

Bulletin:

Immofinanz Top Line And Valuations To Deteriorate In 2020 On COVID-19; Updated Base Case Assumptions

May 28, 2020

PARIS (S&P Global Ratings) May 28, 2020--S&P Global Ratings today said that, due to the measures taken to contain the spread of COVID-19, the top line and valuation will likely deteriorate in 2020 for Austrian commercial real estate company Immofinanz AG's, whose portfolio is valued at €5 billion.

Social distancing measures to counter the spread of COVID-19 closed all nonessential retail shops in Immofinanz's operating countries for several weeks, and we now expect an economic downturn in most European countries. As of today, 79% of the company's retail space has reopened, with the remaining closed shopping centers in Romania. Overall, rent collection for April has been relatively low, at 66.6%, and 47.6% for May, even if not fully collected yet. This is mainly because retail tenants are not being able to pay their rents, but also, certain governments granted legal reliefs to retailers up to 100% of the rents due during the lockdown phase. Moreover, negotiations with retailers for an overall solution concerning the lockdown- and reopening-phase are ongoing.

We therefore have updated our base case for Immofinanz. We now anticipate a decline in Immofinanz's net rental income and valuation in 2020, with only a slow recovery in 2021, although the company's credit metrics at this stage remain consistent with our 'BBB-' rating and stable outlook.

In our updated base case, we assume:

- GDP in the eurozone deteriorating by 7.3% in 2020 with unemployment reaching 8.6% in 2020 versus 7.6% in 2019.
- Overall net rental income declining by 5%-10% in 2020 and slowly recovering by 1%-2% in 2021. We forecast the majority of the drop will come from the company's retail portfolio, following the closure of shops in many of its countries of operation.
- We believe Immofinanz, like other office landlords, may have to grant rent concessions or renegotiate rents in its office portfolio (65% of total portfolio value). We also believe occupancy may drop to 91.5%-92.0% versus 95.3% at year-end 2019. Only a limited portion (12.4%) of rental income coming from offices portfolio is generated by the most affected sectors (retail excluding food, tourism, media, restaurants, transportation, and automotive).
- We assume a more significant deterioration in its retail portfolio (35% of total portfolio value),

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because we believe retailers whose shops have been closed during the lockdown may struggle to pay their rents, or might renegotiate their rents downward. We also note that, for example, all retailers' rents were cancelled during the lockdown in Austria and Poland, which represents a loss of revenue of about 1.5% for Immofinanz. In addition, we expect occupancy to drop to 96.0%-96.5% in 2020, versus 98.3% at end-2019.

- Devaluation of the overall portfolio by around 5%, given appraisers will likely take a harsher look and assume a drop in future cash flow, especially in the retail portfolio. We note that the company reported €46.8 million devaluation as of end of March 31, 2020, already (around 1%).
- Lower development capital expenditure (capex) in 2020-2021 than previously expected, of around €170 million-€180 million in total, versus €280 million-€290 million previously planned.
- Fewer disposals than we previously expected because we believe transactions may be more difficult to conclude in the current environment. We expect around €120 million-€140 million in total for 2020-2021, versus previously €250 million-€300 million.
- Slightly lower dividends for 2020 and 2021 at around €80 million per year.

Based on these assumptions, we arrive at the following credit measures in the next two years:

- EBITDA interest coverage of 2.2x-2.4x, remaining above our threshold of 2.0x for the current rating;
- Debt to debt plus equity of 49.0%-49.5%, remaining below our 50% threshold for the current rating, albeit with very limited headroom; and
- Debt to EBITDA of 16x-18x, which we view relatively high.

We take into account the company's limited refinancing needs in 2020 of only about €250 million, consisting mainly of secured bank debt and its sufficient headroom under its financial covenants.

Overall, we believe Immofinanz will be able to sustain its credit metrics within our thresholds for the current rating, but with reduced headroom.

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