
Paris
33-14-420-6657
kathleen.allard
@spglobal.com

Secondary contact

Nicole Reinhardt
Frankfurt
49-693-399-9303
nicole.reinhardt
@spglobal.com

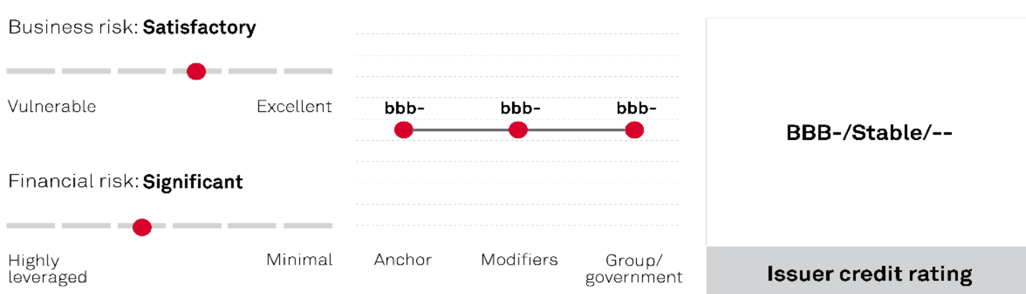
With solid like-for-like rental growth, broadly stable occupancy levels, and material contributions from recent acquisitions, we expect CPI Property Group S.A.'s (CPI's) strong operating performance will continue over the next 24 months. We assume like-for-like growth of 5%-7% in rental income for full-year 2023 (versus 8.3% in the first half of 2023), followed by 1.5%-3% per year in 2024 and 2025. We note that the company's revenue increased by 80% as of June 2023, on a rolling-twelve-months basis. This mainly results from the company's recent acquisitions of Immofinanz AG and S Immo AG, whose full-year contributions will only be visible at the end of 2023. Our expectation of robust like-for-like income growth during 2023 would also be supported by the company's inflation-linked rental contracts and, to a lower extent, by further recovery of its hospitality business and contributions from development projects. These growth factors should, however, be partly offset by potentially stagnating occupancy levels (92.3% at the end of June 2023)--notably in the office segment (48% of portfolio value as of June 2023) due to remote working--limited rental uplifts from extended or new leases in that segment, and the impact of potential asset disposals. Overall, we expect CPI's S&P Global Ratings-adjusted EBITDA will increase to about €700 million-€750 million in 2023 (from €525 million in 2022), €750 million-€780 million in 2024, and slightly more than €800 million in 2025.

The headroom under CPI's EBITDA-to-interest coverage ratio at the current rating has tightened because of higher refinancing costs, but we still expect this ratio will remain above our 1.8x downside threshold over the coming 24 months. While the company's funding cost may continue expanding to about 3.5% over the coming 24 months, from 3.02% at the end of June 2023 and 1.76% at the end of June 2022, its effect on CPI's EBITDA-to-interest coverage ratio should be partly compensated by CPI's increasing EBITDA generation and reducing gross debt level. In addition to our expectations of expanding EBITDA, we understand that the company remains committed to reducing its gross debt level, mainly through its €2 billion asset disposal plan for the next 24 months. The plan, which was announced in August 2022, should limit the rise of CPI's interest burden. Lastly, we assume in our base case that CPI will maintain its €635 million recently signed bridge loan in its capital structure, with related step-up margins, even though we understand the company plans to repay all bridge facilities by the first half of 2024. We forecast an EBITDA-to-interest coverage ratio of 1.9x-2.1x over the next 24 months, which would remain above our 1.8x downside threshold, although with a limited headroom.

We expect the company's debt-to-debt-plus-equity ratio will remain consistent with the current rating. Despite a potential further portfolio devaluation of 5%-8% in our base case, we continue to forecast that the debt-to-debt-plus-equity ratio will remain below our 60% downside threshold, at about 57%-58% in 2023 and 54%-56% in 2024 and 2025. This is because we still assume CPI will sell about €1.0 billion of assets in 2023 (it already sold €657 million in the first half of 2023) and €500 million-€1.0 billion in 2024. We have not incorporated any potential equity injections in our base case, as we believe their execution and timing remain uncertain at this stage. We also 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 debt-to-debt-plus-equity ratio of about 47%. Still, we continue to believe the company will only reach its financial policy target after our two-year rating horizon.

We expect CPI's liquidity will remain adequate. As of June 2023, the company had approximately €1.17 billion of cash and cash equivalents, €800 million available under its committed undrawn bank lines maturing after the next 12 months, and about €340 million in cash funds from operations forecast for the period. These sources should comfortably cover the company's €494 million debt maturities over the coming 12 months. We expect the company will address its €2.5 billion of debt maturities over the subsequent 12 months in a timely manner. Out of these debt maturities, the €1.4 billion outstanding bridge loan matures in the first half of 2025. After June 2023, this bridge loan was reduced to €1.0 billion through available cash and available bank lines. In addition, we note that CPI has signed a new €635 million three-year bridge loan in August this year, which would partly refinance the remaining €1.0 billion portion of the previous bridge loan and support the liquidity in the short term. We understand that CPI remains committed to maintaining ample liquidity headroom through solid relationships with banks and its asset disposal plan, which should compensate for the currently difficult access to debt markets. Furthermore, we understand that the company's covenant headroom remains adequate as per the latest testing period, and we expect this to continue. The company's main covenants include a consolidated leverage of maximum 60%, a consolidated coverage ratio of more than 1.9x, and a consolidated secured leverage of less than 45%.

Ratings Score Snapshot



Recent Research

- Industry Top Trends Update Europe: Real Estate (REITs), July 18, 2023
- CPI Property Group Disposals In The Next 12-18 Months Should Support Its Balance Sheet, April 13, 2023

Company Description

CPI is a real estate group focusing primarily on office (48% of portfolio value at the end of June 2023), retail (24%), residential (8%), and hotel properties (5%), in addition to other assets that mostly comprise land banks and development assets (15%). The company has more than 30 years of experience in the real estate market and operates in 12 countries in central and eastern Europe and Germany. With an overall portfolio value of €20.3 billion as of June 2023, the company operates primarily in the Czech Republic (27% of the portfolio), Germany (21%), Poland (13%), Austria (7%), Romania (8%), and Hungary (7%), and is a leading retail and office landlord in these regions. CPI recently acquired Immofinanz AG and S Immo AG. Radovan Vitek owns 89% of CPI and Clerius Properties (an affiliate of Apollo Funds) own 5.5%. CPI is listed on the Frankfurt Stock Exchange.

Outlook

The stable outlook on the rating on CPI reflects our expectation that the company should maintain solid occupancy rates and achieve positive like-for like rental income growth. The company is supported by its inflation-linked rental contracts and benefits from the full-year contribution from its recent acquisitions. Our base case assumes the adjusted debt-to-debt-plus-equity ratio will be about 54%-58% in the next 24 months, with an EBITDA-to-interest coverage ratio of about 1.9x-2.1x and debt to annualized EBITDA at about 12x-15x.

Downside scenario

We could lower our ratings on CPI if:

- Debt to debt plus equity increases to 60% or above;
- EBITDA interest coverage decreases to 1.8x or below; or
- Debt to annualized EBITDA materially differs from our forecast.

The above could occur if the company's operational environment deteriorates, with occupancy levels falling or valuations strongly declining, or if CPI is unable to execute its asset disposal strategy or continues its acquisitive direction. We could also take a negative rating action if unexpected events further weaken the company's creditworthiness.

Upside scenario

We could raise the ratings if:

- Adjusted debt to debt plus equity falls and stays well below 50%;
- EBITDA-to-interest coverage increases well above 2.4x; and
- Debt to annualized EBITDA falls below 13x.

A positive rating action would also require CPI to successfully integrate recent transactions, including finalizing its asset disposal plans, so that cash flow generation becomes highly visible and predictable again. We would also expect CPI to establish a consistent strategy that reflects the market environment and does not impair its creditworthiness.

Key Metrics

CPI Property Group S.A.--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025

(Mil. EUR)	2019a	2020a	2021a	2022a	2023e	2024f	2025f
Revenue	488	432	491	947	1176	1197	1229
EBITDA (reported)	290	315	362	861	717	766	787
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--
Plus/(less): Other	-6	-9	-22	-336	0	0	21
EBITDA	284	307	340	525	717	766	808
Less: Cash interest paid	56	81	119	224	376	371	386
Less: Cash taxes paid	13	16	21	45	72	86	85
Plus/(less): Other	--	--	--	--	--	--	--
Funds from operations (FFO)	215	210	200	256	270	309	337
Debt (reported)	4,072	4,778	5,094	11,512	9,902	9,548	9,473
Plus: Lease liabilities debt	33	49	39	100	101	103	104
Plus: Pension and other postretirement debt	-3	-3	-3	-3	-3	-3	-3
Less: Accessible cash and liquid Investments	778	609	475	1,022	329	539	632
Plus/(less): Other	550	697	825	828	823	823	823
Debt	3,880	4,918	5,485	11,421	10,501	9,938	9,772
Cash and short-term investments (reported)	805	632	502	1,033	329	539	632
Adjusted ratios							
EBITDA margin (%)	58.2	70.9	69.2	55.5	61.0	64.0	65.7
EBITDA interest coverage (x)	3.8	2.8	2.5	2.1	1.9	2.1	2.1
Debt/EBITDA (x)	13.7	16	16.1	21.7	14.6	13.0	12.1
Debt/debt and equity (%)	44.1	49.1	44.4	57.5	57.8	55.4	54.1

Financial Summary

CPI Property Group S.A.--Financial Summary

Period ending	Dec-19	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23
Reporting period	2019a	RTM	2020a	RTM	2021a	RTM	2022a	RTM
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	488	467	432	441	491	643	947	1,158
EBITDA	284	292	307	313	340	392	525	685
Funds from operations (FFO)	215	198	210	183	200	215	256	286
Interest expense	76	94	111	123	135	170	248	333
Operating cash flow (OCF)	226	215	188	163	333	388	361	399
Capital expenditure	337	331	187	126	196	248	340	353
Dividends paid	19	19	26	23	267	268	66	65

Cash and short-term investments	778	311	609	221	475	1,504	1,022	1,139
Debt	3,881	4,802	4,918	5,856	5,485	10,243	11,421	10,976
Common equity	4,920	4,786	5,090	5,267	6,870	9,586	8,436	8,480
Adjusted ratios								
EBITDA margin (%)	58.2	62.6	70.9	70.9	69.2	61.0	55.5	59.1
EBITDA interest coverage (x)	3.8	3.1	2.8	2.5	2.5	2.3	2.1	2.1
Debt/EBITDA (x)	13.7	16.4	16.0	18.7	16.1	26.1	21.7	16.0
Debt/debt and equity (%)	44.1	50.1	49.1	52.6	44.4	51.7	57.5	56.4

Peer Comparison

CPI Property Group S.A.--Peer Comparisons

	CPI Property Group S.A.	NEPI Rockcastle N.V.	Merlin Properties Socimi S.A.	Globalworth Real Estate Investments Ltd.
Foreign currency issuer credit rating	BBB-/Stable/--	BBB/Stable/--	BBB/Positive/--	BB+/Stable/--
Local currency issuer credit rating	BBB-/Stable/--	BBB/Stable/--	BBB/Positive/--	BB+/Stable/--
Period	RTM	RTM	RTM	RTM
Period ending	Jun-23	Jun-23	Jun-23	Jun-23
Revenue	1,158	469	458	158
EBITDA	667	424	350	130
Funds from operations (FFO)	268	322	285	85
Interest expense	333	71	79	49
Operating cash flow (OCF)	399	325	255	81
Capital expenditure	353	165	465	59
Dividends paid	65	165	665	32
Cash and short-term investments	1,139	343	209	125
Debt	10,976	2,299	3,970	1,286
Equity	8,480	4,130	6,693	1,632
Valuation of investment property	18,201	6,779	11,195	2,864
Adjusted Ratios				
EBITDA margin (%)	58	90.5	76.4	82.4
EBITDA interest coverage (x)	2.1	6.0	4.4	2.6
Debt/EBITDA (x)	16.0	5.4	11.4	9.9
Debt/debt and equity (%)	56.4	35.8	37.2	44.1

Environmental, Social, And Governance

Governance factors are a moderately negative consideration in our credit rating analysis of CPI. We believe CPI's recent related-party transactions--such as family-related deals, cross-stake holdings, or growth through joint ventures--create governance-related risks and complexity, which could harm the company's operational performance or creditworthiness. That said, we understand that CPI is taking measures to improve its governance structure, such as the appointment of a minority shareholder representative from Apollo Global Management at the board level. CPI's largest shareholders, Mr. Vitek and his wife, stepped down from the board. Environmental and social factors are an overall neutral consideration in our credit rating analysis of CPI Property Group. The company has embedded sustainability in its strategy and targets to reduce scope 1, 2, and 3 greenhouse gas emissions by 32.4% by 2030, from 2019 levels, up from the previous target of 20%. CPI also plans that 100% of the electricity it purchases comes from renewable sources by 2024.

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/--
Local currency issuer credit rating	BBB-/Stable/--
Business risk	Satisfactory
Country risk	Intermediate
Industry risk	Low
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011