S&P Global Ratings

RatingsDirect®

Research Update:

CPI Property Group Outlook Revised To Negative On Tightening Credit Metrics Despite Disposal Success; 'BBB-' Affirmed

December 18, 2023

PRIMARY CREDIT ANALYST

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

SECONDARY CONTACTS

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

Luis Peiro-camaro, CFA
Madrid
+34 91 423 31 97
luis.peiro-camaro@spglobal.com

Rating Action Overview

- Despite material disposals of about €1.1 billion signed during 2023, we expect CPI Property Group S.A. (CPI)'s credit metric headroom to remain tight for the rating over the coming 12-18 months.
- In addition, despite the successful refinancing of its bridge facility due 2025 and the significant progress made in secured bank refinancings, we note large debt maturities still to be refinanced over 2024-2025, totaling about €1.2 billion.
- We therefore revised our outlook on CPI to negative from stable and affirmed the 'BBB-' long-term issuer credit rating and issue ratings on the company and its unsecured debt, and 'BB' issue rating on the subordinated debt.
- The negative outlook indicates a one-in-three chance that we could lower our ratings on CPI in the next 12-18 months if persistent challenging market conditions prevent the company from maintaining adequate liquidity, or cause its debt to debt plus equity to exceed 60% and EBITDA interest coverage to decrease to 1.8x.

Rating Action Rationale

Challenging market conditions and high refinancing costs continue to pressure CPI's EBITDA-interest-coverage and debt-to-debt-plus-equity ratios, and we expect limited rating headroom over the coming 12-18 months. We note that CPI's reported net loan-to-value (LTV) ratio stood at 50.6% in its third-quarter update, down 30 basis points from year-end 2022 but slightly up from 49.9% in first-half 2023. The company has signed significant disposals of about €1.1 billion so far in 2023, and we understand a further €565 million in net disposal proceeds will be cashed post Sept. 30, 2023, including the recently announced sales of the Hvar hotel resort and the Crans Montana ski resort in November. However, even with these, its pro forma LTV would decrease to 49.1% excluding any potential impact of full-year devaluations, translating into

adjusted debt to debt plus equity of about 56%. Our updated base case takes into account about 7%-8% devaluations in 2023-2024 on the back of expanding yields in a challenging real estate market. Therefore, we forecast a debt-to-debt-plus-equity ratio of 58-60% over 2023-2025 and an EBITDA-interest-coverage ratio of 1.9x-2.1x. While these ratios would remain within the 60% and 1.8x downside thresholds under our base case, rating headroom is now limited. The higher-cost bridge loan and exponential increase in the Euro Interbank Offered Rate (Euribor) have increased CPI's average cost of debt to 3.02% as of June 30, 2023, from 2.45% as of year-end 2022. We expect it to reach about 3.2%-3.4% by year-end 2023 despite CPI's relatively high proportion of fixed-rate debt at 78% (89% excluding the bridge loan) and a good weighted-average debt maturity of 4.8 years (excluding the bridge loan) as of June 30, 2023. However, we expect the company will continue its disposals program as part of its deleveraging efforts, thereby reducing gross debt over our rating horizon and mitigating the rising interest burden.

CPI´s liquidity remains solid for the next 12 months but significant debt maturities are coming up in 2025 and 2026. The company has €757 million of debt maturities over 2024, €408 million over 2025, and about €2 billion in 2026. It has signed about €1.2 billion of new external financing in the year to date, demonstrating still-solid relationships with banks. We understand that a substantial portion of the upcoming debt maturities in 2024 relates to a Berlin portfolio, which the company has stated will be refinanced in the near term. Still, we note CPI's current access to capital markets remains very challenging and its bonds' credit spreads have widened in the past few months. The company has taken several steps to de-risk its debt maturity and refinancing schedule and recently refinanced its bridge facility with €1.4 billion outstanding as of June 30, 2023, due 2025, with a new €635 million bridge facility, which--at agreed conditions--will likely strain EBITDA interest coverage further if not refinanced at more favorable terms ahead of maturity. While most credit ratios currently have relatively good headroom to the company´s financial covenants, we note declining EBITDA interest coverage, which should remain above 1.9x as per the terms, and was reported at 2.6x in the third quarter from 3.2x at year-end 2022.

Persistent deviations from the company's financial policy target of a maximum 40%-45% LTV, and the complex corporate structure, heighten refinancing risk and put the rating under pressure. The company's mainly debt funded mergers and acquisitions (M&A), including of Immofinanz and S-Immo, and growth through joint ventures have resulted in leverage beyond its long-term target, increased complexity, and reduced transparency in the corporate structure. Moreover, recent intragroup asset transactions--such as the disposal of seven offices assets, three commercial properties, and a land plot to S-Immo for a total consideration of €481 million to upstream cash from subsidiaries to the holding company--are further increasing complexity. While we understand this and other previous related-party, family, or intragroup transactions are performed on an arm's-length basis at market consistent valuations, they increase complexity and introduce possible risks relating to the company's stakeholders and credit quality. We remain cautious on any transactions that could create risks of conflicts of interest, potentially harming the company's credit profile.

We expect CPI's segment diversity, lease indexation, and good quality portfolio to support resilient operating performance despite market and economic headwinds. CPI posted 8.2% like-for-like growth in net rental income to €609 million as of Sept. 30, 2023, on the back of its continued ability to pass on inflation to its tenants. About 90% of CPI's lease contracts are subject to indexation at their anniversary dates. CPI posted a decrease in occupancy to 91.8% as of Sept. 30, 2023, from 92.8% at year-end 2022, mainly driven by lower retail and office occupancy. We expect rental income growth to normalize toward 2.5%-3.0% in 2024 as inflation slows and

vacancy rates increase, especially for office assets in secondary locations and retail assets that host suffering fashion retailers such as Takko Fashion, which represented 0.9% of CPI's total rental income. The company's strategy to focus on higher-yielding assets and dispose of lower-yielding ones will support cash flow generation and its capacity to service debt commitments. Moreover, the stable lease maturity profile at 3.5 years (versus 3.4 years at year-end 2022) and good quality tenant base further support cash flow predictability and visibility.

Outlook

The negative outlook indicates a one-in-three chance that we lower the ratings in the next 12-18 months if persistent challenging market conditions prevent CPI from maintaining adequate liquidity or cause its debt to debt plus equity to exceed 60% and EBITDA interest coverage to decrease to 1.8x.

Downside scenario

We could lower our ratings on CPI within next 12-18 months if:

- It does not sustain a comfortable liquidity buffer commensurate with an investment-grade rating;
- Debt to debt plus equity increases to 60% or above;
- EBITDA interest coverage decreases toward 1.8x or below; or
- Debt to annualized EBITDA materially differs from our forecast.

This could happen if CPI cannot continue deleveraging through asset disposals, records portfolio devaluations beyond our forecasts, or refinances its upcoming debts maturities at worse than currently anticipated conditions. We could also take a negative rating action if unexpected events further weaken the company's creditworthiness, such as substantial share buybacks..

Upside scenario

We could revise the outlook back to stable if CPI demonstrates financial discipline within the coming 12-18 months, including:

- Adjusted debt to debt plus equity remaining comfortably below 60%;
- EBITDA interest coverage sustained above 1.8x; and
- A continued comfortable liquidity cushion through favorable access to several funding sources, including disposals or equity-like instruments.

This could happen if CPI executes its deleveraging strategy in a timely manner while still achieving strong operating performance, such as positive like-for-like rental growth, high occupancy rates, and limited portfolio devaluations. A positive rating action would also hinge on CPI taking actions in support of its financial policy targets.

Company Description

CPI is a real estate group focusing primarily on office (48% of portfolio value at June 30, 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 markets and operates in 12 countries in Central and Eastern Europe and Germany. With an overall portfolio value of €20.3 billion as of June 30, 2023, CPI 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 countries. CPI recently acquired Immofinanz AG and S Immo AG. Radovan Vitek owns 89% of CPI and Clerius Properties (an affiliate of Apollo Funds) owns 5.5%. CPI is listed on the Frankfurt Stock Exchange.

Our Base-Case Scenario

Assumptions

- Eurozone consumer price index growth of about 5.5% in 2023, slowing to 2.9% in 2024 and 2.0% in 2025; real GDP growth of 0.6% in 2023, 0.8% in 2024, and 1.5% in 2025; unemployment rates of 6.4% in 2023 and 6.5% over 2024-2025.
- Total like-for-like rental income growth at about 7.0% in 2023, after 8.2% in the first nine months of the year, and 1.5%-3.0% per year over 2024-2025. This will mainly be on benefits from inflation-linked lease agreements and recovery of the company's hospitality business, but partly offset by our expectations of stagnating occupancy levels in the office segment.
- Potential portfolio devaluations totaling 7%-8% over 2023-2024, with expected yield expansion partially mitigated by the positive rental effect from indexation.
- Net disposal proceeds of about €1.0 billion in 2023 and an additional €500 million–€700 million over 2024.
- Annual capital expenditure (capex) of about €350 million over 2023, reducing to €250 million-€300 million over 2024, and €200 million-€250 million over 2025, including maintenance and development capex.
- Annual share buybacks of €80 million-€100 million over 2024-2025, close to 2023 levels.
- We assume CPI maintains its recently refinanced €635 million bridge loan until maturity. Although we understand the company plans to repay all bridge facilities in first-half 2024.
- Any required debt refinancing is at about 7%-8% interest rates, since we understand the company still has access to cheaper funding than current market rates through its bank refinancing.

Key metrics

- EBITDA to interest coverage of 1.9x-2.1x over 2023-2024, improving to 2.0x-2.4x in 2025.
- Debt to debt plus equity of 59%-60% in 2023, reducing slightly to about 58%-59% over 2024-2025.

- Debt to EBITDA of 14x-15x in 2023, reducing to 12.5x-13.0x over 2024-2025.

Liquidity

We assess CPI's liquidity as adequate. This is based on our forecast that the company's liquidity sources will exceed its funding needs by comfortably more than 1.2x over the 12 months from Sept. 30, 2023. Although we understand the company still benefits from good access to bank funding, we note quite sizable debt maturities over the next 24 months.

Principal liquidity sources over the next 12 months started Sept. 30, 2023, include:

- Unrestricted cash and cash equivalents of about €1.0 billion;
- About €550 million of undrawn bank lines maturing beyond the next 12 months;
- Our estimate of about €350 million-€370 million of cash funds from operations;
- €565 million of committed asset disposal net proceeds to be received post Sept. 30, 2023;
- €635 million of signed new bridge facility, due 2026; and
- €187 million of newly signed secured debt funding.

Principal liquidity uses over the next 12 months started Sept. 30, 2023, include:

- €775 million of contractual debt maturities, including bank loans and bond maturities;
- About €1 billion of the 2025 bridge facility, which was repaid in fourth-quarter 2023;
- About €100 million of estimated committed capex; and
- €80 million of share repurchases announced and completed in November 2023.

Covenants

We understand that the company had adequate headroom (more than 10%) under its bond and bank covenants as of Sept. 30, 2023. We expect CPI will maintain sufficient headroom under these covenants.

The main bond covenants (more restrictive) include the following consolidated ratios:

- Leverage of less than 60%, versus 49.1% reported as of third-quarter 2023 pro forma disposals;
- Interest coverage of above 1.9x, versus 2.6x reported as of third-quarter 2023; and
- Secured debt to total asset-intangible assets of under 45%, versus 21.8% reported as of third-quarter 2023.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Negative/--
Business risk:	Satisfactory
Country risk	Intermediate

Issuer Credit Rating	**BBB-/Negative/--**
Industry risk	Low
Competitive position	Satisfactory
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Modifiers:	
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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

Ratings List

Ratings Affirmed; Outlook Action

	To	**From**
CPI Property Group S.A.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--

Ratings Affirmed; Outlook Action

	To	From
Senior Unsecured	BBB-	
Subordinated	BB	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.