

Bulletin:

Immofinanz AG's Proposed Equity Issuances Should Improve Ratings Headroom

July 10, 2020

PARIS (S&P Global Ratings) July 10, 2020--S&P Global Ratings said today that the equity issuances announced by Austrian real estate investment company Immofinanz AG (BBB-/Stable/--) on July 8, 2020, should improve the company's credit metrics and increase the headroom under our current rating thresholds.

Immofinanz will issue €236 million of shares, which represent approximately 14% of the company's current equity (10% of new shares issued and 4% of treasury shares sold). Immofinanz will also issue €120 million of mandatory convertible notes (MCNs), which we assess as having high equity content. Overall, the transaction represents an increase of €356 million in equity, which represents around 20% of the company's equity. Immofinanz will use the proceeds of the transaction to strengthen its capital structure, and for refinancing, potential growth opportunities, and general corporate purposes.

We understand that the proposed MCNs will mature in 2023 and bear interest of 4.0% per year. We assess the MCNs as having high equity content because:

- The notes must be converted into ordinary shares within three years of issuance, that is, before 2023;
- The notes are deeply subordinated;
- The interest on the notes is deferrable at the issuer's discretion; and
- The conversion price will be at a premium of 12% over the closing price on the date of issuance.

We also factor in Immofinanz's track record of a conservative financial policy and its commitment to maintain the 'BBB-' issuer credit rating. As such, we do not believe that Immofinanz will engage in a share buyback after the notes' mandatory conversion into ordinary shares. We also consider that the notes' investor base is diversified and that Immofinanz has the relevant approvals in place to issue new shares in connection with the notes.

We assess the proposed MCNs as having high equity content. This assessment applies to an amount representing the nominal amount issued, minus the early conversion amount that Immofinanz could pay in cash in certain cases of early conversion. The early conversion amount gradually decreases over time.

We believe that Immofinanz may use the additional equity partly to fund external growth in the coming years. We also believe that the additional equity should mitigate the potential devaluation

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of Immofinanz's assets during the COVID-19 pandemic and associated lockdown. The limited headroom that Immofinanz's credit metrics have at the current rating should therefore improve.

We forecast the following credit metrics in the two years following the equity increase:

- Debt to debt plus equity of 42.0%-45.0%, before considering any potential growth opportunities. This ratio remains below our 50% threshold for the current rating, with more headroom than before the transaction (we previously expected a ratio of 49.0%-49.5%);
- Debt to EBITDA of 14x-15x, also before considering any potential growth opportunities (we previously expected a ratio of 16x-18x). We still view this as relatively high; and
- EBITDA interest coverage remaining at 2.2x-2.4x, above our minimum threshold of 2.0x for the current rating.

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