S&P Global Ratings

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Immofinanz AG

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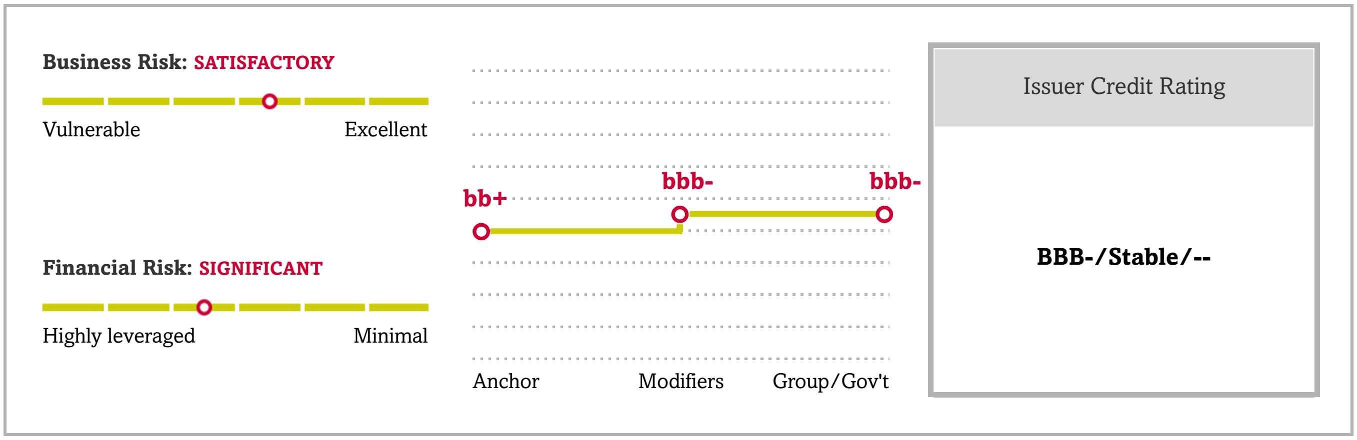
Immofinanz AG



Credit Highlights

Overview

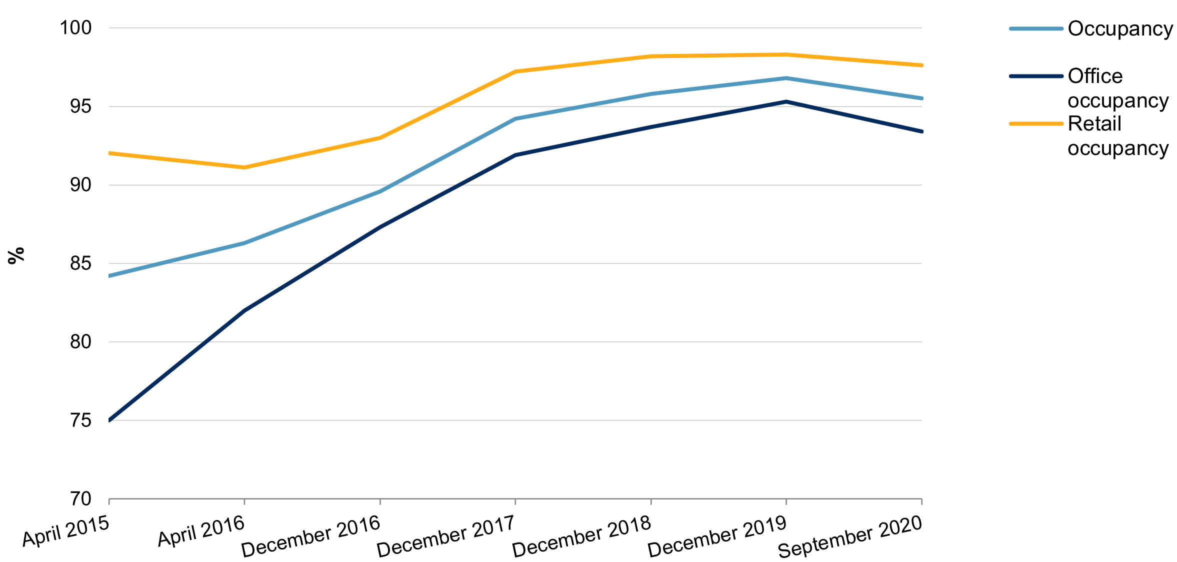
Key strengths	Key risks
Solid market position in Central and Eastern Europe (CEE), with a relatively large commercial real estate portfolio of about €4.9 billion as of Sept. 30, 2020.	Exposure to retail assets (34% of the portfolio value as of Sept. 30, 2020). These should see a material effect from the COVID-19 pandemic; subsequent damage to the macroeconomic environment, with depressed household consumption; and growing e-commerce penetration, jeopardizing retailers' ability to pay rent.
Broad geographical diversification, with about half of its portfolio located in developed countries, like Poland, Austria, and Germany.	Potential for companies' increasing rationalization of office space, which could limit rental growth in the coming years.
Good quality of the office assets (65% of the portfolio value as of Sept. 30, 2020). These are located mainly in capital cities, which benefit from an international tenant base.	Exposure of 70% of the portfolio to CEE markets, which we view as less resilient to volatility, with lower barriers to entry than other Western European markets such as France or Germany.
Improved headroom under the company's S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio (41% as of Sept. 30, 2020), following equity issuances in 2020, although we understand that the company could seek growth opportunities in the coming years.	Weak debt repayment capacity from revenue generation compared with its investment-grade peers, with a debt-to-EBITDA ratio of around 13.6x as of Sept. 30, 2020.

The retail real estate segment will likely remain under pressure in the coming two years, due to the long-lasting pandemic and subsequent damage to the macroeconomic environment catalyzing preexisting structural challenges. Retailers were already going through a difficult time before the pandemic due to changes in consumer habits and a rise in e-commerce. We believe that the pandemic is causing further and lasting damage to retailers, which have been hit by successive mandatory store closures, restrictions on movement, and subdued household consumption. As of mid-November 2020, Immofinanz had collected 78% of its retail rents for the first nine months of 2020, with granted rent-free periods and, to a lesser extent, deferred rents, accounting for the uncollected amount. We acknowledge that the majority of Immofinanz's retail portfolio comprises retail parks (21% of the portfolio value as of Sept. 30, 2020), which have been more resilient than shopping centers (19%) in the current environment due to their set-up, locations in catchment areas, and tenant mix. In addition, Immofinanz's retail assets are mainly located in CEE countries, where e-commerce penetration remains moderate compared to Western Europe. This would partly explain why Immofinanz's rental income was slightly less affected by the pandemic than some other European retail property landlords, with a decline in like-for-like rental growth of 3.1% in the first nine months of 2020, versus a decline of around 10% for some peers in Western Europe. Still, we expect Immofinanz's rental income from retail assets to be down about 20% from 2019 in 2020 and 2021. This is because, in addition to the portion of uncollected rents, subdued household consumption and lastingly weakened retailers could progressively erode rental uplift.

Demand for traditional office space could deteriorate in the coming years as remote working increases, but well-located and high-quality offices should cope better. We believe that the pandemic and its aftermath will dampen companies' growth plans and need for additional office space. The restrictions on movement and social gatherings that most European governments have imposed have led companies to temporarily deploy or increase remote working. The success and cost-saving dimension of this practice may convince companies to partly maintain it in the future, and therefore optimize their office space and related costs. More generally, an office must increasingly justify its use as an alternative to working from home, almost to the same extent as shopping centers have to justify shoppers' journey to their location, when they can simply buy goods online. In this context, we believe that central locations and services nearby will be key to office property owners. We believe that Immofinanz's offices (65% of the portfolio value as of Sept. 30, 2020) should remain attractive in that context, as they are mostly located in capital cities and offer flexible space. Still, we expect rental income growth to be more limited in the coming years.

Chart 1

The COVID-19 Pandemic Has Led To A Slight Decrease In Occupancy Rates After A Period Of Gradually Increasing



Source: Company report.

As a result of subdued EBITDA generation, we expect Immofinanz's adjusted EBITDA interest coverage to approach our 2.0x downgrade threshold in 2020-2021, but recover to a pre-pandemic level from 2022. While Immofinanz slightly reduced its cost of debt to 1.88% as of Sept. 30, 2020, from 1.91% at year-end 2019, the challenging sanitary and economic context should result in subdued EBITDA in 2020-2021. As a result, the adjusted EBITDA-interest-coverage ratio should deteriorate from 2.6x at year-end 2019 to around 2.1x-2.3x in 2020-2021, close to our 2.0x downgrade threshold. However, we expect EBITDA generation and the EBITDA-interest-coverage ratio to recover to pre-pandemic levels from 2022, driven by a slight recovery in organic growth, in addition to revenue following the execution of the capital expenditure (capex) program and potential external growth.

We expect the potential changes that Immofinanz recently announced in its management and governance to have a neutral impact on the company's strategy and governance at this stage. On Jan. 29, 2021, Immofinanz announced that Mr. Ronny Pecik, the company's CEO since May 2020 and one of the largest shareholders, with a 10.54% stake through RPPK Immo GmbH, had agreed to sell his stake to Revenite Austria, a subsidiary of Aggregate Holdings S.A. and ultimately owned by Mr. Günther Walcher, an Austrian investor. The transaction is subject to approval by Mr. Pecik's business partner in RPPK Immo GmbH, Mr. Peter Korbacka. On completion of the transaction, we understand that Mr. Pecik will tender his resignation as a member of Immofinanz's executive board. At the same time, Mr. Walcher, through Aggregate Holdings, has also purchased 9.03% of Vienna-based real estate company S-Immo that Mr. Pecik previously held indirectly. We understand that Immofinanz's business operations and the execution of its financial policy will remain unaffected by any potential change in the company's shareholding structure or management team. We continue to assume that Immofinanz's management and board of directors will effectively serve the interests of all stakeholders. That said, we still believe that increasing changes in the management team, board of directors, or cross-shareholdings may increase operational and governance risks. We may update our analysis and change our rating if we perceive increasing risks due to a new shareholder or management structure.

Outlook: Stable

The stable outlook on Immofinanz reflects our view that the company's income-generating property portfolio should continue to generate relatively stable cash flows in the next 12-24 months, despite the pandemic. Still, we believe that growth in rental incomes and valuations may be subdued in the coming two years, due to the pandemic and to structural challenges in the office and retail segment.

Assuming minor operational disruptions from the pandemic, we anticipate that Immofinanz will be able to maintain a debt-to-debt-plus-equity ratio of well below 50%, with EBITDA interest coverage remaining above 2.0x in the next 12-24 months. We also expect Immofinanz's adjusted ratio of debt to EBITDA to remain relatively high, at about 13x-14x over the next 12-24 months.

Downside scenario

We could consider lowering the ratings if Immofinanz failed to maintain EBITDA interest coverage of more than 2x, or if its adjusted ratio of debt to debt plus equity increased to 50% or above. Rating pressure could also arise from the debt-to-EBITDA ratio deviating materially from our base case.

Such a downside scenario could result from:

- More disruption from the pandemic and subsequent damage to the macroeconomic environment than we expect, potentially resulting in a decline in demand for office or retail space, or more devaluations than in our base case, or;
- Material debt-funded external growth.

Upside scenario

We could raise the ratings if Immofinanz strengthened its business risk profile on the back of an increase in scale and a greater move 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 new acquisitions, or significantly higher revaluation gains on Immofinanz's properties than we expect.

Our Base-Case Scenario

Assumptions

Our base case assumes:

- The office leasing sector relying on factors such as GDP growth, job creation, and companies' expansion plans. We estimate that GDP in Poland, Austria, and Romania deteriorated by around 3.0%, 6.7%, and 5.2%, respectively, in 2020, due a deep recession in the context of the pandemic, but should recover to 3.8%, 4.5%, and 4.0%, respectively, in 2021. We also believe that the unemployment rate should reach 4.4% in Poland in 2021, 5.2% in Austria, and 7.1% in Romania, up from 3.3%, 4.5%, and 3.9%, respectively, in 2019. This could also affect household consumption, which we view as a key pillar of growth in retail rental income.
- Total rental income about 10%-15% below the 2019 level during 2020-2021 on average, with around a 5%-8% decrease in the office segment, considering potential downward rent negotiations for upcoming lease maturities and slightly higher vacancy rates; and around 20% in the retail segment, including uncollected rents, potential additional bankruptcies, subdued household consumption, and a potential decrease in rents and occupancy levels. We expect a slow recovery of 2%-3% revenue growth from 2022.
- A portfolio devaluation of about 5%-6% in 2020, and an additional decrease of around 2% in 2021, reflecting challenges in the retail market, and, to a lesser extent, in the office market. From 2022, we expect flat revaluations.
- Disposals of about €100 million in 2020, and a total of about €150 million during 2021-2022, mainly of noncore assets, such as offices or shopping centers in secondary locations.
- Acquisition spending of about €25 million in 2020, and €100 million-€120 million per year in 2021 and 2022, including the expansion of the Stop Shop retail parks in CEE and Austria. We also understand that the company plans to maintain the current proportion of offices (about two-thirds of the portfolio value) and retail space (about one-third), notably by expanding its myhive office brand.
- Development capex of about €100 million in 2020, and a total of around €60 million-€70 million during 2021-2022.
- No share buybacks.
- A limited cash dividend payment of around €60 million in 2021.

Key metrics

Immofinanz AG--Key Metrics*

	--Fiscal year ended Dec. 31--				
	2018a	**2019a**	**2020e**	**2021f**	**2022f**
(Mil. €)					
EBITDA	148.3	170.9	140-150	150-160	160-180
Debt	1,835.0	2,543.0	2,100-2,300	2,100-2,300	2,100-2,300
Debt to EBITDA (x)	12.4	14.9	14.5-15.0	13.0-14.0	12.0-13.0
EBITDA interest coverage (x)	2.1	2.6	2.1-2.3	2.1-2.2	2.3-2.6
Debt to debt plus equity (%)	39.6	46.4	40.0-41.0	41.0-43.0	41.0-43.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

We expect a recovery in EBITDA generation to a pre-pandemic level only by 2022. Revenue generation should remain subdued in 2021, in our view, because of the potential for additional restrictions due to the continuing pandemic and additional uncollected rents, but also our expectation of higher vacancy rates and downward rent negotiations. We observed a deterioration in the EBITDA margin to 75.2% for the 12 months to the end of September 2020 from 82.4% at the end of 2019, in particular reflecting a drop in dividend income from S Immo, even though we note that S Immo distributed a €0.70 dividend per share in October 2020.

The company's debt-to-EBITDA ratio should peak in 2020 due to subdued EBITDA generation, but we expect it to improve gradually to a pre-pandemic level by 2022. We expect a high debt-to-EBITDA ratio at 14.5-15.0x at the end of 2020, as a result of reduced EBITDA during the pandemic. However, EBITDA should recover gradually afterward, thanks to revenues generated by capex, acquisitions, and a slight recovery in organic rental income growth from 2022.

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, 2020, the company's total portfolio comprised 208 properties valued at about €4.94 billion, including approximately €301.8 million of properties under construction.

Table 1

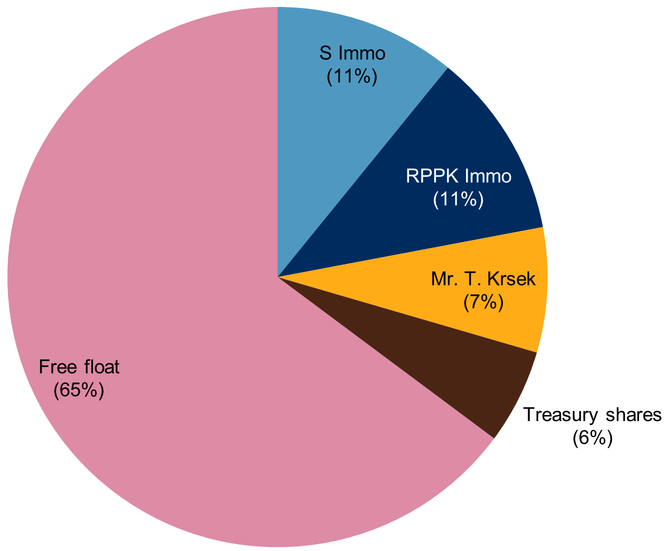
Portfolio Details*	
Portfolio value (bil. €)	4.9
Number of assets	208
Gross leaseable area (mil. m2)	2.0
Occupancy (%)	95.5
EPRA net initial yield (%)	5.9
Market capitalization (€ bil.)	1.8

*As of September 2020. EPRA--European Public Real Estate Association. Source: Company report.

Immofinanz is listed on the Vienna Stock Exchange and the Warsaw Stock Exchange. The company's largest shareholders are S Immo, with a 10.9% stake, the CEO Mr. Pecik through RPPK Immo GmbH (11.2%, including shares from Immofinanz's mandatory convertible bonds) and Mr. Tomas Krsek (7.5%). Around 65% of the shares are free float.

Chart 2

Shareholding Structure
As of September 2020



Source: Company report.

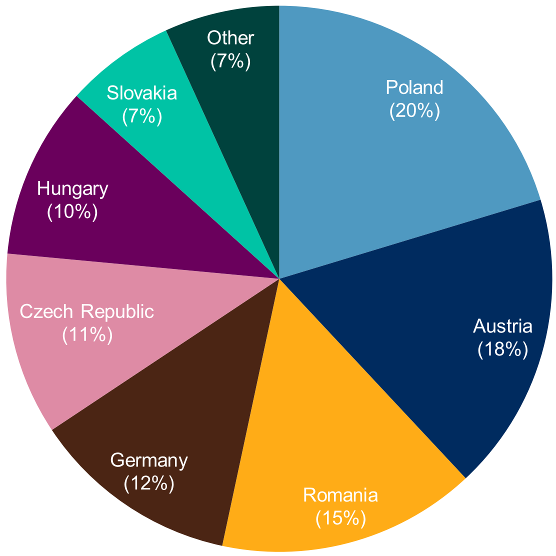
Immofinanz's standing portfolio of about €4.47 billion mainly consists of:

- Office properties (64.6% of the portfolio value as of Sept. 30, 2020). These comprise offices located in capital cities, with a flexible offering under the myhive brand (28.7% of total rental income in third-quarter 2020), and other offices, mainly single-tenant buildings (24.9%); and
- Retail assets (33.7% of the portfolio value as of Sept. 30, 2020) comprising retail parks under the Stop Shop brand (26.8% of total rental income in third-quarter 2020), and shopping centers under the VIVO! brand (19.1%).

Immofinanz's total portfolio value is spread across seven main countries, including Poland (about 20.3% of the portfolio value as of Sept. 30, 2020), Austria (17.7%), Romania (15.3%), Germany (12.3%; exclusively offices), the Czech Republic (10.8%), Hungary (10.2%), and Slovakia (6.5%), with the remaining 6.8% in other countries like Serbia, Slovenia, and Croatia.

Chart 3

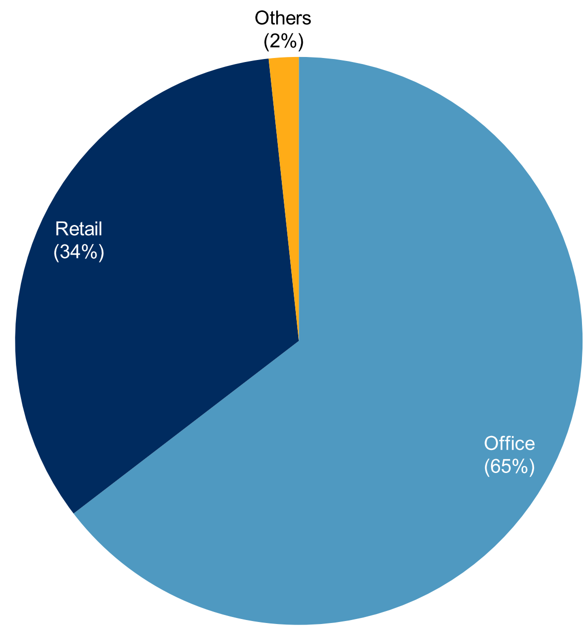
Geographical Diversity By Total Portfolio Value*
As of September 2020



*Markets that the European Public Real Estate Association considers developed represent 50.3%.
Source: Company report.

Chart 4

Segment Diversity
As of September 2020



Source: Company report.

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.

Peer Comparison

Table 2

Immofinanz AG--Peer Comparison					
Industry sector: Real estate investment company					
	Immofinanz AG	**Alstria Office REIT-AG**	**CPI Property Group SA**	**NEPI Rockcastle Plc**	**Citycon Oyj**
	BBB-/Stable/--	BBB/Positive/--	BBB/Negative/--	BBB/Negative/--	BBB-/Negative/A-3
	--Fiscal year ended September 2020--		**--Fiscal year ended June 2020--**		**--Fiscal year ended September 2020--**
Revenues	212.4	156.6	466.8	362.4	209.0
EBITDA	159.8	134.7	292.0	336.5	184.6
Funds from operations (FFO)	104.3	107.1	198.3	276.8	118.4
Interest expense	68.5	30.3	93.8	58.1	60.5

Table 2

Immofinanz AG--Peer Comparison (cont.)

Industry sector: Real estate investment company

	Immofinanz AG	Alstria Office REIT-AG	CPI Property Group SA	NEPI Rockcastle Plc	Citycon Oyj
Cash flow from operations	128.4	120.3	215.1	231.4	172.3
Capital expenditures	140.4	152.1	330.8	220.1	144.3
Free operating cash flow	(12.0)	(31.8)	(115.7)	11.3	28.0
Dividends	0.0	0.0	18.8	216.9	96.8
Discretionary cash flow	(12.0)	(31.8)	(243.3)	(213.1)	(68.8)
Cash and short-term investments	598.5	672.5	310.5	138.1	37.4
Debt	2,180.4	1,158.6	4,801.5	2,280.6	2,206.0
Equity	3,132.4	3,174.0	4,785.7	3,736.4	1,954.9
Debt and equity	5,312.8	4,332.7	9,587.2	6,017.0	4,160.9
Valuation of investment property	5,005.1	4,396.8	9,656.8	6,171.4	4,155.1
Adjusted ratios					
Twelve-month revenue growth (%)	9.9	(4.9)	(0.1)	(6.2)	(4.0)
EBITDA margin (%)	75.2	86.0	62.6	92.8	88.3
Return on capital (%)	3.8	3.1	2.7	5.5	3.8
EBITDA interest coverage (x)	2.3	4.4	3.1	5.8	3.1
Debt/EBITDA (x)	13.6	8.6	16.4	6.8	12.0
FFO/debt (%)	4.8	9.2	4.1	12.1	5.4
Debt/debt and equity (%)	41.0	26.7	50.1	37.9	53.0

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 most of the company's office buildings to be of good quality. These assets are mainly located 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. In addition to their good locations, most offices are modern and offer flexible spaces (up to a maximum of 15%-20% of space per building), which should meet users' changing demands in the coming years.

The office portfolio benefits from a national as well as an international tenant base, such as trivago N.V., O2, and Samsung Electronics. Despite the pandemic-induced economic shock, we expect the CEE office market to remain relatively resilient for high-quality and centrally located assets, because the region--particularly Poland and Romania--is a major outsourcing hub for multinationals and financial institutions owing to lower labor costs and a qualified workforce. Poland and Romania together represent about 35.6% of the company's standing portfolio value.

We consider Immofinanz's assets to be well spread given that they are located in seven different core countries, meaning that the company's geographical diversity compares positively with most of its rated peers in Europe with similar portfolio sizes. Immofinanz's tenant base is also diversified, with no tenant representing more than 2% of its total gross lettable area. The company's four-year-average-term 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 NEPI Rockcastle PLC and CPI Property Group.

Immofinanz has 13 development projects with a carrying value of about €301.8 million, or 6.1% of the total portfolio value, and 33% of the total development project value relates to projects in Austria. Of this development pipeline, six of the projects are active, and have a carrying value of about €276.9 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 (65% of the portfolio value at the end of September 2020). We generally view these markets as less resilient to volatility and as having lower barriers to entry than more mature markets such as France or Germany. That said, more than half of Immofinanz's asset portfolio by value is located in Austria, Germany, and Poland, three countries that the European Public Real Estate Association (EPRA) considers as developed.

In addition, Immofinanz's retail portfolio (33.7% of the portfolio value at the end of September 2020) focuses on secondary and tertiary cities, which we view as having less favorable dynamics than larger metropolitan areas. We believe that retail assets are generally less stable and recession-proof than other segments, such as residential. The retail sector has also been facing increasing pressure from e-commerce for a couple of years already, particularly the retail fashion industry, which accounts for about 33% of Immofinanz's tenant mix within its retail portfolio. While e-commerce penetration remains moderate in CEE countries, compared to Western Europe, we believe the pandemic and economic downturn will weaken retailers on a lasting basis. This may result in a higher number of bankruptcies, downward rent negotiations, and therefore limited rental income growth in the coming years. We understand that the company aims to further expand its portfolio of Stop Shop retail parks (26.8% of total rental income in third-quarter 2020) in the coming years. However, we understand that the company will still maintain the respective proportions of assets in its overall portfolio, with offices representing around two-thirds.

That said, we do not believe that the office segment will be immune to the pandemic. After months of imposed remote working, many companies seem to be rethinking their office space strategy, both to rationalize costs and to introduce more flexible ways of working. This new strategy could limit growth in rents as well as values for office property landlords in the coming years. We believe that myhive offices (28.7% of rental income as of Sept. 30, 2020) could be in a good position to absorb this evolving demand. However, we are mindful that flexible office space also comes with shorter-term leases, the income from which we view as less predictable than that from long fixed leases. We also believe that offices that are mainly single-tenant and in secondary locations that could suffer from lower demand, or at least limited rental income growth, in the coming years, compared to those in prime central business districts.

Financial Risk: Significant

Our financial risk assessment is underpinned by Immofinanz's moderate adjusted EBITDA interest coverage of 2.3x as of Sept. 30, 2020. After consistent improvement of this ratio in the past few years to 2.6x at the end of 2019, the pandemic hit the company's EBITDA generation in 2020. We anticipate that Immofinanz's EBITDA interest coverage will remain between 2.1x and 2.3x during 2021, close to our 2.0x downgrade threshold. However, we expect this ratio to improve to 2.3x-2.6x from 2022, with gradually recovering EBITDA generation, thanks to both investments generating new revenues, and some positive organic growth that should be stronger than in 2020-2021.

Immofinanz's net debt-to-EBITDA ratio also improved to 13.6x as of Sept. 30, 2020, from 14.9x at year-end 2019, thanks to the company's increased cash balance following its equity issuance of €356 million in the second quarter of 2020. That said, given the negative impact we expect on its EBITDA generation for 2020 due to the pandemic, we expect a further deterioration of the ratio to 14.5x-15.0x in 2020. We forecast a gradual improvement thereafter to 13.0x-14.0x in 2021 and 12.5x-13.5x in 2022, which would nevertheless be high compared with other investment-grade companies we rate.

Our financial risk assessment also takes into account Immofinanz's financial policy of a net loan-to-value ratio of about 45%, corresponding to adjusted debt to debt plus equity of 48%-49%. The company's adjusted debt to debt plus equity stood at 41% as of Sept. 30, 2020, after an additional €356 million equity injection in the second quarter of 2020, including the issuance of €236 million of shares and €120 million of mandatory convertible notes, which we assess as having high equity content (for more details see "Bulletin: Immofinanz AG's Proposed Equity Issuances Should Improve Ratings Headroom," published July 10, 2020). We understand that Immofinanz may seek growth opportunities in the future. For the moment, the company has comfortable headroom under the ratio of adjusted debt to debt plus equity at the current rating.

Financial summary

Table 3

Immofinanz AG--Financial Summary

Industry sector: Real estate investment company

	--Fiscal year ended--				
	September 2020	**June 2020**	**March 2020**	**December 2019**	**September 2019**
(Mil. €)					
Revenue	56.1	43.3	59.5	53.5	52.9
EBITDA	47.1	32.7	47.6	32.4	42.4
Funds from operations (FFO)	35.3	23.8	22.9	22.3	24.8
Interest expense	15.9	16.1	17.4	19.1	17.8
Cash flow from operations	43.2	9.0	19.3	56.9	27.4
Capital expenditure	25.4	33.5	33.3	48.3	120.5
Free operating cash flow (FOCF)	17.8	(24.4)	(14.0)	8.6	(93.1)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Discretionary cash flow (DCF)	17.8	(24.4)	(14.0)	8.6	(132.5)
Cash and short-term investments	598.5	339.5	310.8	341.2	256.9

Table 3

Immofinanz AG--Financial Summary (cont.)

Industry sector: Real estate investment company

	--Fiscal year ended--				
	September 2020	**June 2020**	**March 2020**	**December 2019**	**September 2019**
Debt	2,180.4	2,520.6	2,505.6	2,525.0	2,541.5
Equity	3,132.4	2,781.7	2,870.1	2,937.1	2,784.9
Debt and equity	5,312.8	5,318.3	5,375.7	5,480.1	5,326.4
Valuation of investment property	5,005.1	5,033.9	5,118.0	5,185.6	5,117.4
Adjusted ratios					
Revenue growth, past 12 months (%)	9.9	16.0	20.7	19.1	18.7
EBITDA margin (%)	75.2	74.2	83.3	82.4	85.1
Return on capital (%)	3.8	3.7	4.3	4.4	3.3
EBITDA interest coverage (x)	2.3	2.2	2.6	2.6	2.3
Debt/EBITDA (x)	13.6	16.3	13.9	14.9	15.4
FFO/debt (%)	4.8	3.7	4.7	4.6	4.1
Debt/debt and equity (%)	41.0	47.7	46.6	46.4	47.7

Reconciliation

Table 4

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

	--Rolling 12 months ended Sept. 30, 2020--									
Immofinanz AG reported amounts										
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**	**Capital expenditure**
(Mil. €)										
Reported	2,700.4	3,157.3	212.4	157.2	43.2	59.8	159.8	345.1	--	140.4
S&P Global Ratings' adjustments										
Cash taxes paid	--	--	--	--	--	--	(7.3)	--	--	--
Cash interest paid	--	--	--	--	--	--	(48.2)	--	--	--
Reported lease liabilities	78.5	--	--	--	--	--	--	--	--	--
Accessible cash and liquid investments	(598.5)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	0.7	--	--	--	--
Dividends received from equity investments	--	--	--	3.1	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	--	41.4	--	--	--	--	--

Table 4

Immofinanz AG--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)										
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	(44.0)	--	--
Noncontrolling interest/minority interest	--	(25.0)	--	--	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	--	(0.7)	(0.7)	--	--	--	--	--
EBITDA: Valuation gains/(losses)	--	--	--	0.2	0.2	--	--	--	--	--
Depreciation and amortization: Asset valuation gains/(losses)	--	--	--	--	113.7	--	--	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	--	0.2	--	--	--	--	--
EBIT: Other	--	--	--	--	2.6	--	--	--	--	--
Interest expense: Derivatives	--	--	--	--	--	8.1	--	--	--	--
Operating cash flow: Other	--	--	--	--	--	--	--	(172.7)	--	--
Total adjustments	(520.0)	(25.0)	0.0	2.6	157.4	8.8	(55.5)	(216.7)	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	2,180.4	3,132.4	212.4	159.8	200.7	68.5	104.3	128.4	--	140.4

Liquidity: Adequate

We assess Immofinanz's liquidity as adequate. We anticipate that liquidity sources will comfortably cover liquidity uses by more than 1.2x for the 12 months from Dec. 31, 2020. The company has a material amount of cash available following a €356 million combined share placement and mandatory convertible bond issuance, which we view as equity, in the third quarter of 2020 and a €500 million bond issuance in October 2020. However, Immofinanz has significant debt maturities of €753 million in 2022, considering the put option for the company's convertible bond maturing in 2024, and €892 million in 2023.

Principal liquidity sources	Principal liquidity uses
• Unrestricted cash balances of about €996.2 million; • An undrawn revolving credit facility of €100 million;	• Short-term debt maturities of around €65.1 million, including amortization;

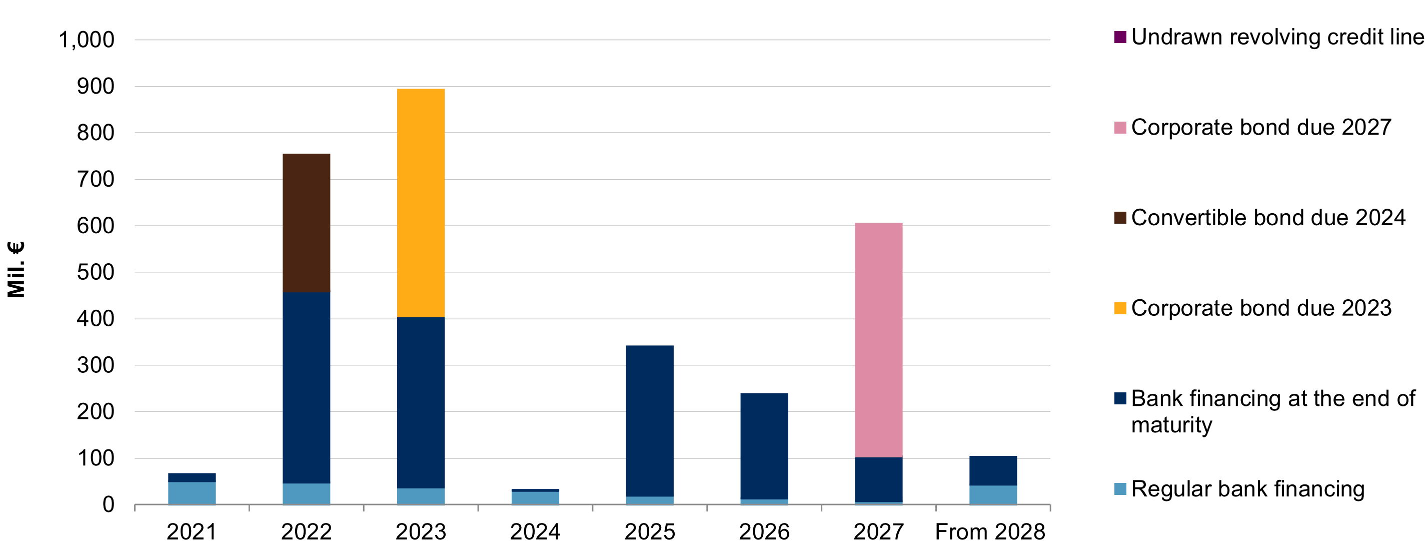
• Our forecast of cash funds from operations of about €85 million-€88 million for the next 12 months; and • About €148 million of contracted asset disposals.	• Around €40 million of committed capex for the next 12 months; • Our expectation of reduced dividends of around €60 million; and • Committed acquisitions costing about €35 million.

Debt maturities

Immofinanz's average debt maturity stands at four years, with an average cost of debt of 1.885% as of Sept. 30, 2020, including hedging costs.

Chart 5

Debt Maturity Profile
By year as of Sept. 30, 2020



Source: Company report.

Covenant Analysis

Compliance expectations

Immofinanz has financial covenants in the documentation for its secured debt as well as for its unsecured bond. We understand that the company has adequate headroom of more than 10% under all its outstanding covenants as of the fourth quarter of 2020.

Requirements

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

- Net debt to asset value of a maximum of 60% (43.8% as of Sept. 30, 2020);
- Secured net debt to portfolio value of a maximum of 45% (29.7% as of Sept. 30, 2020); and
- Interest coverage of a minimum of 150% (356.7% as of Sept. 30, 2020).

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 credit metrics compare favorably with those of other rated commercial real estate companies in the same financial risk profile category and with debt to debt plus equity well below 50%. In addition, the company's portfolio is more diversified and sizable than its speculative-grade peers.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Sept. 30, 2020, Immofinanz's capital structure mainly comprised secured bank facilities of about €1.95 billion, senior unsecured bonds of a nominal amount of €500 million, and convertible bonds of €301 million. In the fourth quarter of 2020, the company issued a second senior unsecured bond of €500 million, due 2027.

Analytical conclusions

The issue ratings on Immofinanz's 2.625% €500 million senior unsecured bond, due in 2023, as well as the 2.5% €500 million senior unsecured bond, due in 2027, are 'BBB-', in line with the long-term issuer credit rating. The company's ratio of secured debt to total fair value assets was about 30% as of Sept. 30, 2020, excluding capital market activities post the reporting date, well below our threshold of 40%, above which we typically rate senior unsecured debt one notch lower than the issuer credit rating.

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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

Related Research

- Bulletin: Potential Governance Changes Should Not Affect Immofinanz's Strategic Direction, Feb. 2, 2021
- Bulletin: Immofinanz AG's Proposed Equity Issuances Should Improve Ratings Headroom, July 10, 2020

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 17, 2021)*	
Immofinanz AG	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-
Issuer Credit Ratings History	
22-Jan-2019	BBB-/Stable/--

*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.