CPI Property Group S.A.

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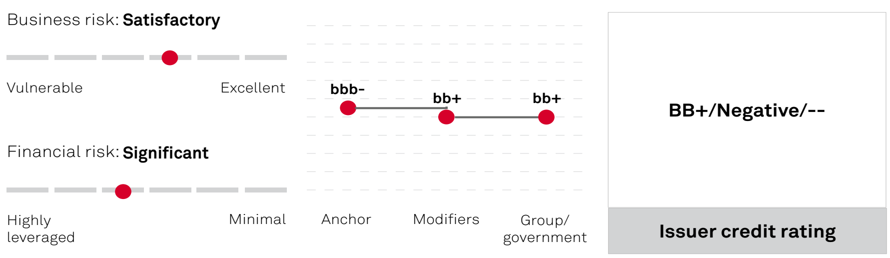
Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
Large and diversified property portfolio--comprising offices, retail assets, residential, and land bank--worth €18.6 billion as of June 30, 2024.	Relatively high leverage with a debt to debt plus equity of 58%, and higher cost of funding that weighs on EBITDA interest coverage, which stands at only 1.8x.
Solid market positions in its property segments across central eastern Europe such as the Czech Republic, Germany, Poland, Romania, and Austria among others.	Deteriorating economic prospects in key markets like Germany weighing on demand for office space, rental growth, and occupancy levels.
Proven access to capital markets following recent €700 million September 2024 bond issuance and recently refinanced RCF that improves short-term liquidity prospects.	Sizable upcoming debt maturities in 2026 and 2027 and higher cost of funding that could pressure EBITDA interest coverage and liquidity if disposals are not secured on time.
	Complex corporate structure hampering liquidity accessibility, resulting in potential cash flow leakage.

Successfully completing €1.2 billion of asset disposals will help reduce leverage, partially mitigating higher cost of funding. The company secured €1.2 billion in asset sales year to date, which reduced reported net debt by €848 million compared to year-end 2024. We expect S&P Global Ratings adjusted debt to debt plus equity will improve to around 58% in 2024 and 56%-57% in 2025, from 59.8% at year-end 2023, despite our negative revaluation assumption of 3%-

4% over 2024 and 2025. We also expect debt to EBITDA to improve to 14x-15x in 2024, dropping further to 13x-14x in 2025, from 15.9x at year-end 2023.

The company plans to dispose €1 billion of assets in 2025 and a further €500 million per year to return to the financial policy target of reported net loan to value of 40%. Gross debt reduction, following a successful asset sales program, will likely partially mitigate the higher cost of funding on new debt raised and upcoming refinancings. While the May €500 million and September €700 million bond issuances support liquidity and contribute to reducing 2026 and 2027 debt maturities, the higher cost of funding at 7% and 6%, respectively, coupled with lost EBITDA from asset disposals, will weigh on the company’s interest-servicing capacity, despite the reduction in gross debt. We therefore expect EBITDA interest coverage to remain low at 1.6x-1.8x over the next 12-24 months compared to 1.8x as of year-end 2023.

CPI’s diversified asset and geographical portfolio base partially mitigates market headwinds in Germany, CPI’s second-largest market by value and rental income. Worsening economic prospects in Germany, coupled with political uncertainty and a fragile labor market, may weigh on demand for office space for a prolonged period, hindering occupancy prospects for CPI’s Berlin office portfolio. Germany represented 18% of total portfolio gross asset value (GAV) and 15% of total rents as of June 30, 2024, with offices representing 91% of CPI’s German portfolio. Berlin office portfolio occupancy decreased to 85.8% as of June 30, 2024, from 88.7% as of year-end 2023. This weighed on the group’s overall occupancy, which decreased to 91.3% as of June 30, 2024, from 92.1% as of year-end 2023. Occupancy slipped further in third-quarter 2024 to 90.9% due to office departures in Warsaw, which the company expects to offset thanks to signed leases in fourth-quarter 2024. Additionally, as a result lower inflation across CPI's geographies, reduced rental indexation component, and worsening occupancy levels and subdued letting activity in Germany, rental income growth decreased to 3.6% on a like-for-like basis as of third-quarter 2024, down from 4.6% as of first-half 2024 results and 5.5% from first-quarter 2024.

That said, resilient retail assets, which were 96.5% occupied as of June 30, 2024, and hotel operations should continue to partially mitigate office portfolio sluggish performance. This stems from sustained consumption and economic growth in Czech Republic, Poland, Austria, Hungary, and Slovakia, where the majority of CPI’s retail and hotel portfolio (€4.8 billion and €1.0 billion, respectively) are present.

CPI's new RCF, bond issuance, and subsequent debt repayment supports liquidity over the next 12 months, positioning it to tackle high debt maturities in 2026 and 2027. The company signed a new €400 million, revolving credit facility (RCF) with a three-year maturity and an accordion feature for up to €500 million. This replaces the existing €700 million RCF maturing in January 2026, which is still drawn for up to €190 million. Similarly, the recent €700 million bond issuance and subsequent successful tender offer over part of 2026 and 2027 debt maturities contributes to streamlining the large debt maturities ahead of €1 billion due in 2026 and a further €1.6 billion due in 2027.

The company is still dependent on securing additional asset disposals and accessing capital markets for additional liquidity to meet upcoming debt maturities, especially at the holding level. Of the majority of its €1.2 billion disposals, roughly 64% have been completed at S Immo and Immofinanz level, which are not fully available for debt repayment at the CPI Property group level. That said, the company has sufficient liquidity sources and reduced its upcoming debt maturities over the next 12 months.

S Immo's squeeze out is the first step to reduce corporate complexity, but large minorities remain at the Immofinanz level. CPI Property Group successfully sold its S Immo shares to

Immofinanz for €608.5 million. The subsequent squeeze out at S Immo will result in Immofinanz owning S Immo 100%. The shares acquisition will be partially financed via a €500 million vendor loan, with the remaining portion paid in cash. The squeeze out resulted in a cash outflow at Immofinanz of €115 million-€120 million, with affected shareholders receiving cash compensation of €22.05 per share.

While these transactions reduce corporate complexity by eliminating minorities at S Immo and concentrates single ownership under Immofinanz, large minorities remain at Immofinanz, which hamper liquidity access and represent a potential source of cash flow leakage from the combined S Immo and Immofinanz portfolio. Similarly, the company announced it is no longer considering a fast squeeze out of Immofinanz or a merger of Immofinanz into CPI Property Group in favor of other possibilities. In the meanwhile, minorities at the group's largest subsidiary, whose combined portfolio with S Immo represents around 44% of the fully consolidated CPI Property Group property portfolio, distorts the company's cash flow base and liquidity, weighing on creditworthiness.

Outlook

The negative outlook indicates that we could lower the ratings within the next six to nine months if CPI fails to execute its deleveraging plan in a timely manner, with its reported loan to value (LTV) approaching its financial policy of 40%.

We could also lower the issuer credit rating if CPI fails to maintain adequate liquidity buffers, such that upcoming debt maturities are not refinanced in a timely manner or undrawn available credit facilities do not roll over.

Downside scenario

We could lower our rating on CPI if:

- The company fails to maintain a comfortable liquidity buffer;
- Debt to debt plus equity increases to 60% or higher;
- EBITDA interest coverage deteriorates to well below 1.8x; or
- Debt to annualized EBITDA deviates materially from our base case.

This could happen if CPI does not execute its asset disposal plan, records portfolio devaluations beyond our forecasts, or faces funding conditions worse than our expectations.

We could also take a negative rating action if unexpected events weaken creditworthiness, such that available cash is not used to lower leverage in favor share buybacks larger than our forecast, provisions of shareholder loans, acquisitions involving future debt repayments to its main shareholder.

Upside scenario

We could revise the outlook to stable if the company restores its credit metrics, with:

- Debt to debt plus equity below 60%;
- EBITDA interest coverage above 1.8x; and
- Debt to annualized EBITDA in line with our base case.

An outlook revision to stable is also contingent on CPI's financial discipline, including adherence to its publicly stated financial policy of 40% LTV, and whether it limits shareholder remuneration via shareholder loans, dividends, or share repurchases. It is also contingent on the company maintaining an adequate liquidity buffer to cover its upcoming debt maturities.

Our Base-Case Scenario

Assumptions

- Eurozone CPI growth of around 2.4% in 2024, reducing further to 2.1% in 2025.
- Real GDP growth of 0.8% in 2024 and 1.2% in 2025.
- Slight deterioration in unemployment of 6.4% in 2024 and 6.5% 2025.
- Like-for-like rental income growth of 3.5%-4.0% in 2024 and 1.5%-3.0% per year over 2025-2026, mainly benefiting from inflation-linked lease agreements, although decreasing as inflation recedes further; growth partly offset by likely stagnating occupancy levels in the office segment.
- Potential portfolio devaluation of 3%-4% over 2024-2025, with expected yield expansion partly mitigated by the positive rental impact from indexation.
- Net disposal proceeds of about €1.75 billion in 2024 (including the completed minority stake disposal in Poland), an additional €800 million in 2025, and €600 million in 2026. No acquisitions over 2024-2026.
- Expected cash outflow of about €120 million related to the completed buyout of S Immo's minority shareholders.
- Annual capex of €400 million-€420 million in 2024, reducing to €330 million-€350 million in 2025, including maintenance and development capex.
- Annual share buybacks of €80 million-€100 million over 2024-2025, close to the 2023 level. No common dividends.
- Debt refinancing--if required--at interest rates of 5%-7%, in line with the recently issued bond and CPI's most recent bank refinancings.
- Hybrid instruments replaced at their first call date at a cost of around 10-12%, keeping the same equity content per S&P criteria.

Key metrics

CPI Property Group S.A.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	432	491	947	1,212	1,100-1,200	1,100-1,200	1,100-1,200
EBITDA	307	340	525	695	670-700	660-690	670-700
Funds from operations (FFO)	210	200	256	208	220-240	220-240	230-250
EBIT	256	320	500	667	660-690	660-690	640-670
Interest expense	111	135	248	386	380-400	370-390	360-380
Cash flow from operations (CFO)	188	333	361	248	260-280	270-290	260-280
Capital expenditure (capex)	187	196	340	322	400-420	330-350	330-350

CPI Property Group S.A.--Forecast summary

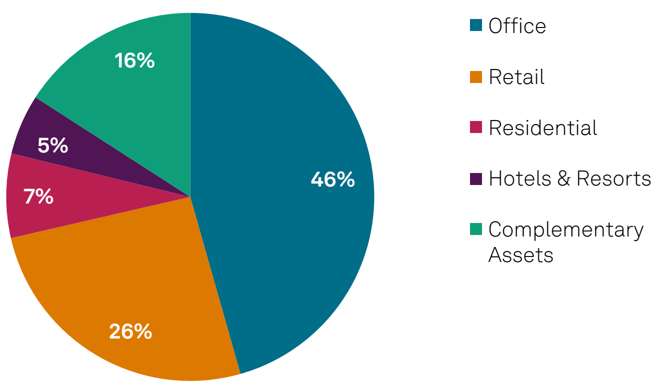
Free operating cash flow (FOCF)	1	137	21	(74)	(150)-(170)	(60)-(80)	(60)-(80)
Debt	4,918	5,485	11,421	11,067	9,700-9,800	9,100-9,200	8,700-8,800
Equity	5,090	6,870	8,436	7,430	6,900-7,000	6,900-7,000	6,900-7,000
Adjusted ratios							
Debt/EBITDA (x)	16.0	16.1	21.7	15.9	14-15	13-14	13-14
EBITDA interest coverage (x)	2.8	2.5	2.1	1.8	1.6-1.8	1.6-1.8	1.6-1.8
EBITDA margin (%)	70.9	69.2	55.5	57.3	55-57	55-57	55-57
Debt/debt and equity (%)	49.1	44.4	57.5	59.8	57-58	56-57	55-56

Company Description

CPI is a real estate group focusing primarily on offices (46% of the portfolio's value on June 30, 2024), as well as retail (26%), residential (7%), and hotel properties (5%). It also owns other assets that mostly comprise land banks and development assets (16%).

CPI Properties S.A. segment portfolio breakdown

As of June 30, 2024

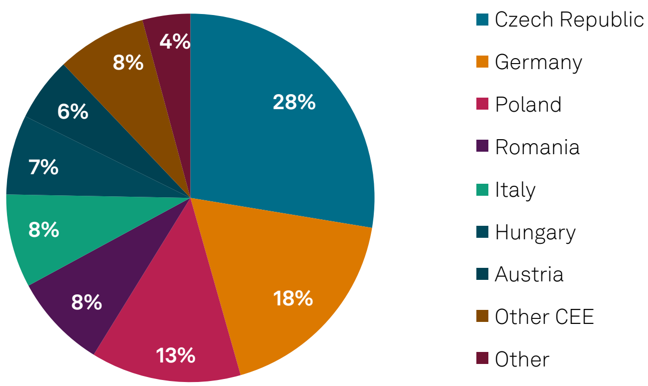


Source: S&P Global Ratings.

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 €18.6 billion as of June 30, 2024, CPI operates primarily in the Czech Republic (28% of the portfolio), Germany (18%), Poland (13%), Romania (8%), Italy (8%), Hungary (7%), and Austria (6%), and is a leading retail and office landlord in these countries. Radovan Vitek is the majority shareholder via the Vitek family trust, which owns 89.29% of CPI. Clerius Properties (an affiliate of Apollo Funds) owns 4.54%, and the rest is in free float. CPI is listed on the Frankfurt Stock Exchange.

CPI Properties S.A. geographical portfolio breakdown

As of June 30, 2024



CEE--Central Eastern Europe. Source: S&P Global Ratings.

Peer Comparison

CPI Property Group S.A.--Peer Comparisons

	CPI Property Group S.A.	Alstria Office REIT-AG	Globalworth Real Estate Investments Ltd.	Citycon Oyj	CTP N.V.
Foreign currency issuer credit rating	BB+/Negative/--	BB/Negative/--	BB+/Negative/--	BBB-/Negative/A-3	BBB-/Stable/--
Local currency issuer credit rating	BB+/Negative/--	BB/Negative/--	BB+/Negative/--	BBB-/Negative/A-3	BBB-/Stable/--
Period (Rolling twelve months)	Semiannual	Semiannual	Semiannual	Semiannual	Semiannual
Period ending	2024-06-30	2024-06-30	2024-06-30	2024-06-30	2024-06-30
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	1,197.5	171.1	171.0	204.7	679.4
EBITDA	713.6	157.0	127.2	177.1	507.7
Funds from operations (FFO)	282.0	80.4	50.8	105.2	277.0
Interest expense	395.8	132.6	63.5	74.6	180.0
Operating cash flow (OCF)	295.1	109.4	61.3	114.9	388.4
Capital expenditure	383.6	130.0	62.1	81.7	862.5
Free operating cash flow (FOCF)	(88.5)	(20.6)	(0.8)	33.2	(474.1)
Debt	10,481.3	3,153.6	1,082.2	2,301.6	6,880.1
Equity	7,604.8	1,682.7	1,535.6	1,759.4	6,680.9
Adjusted Ratios					
Debt/EBITDA (x)	14.7	20.0	8.5	13.0	13.6
EBITDA interest coverage (x)	1.8	1.2	2.0	2.4	2.8
EBITDA margin (%)	59.6	91.8	74.4	86.5	74.7
Debt/debt and equity (%)	58.0	65.1	41.3	56.7	50.7

Business Risk

CPI's segment and geographical diversification and its sizable portfolio (€18.6 billion as of Sept. 30, 2024) supports operating performance stability and cash flow visibility, despite sizable asset disposals of over €2.0 billion in 2023 and 2024 . CPI's segment and geographic diversification helps mitigate single-country or segment underperformance, which is a credit positive. The company benefits from considerable geographical diversity, as its asset base is spread across 10 countries, with 28% of its gross asset value located in the Czech Republic, 18% in Germany, 13% in Poland, 8% in Romania, 8% in Italy, 7% in Hungary, 6% in Austria and 12% spread across other as of June 30, 2024.

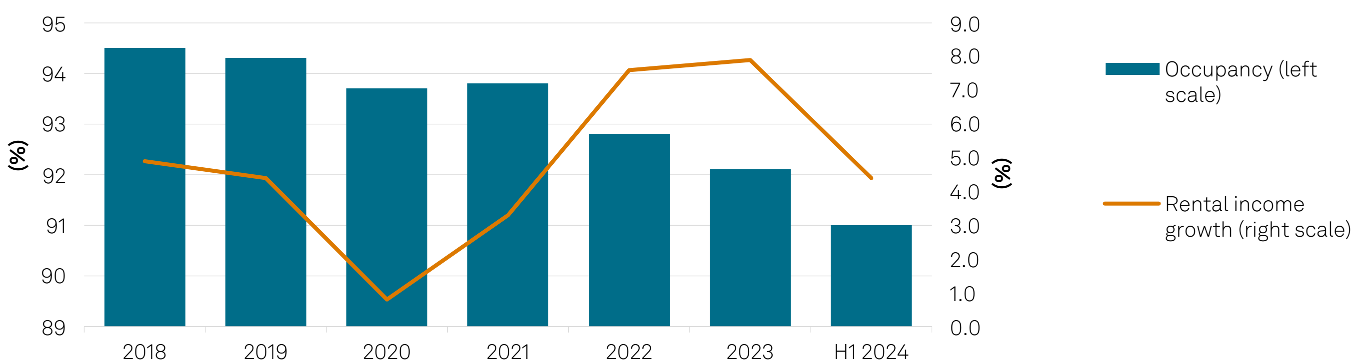
Additionally, the company's diversified portfolio base in terms of segment diversity supports earnings stability and predictability. It has a primary exposure to office assets (46% of total portfolio value), alongside retail assets (26%), residential assets (7%), and hotels and resorts (5%). The company also owns a large land bank and other complementary assets (16%).

CPI's office portfolio (46% of total portfolio GAV as of June 30, 2024) is spread across the main cities of central eastern Europe (CEE), with 30% in Berlin, 19% in Warsaw, 10% in Prague. 8% in Budapest, 7% in Vienna, and 6% in Bucharest. CPI's overall good asset quality, with office assets in the main economic centers of CEE, will likely continue to attract demand and benefit from supportive economic growth and more dynamic labor markets compared to other western European nations. That said, higher overall supply in these markets results in overall higher vacancy rates and lower market rents compared to more mature western European markets such as Paris, Madrid, and Milan, where supply and demand imbalance is greater. Additionally, current economic headwinds and political instability in Germany, CPI's main office market, weigh on office demand. Berlin's office portfolio occupancy deteriorated to 85.8% as of June 30, 2024, from 88.7% as of year-end 2023.

Overall office portfolio occupancy decreased to 87.8% as of June 30, 2024, from 88.7% as of year-end 2023 and from 89.9% a year earlier. We expect persistent adverse economic conditions in Germany and political uncertainty could weigh on business confidence over a prolonged period, and stagnating economic conditions in Europe as a whole will continue weighing on office-letting activity and rental growth going forward.

Rental income growth and occupancy levels on a like-for-like basis

As of June 30, 2024



Source: S&P Global Ratings.

Our assessment of CPI also considers its exposure to the retail and hotel property segment (26% and 5% of total portfolio GAV, respectively, as of June 30, 2024). Its performance recovery from the COVID-19 pandemic continues to benefit from supportive economic and consumption growth in CEE. Good retailer sales performance across the portfolio enabled CPI to pass on significant rental increases (3.8% like-for-like rental growth as of June 30, 2024) via indexation and rental reversion, while maintaining rental affordability, with an occupancy cost ratio of 11% for CPI's Czech shopping centers as of June 30, 2024. This compares well with other retail peers we rate, such as Mercialys (10.9%), Carmila (10.7%) and Klepierre (12.6%).

Resumed business and leisure travel following COVID-19 lockdowns and recovery in tourism flows have resulted in overall occupancy improvements to 58% as of June 30, 2024, which is slightly above 57% for first-half 2023, but still below pre-pandemic levels. That said, average daily rate has increased 16% as of June 30, 2024, compared to the same period last year, representing a 41% increase versus 2019 average daily rates, compensating for the slightly lower occupancy rates.

Going forward, we expect recent hotel disposals, such as Crans Montana resort disposal and the 50% joint venture sale of eight Czech hotels, will result in decreasing contribution of hotel assets to overall rental income, which stood at 7% of total group's net business income as of June 30, 2024. Nevertheless, we understand the company's hotel portfolio remains a core focus of the business strategy in terms of asset and geographical diversification.

Additionally, CPI's exposure to more resilient segments, such as residential, is only 7% of total portfolio value as of June 30, 2024. We view earnings quality and predictable cash flow as strong for this segment, partially mitigating the more cyclical and inherently volatile nature of office, retail, and hotel assets. CPI's residential portfolio, mainly located in the Czech Republic, continued to benefit from supportive fundamentals in terms of marked supply and demand imbalance, translating to growth in rents of 5.5% on a like-for-like basis as of June 30, 2024. Occupancy of 90.5% remains comparatively lower to other residential peers, but as the bulk of vacancy is related to refurbishing units, it should improve going forward.

The company is focusing on higher-yielding asset classes and, thus, plans to progressively dispose of its residential portfolio. The company recently announced its intention to create a Czech SICAV (open-end investment fund) structure aiming at partially disposing its Byty (Czech residential) portfolio to retail investors. The first phase of the project aims to divest around 10% of Byty, which has a total portfolio value of €922 million as of June 30, 2024.

Financial Risk

CPI's financial risk profile reflects high leverage and the higher average cost of funding rather than the current average cost of debt, as its current stock of debt stands at 3.04% as of June 30, 2024. The recent €500 million and €700 million bond issuances, with respective coupon rates of 7% and 6%, support the company's liquidity profile ahead of large debt maturities in 2026 and 2027. However, they also continue to erode CPI's EBITDA interest service capacity. Lost EBITDA, related to €1.2 billion disposals completed year to date, and higher refinancing costs will result in persistently low EBITDA interest coverage at around 1.6x-1.8x over the next 12-24 months compared to 1.8x as of year-end 2023.

Gross debt reduction and deleveraging remains crucial to compensate for the higher cost of funding. The company, pro forma for the October tender offers, has reduced gross debt by around €990 million compared to year-end 2023. Improving financing conditions, as observed via tightening spreads and lower base interest rates, should optimize average cost of debt going forward. Still, large upcoming debt maturities in 2026 and 2027 and the need for securing additional liquidity will require further additional asset disposals or new, more expensive financing. Therefore, interest burden trajectory will hinge on the company's capacity for more asset disposals, using proceeds to reduce leverage.

The company's successful closing of €1.2 billion of disposals as of Sept. 30, 2024, provided some headroom against its leverage downside threshold of 60% S&P Global Ratings adjusted debt to debt plus equity, which improved to 58.0% as of June 30, 2024, compared with 59.8% as of year-end 2023. We expect S&P Global Ratings adjusted debt to debt plus equity will improve to around 58% in 2024, 56%-57% in 2025, and 55%-56% in 2026. Similarly, we expect net debt to EBITDA to decrease by year-end 2024 to around 14.0x-15.0x and 13x-14x in 2025 and 2026, down from 15.9x as of year-end 2023.

That said, the company's deviation from its own financial policy to maintain leverage below 40% reported LTV remains a credit negative. It deviated in 2022, driven by the acquisitions of S Immo and Immofinanz. Its reported net LTV remains 50.4% as of Sept. 30, 2024, which translates to around 58% S&P Global Ratings-adjusted debt to debt plus equity. The company has committed to returning to its financial policy and plans to dispose over €1 billion in assets in 2025 and a further €500 million per year thereafter, aiming to decrease leverage in line with financial policy.

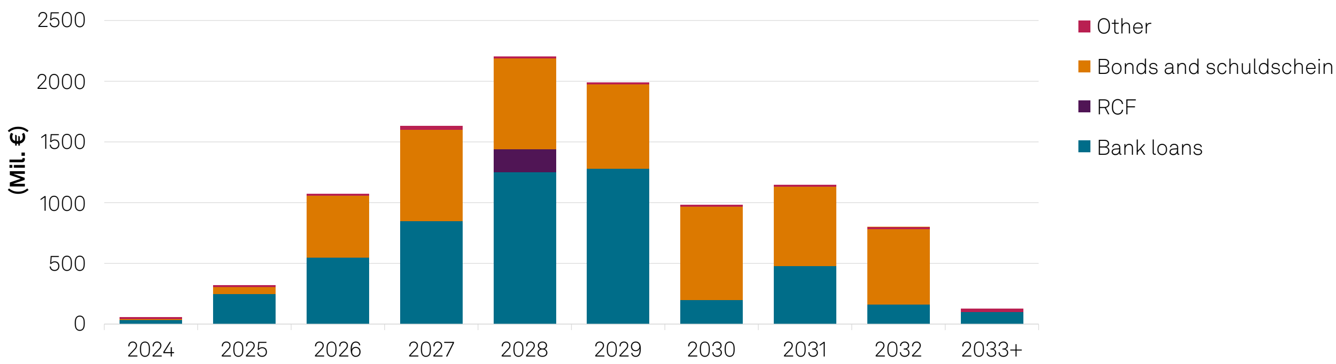
We expect slightly negative asset revaluations of around 3%-4% in 2024 with some yield expansion, despite the more benign interest rate environment. This affects asset values of CPI's lower yielding asset base, its German office portfolio, and its residential portfolio. CPI Property Group posted a like-for-like portfolio devaluation of 0.8% as of June 30, 2024. However, this does not reflect overall portfolio value, as CPI does not conduct semiannual valuations for its entire portfolio, which compares negatively with comparable peers. We expect sluggish operating performance of German office assets and low yielding residential portfolio to weigh on valuations, partially mitigated by higher yielding retail and hotel assets that benefit from growing cash flow base and more benign interest rate environment. While CPI's overall EPRA net initial yield stood at 5.4% as of June 30, 2024, its Berlin office portfolio and residential portfolio yield stood at 4.1% and 3.1%, respectively. Despite decreasing interest rates, we expect further yield expansion going forward, weighing on CPI's asset valuations.

Large, upcoming debt maturities of close to €1.0 billion in 2026 and €1.6 billion in 2027, pro forma for the successful October 2024 tender offer, will require securing further asset disposals, as well as refinancing sufficiently in advance to maintain an adequate liquidity cushion. The company signed a new €400 million RCF with a three-year maturity and an accordion feature increasing it to €500 million. Its track record of successful bank refinancing and proven access to debt capital markets should partially mitigate refinancing risks.

Debt maturities

CPI Property Group S.A. Pro forma debt maturity profile

As of Sept. 30, 2024



Source: S&P Global Ratings.

CPI Property Group S.A.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	450	488	432	491	947	1,212
EBITDA	272	284	307	340	525	695
Funds from operations (FFO)	163	215	210	200	256	208
Interest expense	87	76	111	135	248	386
Operating cash flow (OCF)	159	226	188	333	361	248
Capital expenditure	144	337	187	196	340	322
Free operating cash flow (FOCF)	15	(111)	1	137	21	(74)
Debt	3,077	3,880	4,918	5,485	11,421	11,067
Common equity	4,087	4,920	5,090	6,870	8,436	7,430
Adjusted ratios						
EBITDA margin (%)	60.4	58.2	70.9	69.2	55.5	57.3
EBITDA interest coverage (x)	3.1	3.8	2.8	2.5	2.1	1.8
Debt/EBITDA (x)	11.3	13.7	16.0	16.1	21.7	15.9
Debt/debt and equity (%)	43.0	44.1	49.1	44.4	57.5	59.8

Reconciliation Of CPI Property Group S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts - EUR (Millions)

		Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Period date	2024-06-30										
Company reported amounts		10,435	6,996	1,198	668	(406)	358	714	643	80	384

Reconciliation Of CPI Property Group S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts - EUR (Millions)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Cash taxes paid	-	-	-	-	-	-	(58)	-	-	-
Cash interest paid	-	-	-	-	-	-	(338)	-	-	-
Lease liabilities	89	-	-	-	-	-	-	-	-	-
Intermediate hybrids (equity)	828	(828)	-	-	-	38	(36)	(36)	(36)	-
Postretirement benefit obligations/ deferred compensation	3	-	-	-	-	0	-	-	-	-
Accessible cash and liquid investments	(1,123)	-	-	-	-	-	-	-	-	-
Dividends from equity investments	-	-	-	16	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	9	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(312)	-	-
Noncontrolling/ minority interest	-	1,437	-	-	-	-	-	-	-	-
Debt: other	250	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	21	21	-	-	-	-	-
EBITDA: Business divestments	-	-	-	27	27	-	-	-	-	-
EBITDA: Inventory	-	-	-	(1)	(1)	-	-	-	-	-
EBITDA: other	-	-	-	(17)	(17)	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	1,081	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	(48)	-	-	-	-	-
Total adjustments	47	609	-	45	1,072	38	(432)	(348)	(36)	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	10,481	7,605	1,198	714	666	396	282	295	44	384

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 more than 1.2x over the 12 months from Oct. 1, 2024. We exclude cash at CPI's subsidiaries, S Immo and Immofinanz, since that cash is not fully available. We therefore also exclude the debt maturing at S Immo and Immofinanz, which have cash readily available to repay their debts.

CPI's recent €700 bond issuance and €1.2 billion disposal proceeds secured year to date support liquidity in the short term. That said, we note large debt maturities at the parent company in 2026 and limited accessibility of cash at CPI's fully controlled subsidiaries S Immo and Immofinanz. The newly signed €400 million RCF, which replaced the existing €700 million RCF, should also contribute to maintaining a sufficient liquidity cushion ahead of sizable upcoming debt maturities.

Principal liquidity sources

- About €947 million of unrestricted cash and cash equivalents;
- €450 million available on the RCF and committed bank lines maturing beyond 12 months; and
- Cash funds from operations that we estimate at €320 million-€330 million;

Principal liquidity uses

- €202 million of contractual debt maturities at CPI PG level;
- Around €350 million-€400 million of estimated capex; and
- About €80 million of share repurchases in line with the company's distribution policy.

Covenant Analysis

Requirements

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

- Leverage lower than 60% (50.4% reported as of third-quarter 2024);
- Interest coverage higher than 1.9x (2.6x); and
- Secured debt to total assets lower than 45% (22.2%).

Compliance expectations

The company had adequate headroom (more than 10%) under its bond and bank covenants as of Sept. 30, 2024. We expect CPI will maintain sufficient headroom under these covenants in the future.

Environmental, Social, And Governance

Governance factors are a moderately negative consideration in our credit rating analysis. 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 weigh on the company's creditworthiness. In addition, the company has a limited track record of executing its deleveraging plans and achieving its financial goals in a timely manner. However, the company aims to maintain its deleveraging strategy and simplify its corporate structure in the near future.

Environmental and social factors are an overall neutral consideration in our credit rating analysis. The company has embedded sustainability in its strategy and targets to reduce greenhouse gas emissions 32.4% by 2030 from 2019 levels across scopes 1, 2, and 3 (up from the previous target of 30%). It also aims to transition all electricity purchased by the group to 100% renewable sources by 2024.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Sept. 30, 2024, 51% of CPI's assets by portfolio value were unencumbered, and the reported capital structure comprised:

- Equity, including perpetual notes (43.4%);
- Bonds (28.3%); and
- Financial debt (28.3%).

Analytical conclusions

For the four outstanding subordinated hybrids, we assign intermediate equity content (50% equity; 50% debt) for all hybrid instruments and notch the issue rating down by three notches to 'B+': two notches for subordination and one for deferability.

Issue Ratings--Recovery Analysis

Key analytical factors

- The issue rating on the senior unsecured notes issued by CPI, with a combined nominal value of €3.7 billion, is 'BB+', in line with the issuer credit rating.
- The noteholders will benefit from a valuable asset base, mostly consisting of stable income-producing investment properties.
- Although we calculate recovery at around 90%, we assigned a recovery rating of '3', in line with our criteria. This is due to the notes' unsecured nature, the risk that additional prior-ranking debt could be raised on the path to default, the context of debt restructurings in less proven jurisdictions where the majority of assets are located (68% of the portfolio's gross asset value at year-end 2023), the current volatile valuation environment for the real estate industry, and risks related to the structural subordination of debt at the parent company, with unpredictable residual values for unsecured noteholders in a hypothetical default.
- In our hypothetical default scenario, assumed for 2028, we envisage a severe macroeconomic downturn in Europe, resulting in market depression and exacerbated competitive pressures.
- We value the group as a going concern. We use a discrete asset valuation approach to reflect the stressed value of CPI's yielding properties, as well as development projects. Recovery

prospects for the proposed senior unsecured notes are very sensitive to a small change in the amount of senior secured debt or any other priority debt outstanding at default.

- The bond documentation includes limitations on indebtedness--a maximum consolidated leverage ratio of 60%--and a limitation on prior-ranking debt, with secured debt to total assets restricted to a maximum of 45%.

Simulated default assumptions

- Year of default: 2028
- Jurisdiction: Czech Republic

Simplified waterfall

- Gross enterprise value (EV) of CPI plus the residual value from S Immo and Immofinanz after deducting minority interest: €7.2 billion.
- Net EV at emergence after administrative costs: €6.9 billion.
- Estimated priority debt at CPI only (credit lines, mortgages, and other secured debt): About €2.4 billion.
- Net EV available to senior unsecured bondholders: €3.8 billion.
- Senior unsecured debt claims including unsecured bank loans and senior unsecured notes: €4.1 billion
- --Recovery expectation: 50%-70% (rounded estimate: 65%)

*All debt amounts include six months of prepetition interest and assume 85% of the RCF and credit lines are drawn on default (CPI's credit lines totaled about €800 million as of Dec. 31, 2023).

Rating Component Scores

Foreign currency issuer credit rating	**BB+/Negative/--**
Local currency issuer credit rating	**BB+/Negative/--**
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	Moderately Negative (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bb+**

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- 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: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- CPI Property Group Downgraded To 'BB+' On Ongoing Tight Credit Metrics And Financial Policy Deviations; Outlook Negative, May 31, 2024, May 31, 2024

Ratings Detail (as of December 12, 2024)*	
CPI Property Group S.A.	
Issuer Credit Rating	BB+/Negative/--
Senior Unsecured	BB+
Subordinated	B+
Issuer Credit Ratings History	
31-May-2024	BB+/Negative/--
18-Dec-2023	BBB-/Negative/--
04-Oct-2022	BBB-/Stable/--
19-Apr-2022	BBB/Watch Neg/--
02-Aug-2021	BBB/Negative/--
15-Apr-2021	BBB/Watch Neg/--
01-Apr-2020	BBB/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.