S&P Global Ratings

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Immofinanz AG

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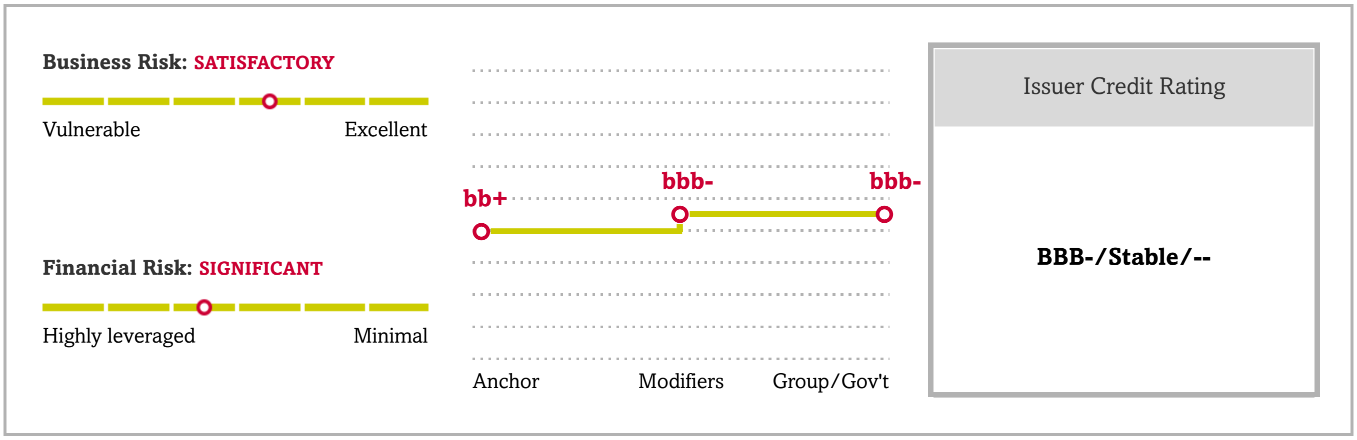
Immofinanz AG



Credit Highlights

Overview

Key strengths	Key risks
Solid market position in Central and Eastern Europe (CEE), with a robust commercial real estate portfolio of about €5.05 billion as of Sept. 30, 2019.	Exposure of over 70% of the portfolio to CEE markets, which we view as less resilient to potential market volatility, with lower barriers to entry than other Western European countries such as France or Germany.
Good geographical diversification, with no single country exceeding 22.4% of the total portfolio.	Exposure to the challenging retail market (33% of the portfolio value), due to growing e-commerce, although penetration is still moderate in the company's operating markets.
Good-quality offices portfolio, mainly located in capital cities, which benefits from an international tenant base.	Weak debt repayment capacity from revenue generation, with a debt-to-EBITDA ratio of around 15x, compared with its investment-grade-rated peers.
Adequate operational performance, with like-for-like rental income growth of above 2% and occupancy levels at around 95%.	

We expect Immofinanz's portfolio and credit metrics to remain stable in the coming years, after solid growth in 2019. Immofinanz invested around €600 million in 2019, notably with the acquisition of the Warsaw Spire Tower for about €386 million and Palmovka Open Park for €76 million, but also the acquisition of six retail parks in Slovenia and Poland. As a result, Immofinanz's scale and portfolio size increased to about €5 billion as of Sept. 30, 2019, from €4.33 billion as of year-end 2018, including approximately €213 million of development assets and €190 million of assets in the pipeline. In line with our previous forecast, the company completed about €144 million of share buybacks and an €88 million cash dividend payment, raising its S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio to 47.8% as of Sept. 30, 2019, from 39.6% at year-end 2018. We understand that Immofinanz's share buyback program is now complete, and we expect the ratio to remain close to current levels in the coming years, while the company continues to focus on organic growth and fund its development pipeline through equivalent amounts of noncore asset disposals.

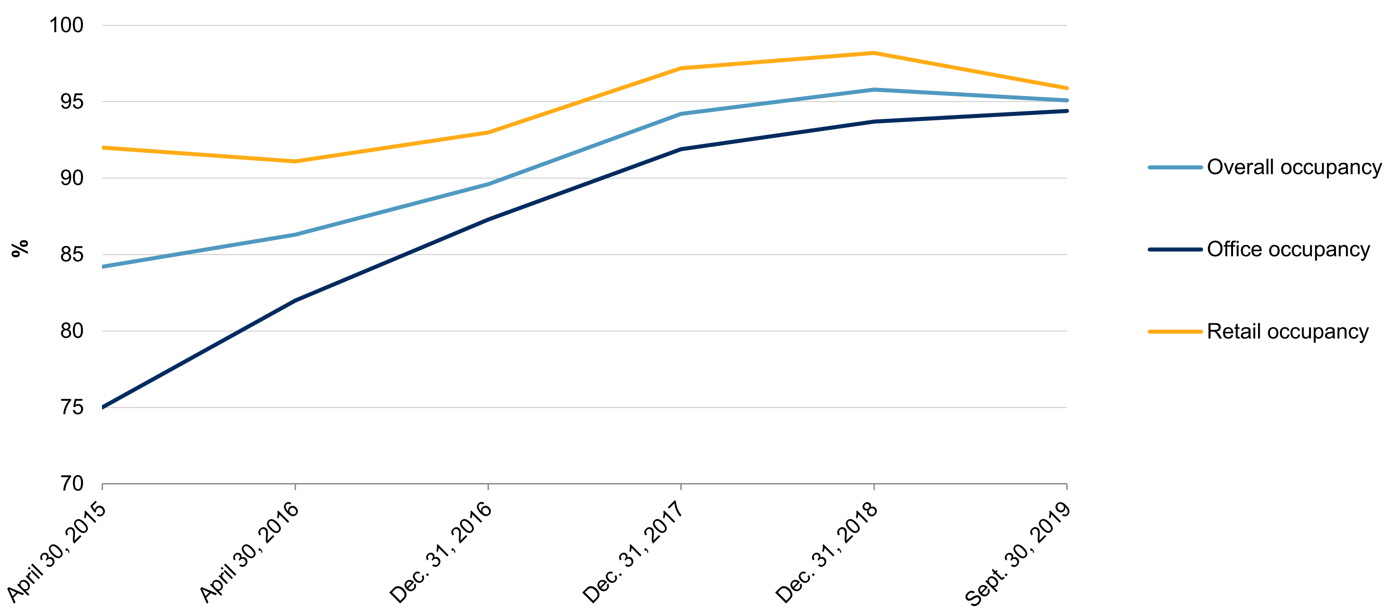
Over the past two years, Immofinanz has optimized its capital structure, and enhances its portfolio and occupancy levels, thereby strengthening its EBITDA generation and EBITDA interest coverage ratio. In parallel with a reduction in its cost of debt to 1.95% as of Sept. 30, 2019, from 2.14% at year-end 2018, Immofinanz improved its overall occupancy rate to around 95.1% as of Sept. 30, 2019, from 94.5% as of Sept. 30, 2018. The occupancy rate stabilized after a temporary but sharp decline across the retail portfolio to 95.9% in September 2019, from 98.2% in December 2018 due to refurbishments in the VIVO! Shopping centers in Romania and Slovakia.

As a result, Immofinanz's adjusted EBITDA-interest-coverage ratio increased to around 2.5x at year-end 2019 from 1.2x at year-end 2017 and 2.0x at year-end 2018. We expect the company to continue to gradually improve this ratio toward 2.6x-2.9x in the coming years.

At the same time, we note that Immofinanz improved its hedging ratio to 87.5% as of Sept. 30, 2019, from 73.8% in 2018.

Chart 1

Occupany Rates Have Gradually Increased Over The Years



Source: Company report.

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Outlook: Stable

The stable outlook on Immofinanz reflects our view that the company's income-generating property portfolio should continue to generate stable cash flows in the next 12-24 months. We base our view in particular on solid demand from corporations for Immofinanz's office assets, which are located mainly in European capital cities. We also believe that occupancy levels in the core office and retail segments will either remain at the current level or increase, supporting further like-for-like rental income growth.

On this basis, we anticipate that Immofinanz will be able to maintain a debt-to-debt-plus-equity ratio of below 50%, with EBITDA interest coverage remaining well above 2x in the next 12-24 months. We also expect Immofinanz's adjusted ratio of debt to EBITDA to stabilize to about 13x in the next two years.

Downside scenario

We could consider lowering the ratings if Immofinanz's adjusted ratio of debt to debt plus equity increased to 50% or above, or if the company failed to maintain an EBITDA interest coverage of more than 2x. Rating pressure could also arise from the debt-to-EBITDA ratio deviating materially from our base case. Such a scenario could result from challenging refinancing conditions, significant negative revaluations or write-downs of assets, debt-financed acquisitions, or a deterioration in the CEE market, leading to declining occupancy levels or lower rental income.

Upside scenario

We could raise the ratings if Immofinanz strengthened its business risk profile on the back of an increase in scale and diversification toward stable markets where demand and supply trends are favorable for its commercial segments. At the same time, the company would need to keep like-for-like rental income growth positive and occupancy levels high.

We could also raise the ratings if Immofinanz improved its credit profile, with its ratio of debt to debt plus equity moving to 40% or below, EBITDA interest coverage rising substantially to 3.5x or above, and debt to-annualized EBITDA nearing 9.5x on a sustainable basis. Such a scenario could result from a more conservative financial policy, a sizable equity contribution for any potential new acquisitions, or significantly higher revaluation gains on Immofinanz's properties than we expect.

Our Base-Case Scenario

Assumptions

Our base case assumes:

- Like-for-like rental income growth of about 2%-3% for the next 12-24 months, assuming stable occupancy levels and flat overall indexation, with

Key Metrics

	2018a	2019e	2020f	2021f
EBITDA margin (%)	85.2	~84.0-85.0	83.0-84.0	83.0-84.0
EBITDA interest cov. (x)	2.0	~2.5	2.5-2.7	2.7-3.0
Debt to EBITDA (x)	12.4	~15.0	13.0-14.0	12.5-13.5

some benefits from new or re-letting activities.

- GDP growth of 1.5% in Austria and 3.5%-4.5% in Poland and Romania for 2019.
- Consumer price index growth of about 1.8% in Austria, 2.1% in Poland, and 4.0% in Romania, as well as stable unemployment rates in all operating countries.
- Overall flat revaluations across all real estate segments.
- Limited asset rotation in 2020 and 2021, with annual development expenditure of about €100 million-€200 million.
- Stable average cost of debt of about 1.8%-2.0%.
- No share buybacks from 2020, following the closure of the company's share buyback program in August 2019.
- Annual dividend payments in line with the company's policy of paying out 75% of funds from operations.

	2018a	2019e	2020f	2021f
Debt to debt + equity (%)	39.6	47.0-48.0	47.0-48.0	47.0-48.0

cov.--Coverage. a--Actual. e--Estimate. f--Forecast.

Base-case projections

Along with the reduced cost of debt in 2019, we expect EBITDA interest coverage to continue improving on a marginal scale, following the company's refinancing activities, along with its increasing EBITDA base.

In addition, while Immofinanz's EBITDA base matures, following acquisitions and new lettings in 2019, we expect its ratio of debt to EBITDA to reduce toward 13x over the next 12-24 months, from current levels of about 15x.

Company Description

Immofinanz was founded in 1990 and is one of the largest listed commercial real estate companies in Austria and the CEE. The company operates in the commercial property segment, mainly offices and retail. As of Sept. 30, 2019, the company's total portfolio comprised 216 properties valued at about €5.05 billion, including approximately €213 million of properties under construction.

Table 1

Portfolio Details*	
Portfolio value (bil. €)	5.05
Number of assets	216
Gross leaseable area (MN/m2)	2
Occupancy (%)	95.10
EPRA net initial yield (%)	5.30

Table 1

Portfolio Details* (cont.)	
Market capitalization (bil. €)	2.86

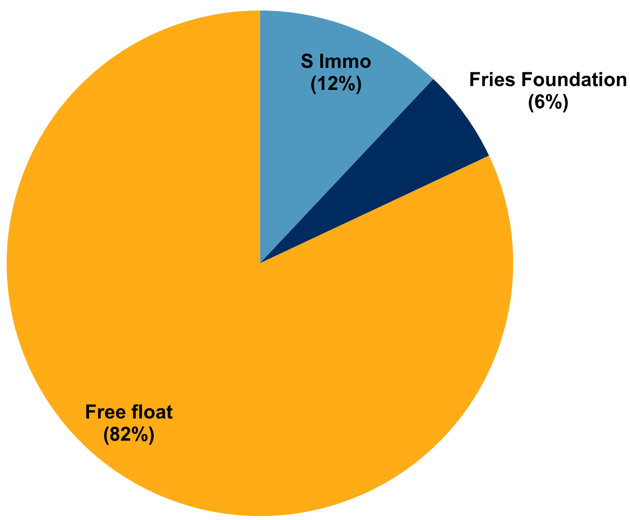
EPRA--European Public Real Estate Association. MN/m2--Meganewton per square meter. *As of September 2019. Source: Company Report.

Immofinanz is listed on the Vienna Stock Exchange and the Warsaw

Stock Exchange. The company's largest shareholder is S Immo, with a 12% shareholding, and 82% of shares are free float.

Chart 2

Shareholding Structure*



*As of September 2019. Source: Company Report

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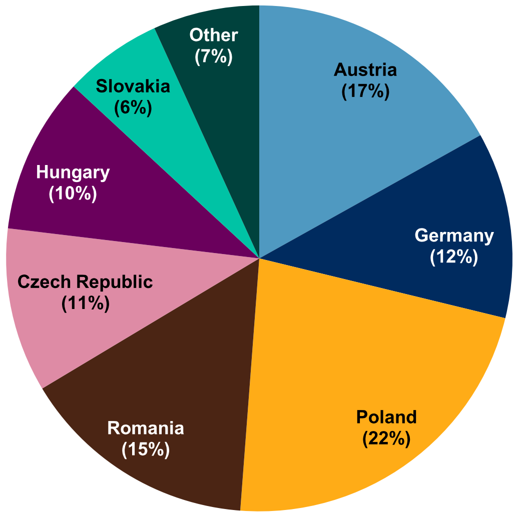
Immofinanz's standing portfolio of about €4.6 billion consists mainly of office properties (65% as of Sept. 30, 2019) and retail assets (35%) across Austria, Germany, and CEE, and we believe the company has a relatively good scale and size. Immofinanz's total portfolio value is spread across seven main countries, including Poland (about 22% as of Sept. 30, 2019), Austria (17%), Romania (15%), Germany (12%), the Czech Republic (11%), Hungary (10%), and Slovakia (6%), with the remaining 7% in noncore countries Serbia, Slovenia, and Croatia.

Chart 3

Geographical Diversity (In Total Portfolio Value) - Thereof 51% In EPRA-Developed Market*



*As of September 2019. Source: Company report.

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The company's strategy is to focus on office and retail real estate in Austria, Germany, and CEE, while ensuring exposure to development projects is less than 10% of the gross asset value.

Business Risk: Satisfactory

Our business risk assessment underpins Immofinanz's good position as one of the largest commercial property owners in CEE, despite a highly fragmented market. We consider the company's office buildings to be of good quality. The office buildings are located mainly in capital cities, such as Warsaw, Vienna, Prague, or Bucharest, and large German cities such as Düsseldorf or Aachen, which have good infrastructure and accessibility. The office portfolio benefits from a national as well as an international tenant base, such as trivago N.V., O2, and Samsung Electronics. The CEE office market should remain resilient for office landlords like Immofinanz because the region--particularly Poland and Romania--is a major outsourcing hub for multinationals and financial institutions, due to lower labor costs and a qualified workforce. Poland and Romania together represent about 38% of the company's total portfolio value.

We consider Immofinanz's assets as well spread as they are located in seven different core countries, which compares positively with most of the company's rated peers in Europe with similar portfolio sizes. Immofinanz's tenant base is also diversified, with no tenant representing more than 4% of total annual rental income. That said, the company's four-year indexation-linked leases are relatively short compared with other rated commercial real estate peers in Europe. However, they remain line with peers in the CEE, such as Atrium European Real Estate and NEPI Rockcastle PLC.

Immofinanz has 13 development projects with a carrying value of about €215 million, or 4% of the total portfolio value, whereas 45% of the total portfolio value relates to projects in Austria. Out of this development pipeline, four of the projects are active, and with a carrying value of about €169 million. We view development risk as limited because we understand that those projects are almost fully pre-let and that the company does not plan to increase its development activities, relative to its portfolio size.

Our view of Immofinanz's business risk profile remains constrained by the company's large share of operations in CEE markets that we generally view as less resilient to potential market volatility and as having lower barriers to entry than more mature markets such as France or Germany. That said, we note that Immofinanz has more than half of its portfolio value located in Austria, Germany, and Poland, three countries considered as developed by EPRA.

In addition, Immofinanz's retail portfolio focuses on secondary and tertiary cities, which we view as having less favorable dynamics than larger metropolitan areas. We believe that the company's retail assets are generally less stable and recession-proof than other segments, such as residential. The retail sector is also facing increasing pressure from e-commerce in mature markets, particularly in the fashion industry, which accounts for about 33% of Immofinanz's tenant mix within its retail portfolio. That said, the retail markets where Immofinanz operates benefit from positive economic trends, such as real GDP growth, stable unemployment rates, and improving consumer spending, and we believe these trends should continue to support the company's cash flow generation over the next 12-24 months.

Peer comparison

Table 2

Immofinanz AG--Peer Comparison

	Immofinanz AG	**Alstria Office REIT-AG**	**CPI Property Group SA**	**NEPI Rockcastle Plc**	**Citycon Oyj**
	BBB-/Stable/--	BBB/Positive/--	BBB/Stable/--	BBB/Stable/--	BBB-/Negative/A-3
Year-end date RTM	**Sept. 30, 2019**	**Sept. 30, 2019**	**June 30, 2019**	**June 30, 2019**	**Sept. 30, 2019**
Revenues	193.34	164.69	467.31	385.05	217.60
EBITDA	164.50	141.52	291.06	352.70	203.64
Funds from operations (FFO)	104.90	128.97	205.54	289.07	146.08
Interest expense	71.95	27.21	76.27	52.63	57.45
Cash flow from operations	149.55	128.04	172.37	311.77	137.78
Capital expenditures	200.21	94.70	208.92	98.69	84.90
Free operating cash flow	(50.66)	33.34	(36.55)	213.08	52.88
Dividends	88.11	92.26	6.25	248.45	115.70
Discretionary cash flow	(322.49)	(58.93)	(42.83)	(35.38)	(62.82)
Cash and short-term investments	256.89	297.71	925.90	366.17	2.20
Debt	2,541.54	1,217.70	2,972.69	2,091.36	2,176.30
Equity	2,784.90	2,896.49	4,541.20	3,975.06	2,021.60

Table 2

Immofinanz AG--Peer Comparison (cont.)					
Debt and equity	5,326.44	4,114.19	7,513.89	6,066.42	4,197.90
Valuation of investment property	5,117.41	4,172.06	7,604.00	6,188.83	4,105.90
Adjusted ratios					
Twelve-month revenue growth (%)	18.74	(3.39)	7.71	25.23	1.16
EBITDA margin (%)	85.10	85.93	62.28	91.60	93.58
Return on capital (%)	3.34	3.22	3.68	6.07	4.58
EBITDA interest coverage (x)	2.27	5.20	3.82	6.70	3.54
Debt/EBITDA (x)	15.40	8.60	10.21	5.93	10.69
FFO/debt (%)	4.07	10.59	6.91	13.82	6.71
Debt/debt and equity (%)	47.72	29.60	39.56	34.47	51.84

RTM--Rolling twelve month.

Financial Risk: Significant

Our financial risk assessment is underpinned by Immofinanz's moderate adjusted EBITDA interest coverage of 2.3x as of Sept. 30, 2019. In line with our previous base case, the ratio has gradually improved from 2.0x in 2018, and we expect it to continue to increase toward 2.5x-3.0x over the next 12-24 months, thanks to Immofinanz's recent refinancing activities, as well as its growing EBITDA base. Following acquisitions throughout 2019, the company's debt-to-EBITDA ratio increased to 15.4x as of Sept. 30, 2019, from 12.4x at year-end 2018. Over the next two years, we expect this ratio to improve gradually toward 13.0x-14.0x, which would remain relatively high compared with other investment-grade-rated companies.

Our financial risk assessment also takes into account the Immofinanz's financial policy of a net loan-to-value ratio of about 45%, corresponding to our ratio of debt to debt plus equity of about 48%. The company's adjusted ratio of debt to debt plus equity stood at 47.7% as of Sept. 30, 2019, and we expect this ratio to remain at these levels over the coming years.

Financial summary

Table 3

Immofinanz AG--Financial Summary					
Year	**September 2019**	**June 2019**	**March 2019**	**December 2018**	**September 2018**
(Mil. €)					
Revenue	52.9	50.6	50.4	39.5	39.8
EBITDA	42.4	57.8	38.3	26.0	30.2
Funds from operations (FFO)	24.8	46.9	21.8	11.4	10.9
Interest expense	17.8	14.9	13.2	26.1	15.9
Cash flow from operations	27.4	29.0	70.2	22.9	13.0
Capital expenditure	120.5	44.7	35.1	(0.0)	46.0
Free operating cash flow	(93.1)	(15.7)	35.1	22.9	(33.0)

Table 3

Immofinanz AG--Financial Summary (cont.)

Year	September 2019	June 2019	March 2019	December 2018	September 2018
(Mil. €)					
Dividends	0.0	88.1	0.0	0.0	0.0
Discretionary cash flow	(132.5)	(154.0)	(19.2)	(16.8)	(68.2)
Cash and short-term investments	256.9	560.4	672.5	631.8	685.4
Debt	2,541.5	1,987.9	1,938.0	1,836.4	1,725.6
Equity	2,784.9	2,798.4	2,782.7	2,800.3	2,763.5
Debt and equity	5,326.4	4,786.2	4,720.7	4,636.8	4,489.1
Valuation of investment property	5,117.4	4,615.6	4,484.3	4,338.0	4,287.3
Adjusted ratios					
Twelve-month revenue growth (%)	18.7	8.3	14.7	15.4	(23.8)
EBITDA margin (%)	85.1	84.5	85.9	84.9	80.9
Return on capital (%)	3.3	4.1	3.8	3.8	3.5
EBITDA interest coverage (x)	2.3	2.2	2.2	2.0	1.8
Debt/EBITDA (x)	15.4	13.1	12.6	12.4	13.1
FFO/debt (%)	4.1	4.6	4.6	4.5	3.1
FOCF/debt (%)	47.7	41.5	41.1	39.6	38.4

Liquidity: Adequate

We assess Immofinanz's liquidity as adequate. We anticipate that liquidity sources will likely cover liquidity uses by about 1.2x for the next 12 months. The following liquidity sources and uses are as of Dec. 31, 2019.

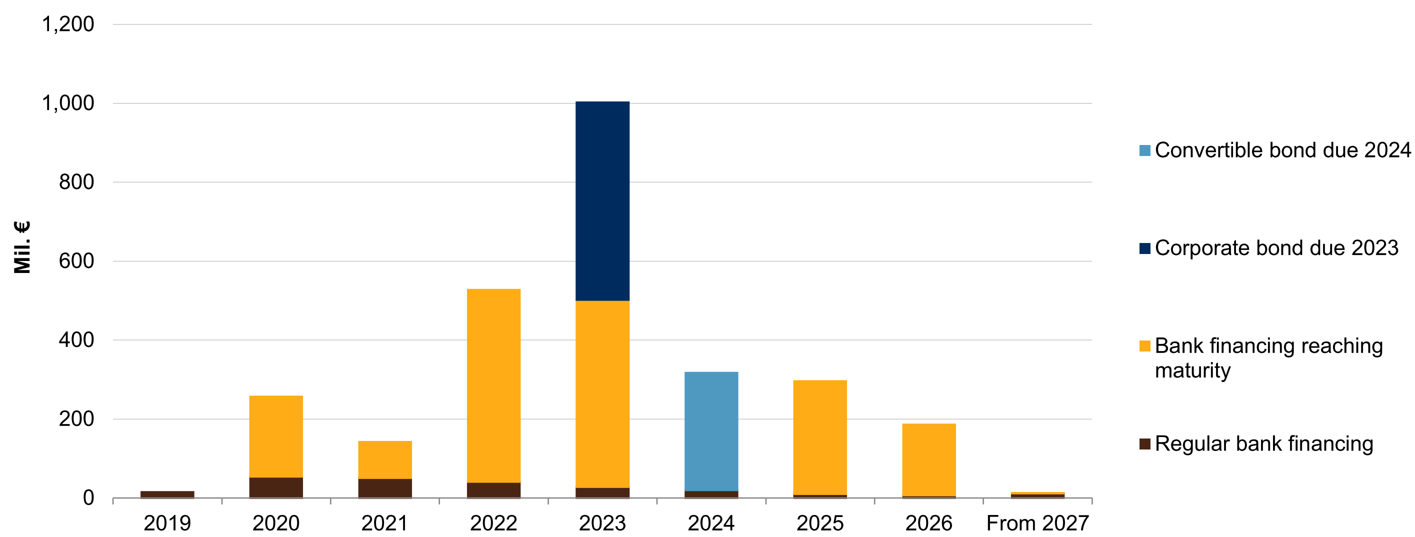
Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash balances of about €288 million; • Our forecast of cash funds from operations of about €100 million-€110 million for the next 12 months; and • About €60 million of contracted asset disposals.	• Short-term debt maturities of around €258 million, including amortization; • Around €118 million of committed capital expenditure for next 12 months; and • Dividends of €90-€100 million in 2020, even if we do not include these in our liquidity assessment, which considers a stress scenario.

Debt maturities

Immofinanz's average debt maturity stands at four years, with an average cost of debt at 1.95%, including hedging costs.

Chart 4

Debt Maturity*



*As of September 2019. Source: Company report.

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Covenant Analysis

Compliance expectations

Immofinanz has financial covenants in the documentation for its secured debt as well as its unsecured bond documentations. We understand that the company has adequate headroom of more than 10% under all its outstanding covenants as of year-end 2019.

Requirements

Immofinanz has to comply with the following covenants under its corporate bond issuances:

- Net debt to asset value ratio of a maximum of 60% (41.5% as of Sept. 30, 2019);
- Secured net debt to value ratio of a maximum of 45% (28.7% as of Sept. 30, 2019); and
- Interest coverage ratio of a minimum of 150% (422.9% as of Sept. 30, 2019).

Other Credit Considerations

Our rating on Immofinanz incorporates one notch of uplift from the anchor, based on our comparable ratings analysis. In our view, Immofinanz's EBITDA interest coverage has improved to 2.3x as of Sept. 30, 2019, and its hedging exposure has increased to 87.5% as of the same date, up from 73.75% at year-end 2018. We expect the company's EBITDA interest coverage to gradually improve to 2.5x-3.0x over 2020-2021. We believe the company's credit metrics are comparable with those of other investment-grade companies in CEE. Our comparable ratings analysis also reflects Immofinanz's sizable portfolio and its limited dependency on single assets or tenants, compared with its speculative-grade-rated peers.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Sept. 30, 2019, Immofinanz's capital structure mainly comprised secured bank facilities of about €1.9 billion, senior unsecured bonds of €502.3 million, and convertible bonds of €283 million.

Analytical conclusions

The issue rating on Immofinanz's 2.625% €500 million senior unsecured bond, due in 2023, is 'BBB-', in line with the long-term issuer credit rating. The company's ratio of secured debt to total fair value assets was about 31% as of Sept. 30, 2019, well below our threshold of 40%.

Reconciliation

Table 4

Reconciliation Of Immofinanz AG Reported Amounts With S&P Global Ratings' Adjusted Amounts

Immofinanz AG reported amounts										
	--Rolling 12 months ended Sept. 30, 2019--									
Mil. €	**Debt**	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**	**Capital expenditure**
Reported	2,732.7	2,803.3	193.3	143.4	246.0	60.5	164.5	1.9	88.1	200.2
S&P Global Ratings' adjustments										
Cash taxes paid	--	--	--	--	--	--	(16.4)	--	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	--	(42.5)	--	--	--
Reported lease liabilities	65.7	--	--	--	--	--	--	--	--	--
Operating leases	--	--	--	0.9	0.7	0.7	(0.7)	0.2	--	--
Accessible cash and liquid investments	(256.9)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	1.6	--	--	--	--
Dividends received from equity investments	--	--	--	16.2	--	--	--	--	--	--

Table 4

Reconciliation Of Immofinanz AG Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)										
Nonoperating income (expense)	--	--	--	--	85.7	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	(25.3)	--	--
Noncontrolling interest/minority interest	--	(18.4)	--	--	--	--	--	--	--	--
EBITDA: gain/(loss) on disposals of PP&E	--	--	--	(2.8)	(2.8)	--	--	--	--	--
EBITDA: Valuation gains/(losses)	--	--	--	6.7	6.7	--	--	--	--	--
Depreciation and amortization: Asset valuation gains/(losses)	--	--	--	--	(100.6)	--	--	--	--	--
EBIT: Other	--	--	--	--	(66.9)	--	--	--	--	--
Interest expense: Derivatives	--	--	--	--	--	9.2	--	172.7	--	--
Total adjustments	(191.2)	(18.4)	0.0	21.1	(77.1)	11.5	(59.6)	147.6	0.0	0.0
S&P Global Ratings' adjusted amounts										
	Debt	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Dividends**	**Capital expenditure**
Adjusted	2,541.5	2,784.9	193.3	164.5	168.9	71.9	104.9	149.6	88.1	200.2

PP&E--Property, plant and equipment.

Ratings Score Snapshot

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: bb+

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:** Positive (+1 notch)

Related Criteria

- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	**bbb-/bb+**	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of February 20, 2020)*

Immofinanz AG	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-
Issuer Credit Ratings History	
22-Jan-2019	BBB-/Stable/--

Ratings Detail (As Of February 20, 2020)*(cont.)

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