

Research Update:

Austrian Commercial Real Estate Company Immofinanz Outlook Revised To Negative On Announced Takeover Offer For S-Immo

March 19, 2021

Rating Action Overview

- On March 14, 2021, Austrian commercial real estate company Immofinanz AG announced its intention to launch a voluntary public takeover offer to the shareholders of one of its Austrian competitors, S-Immo AG, which currently owns a €2.4 billion portfolio.
- While the combined portfolio would likely gain in size, geographical diversity, and exposure to more resilient economies such as Germany and Austria, we believe the transaction could result in a deterioration of Immofinanz's credit metrics and tightening liquidity.
- We therefore revised our outlook on Immofinanz to negative from stable and affirmed our 'BBB-' long-term issuer credit rating on the company.
- The negative outlook reflects our view that that a successful takeover could lead to deteriorating credit metrics or tighter liquidity, which would no longer be in line with an investment-grade rating, in case the combined entity's credit metrics are not restored in the near term after the takeover.

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Rating Action Rationale

A successful transaction would likely weaken the combined entity's credit metrics, although we understand that Immofinanz remains committed to its financial policy. Immofinanz has launched a voluntary takeover offer for a controlling interest in S-Immo, currently owning 26.5% of S-Immo's shares. The offer price will be €18.04 per share. As of Sept. 30, 2020, S-Immo reported a net loan to value (LTV) of 47.7% compared with Immofinanz's 38.4%. We therefore anticipate that the takeover could deteriorate the company's combined leverage, reaching our downside thresholds for the rating. Depending on the final shareholding arrangement, we believe Immofinanz's S&P Global Ratings-adjusted debt-to-debt-plus-equity and debt-to-EBITDA ratios could increase up to 55% and 15x-17x, respectively, while its EBITDA-interest-coverage could fall close to 2x. We understand that the company remains committed to its financial policy, with an

objective to maintain a net LTV of about 45%, which corresponds to 48%-49% S&P Global Ratings-adjusted debt to debt plus equity. The final funding amount and funding sources are uncertain, at this early stage.

The transaction bears execution and integration risks, with potential tightened liquidity

headroom. We understand that the offer's completion is subject to the removal of the existing voting cap restriction in S-Immo's articles of association in the upcoming annual general meeting on April 30. Furthermore, the offer's completion is subject to regulatory approvals and final control will strongly depend on the level of acceptance from S-Immo's shareholders. Assuming a successful completion, we are mindful that liquidity and covenant headroom could become tighter in case of potential change of control clauses for S-Immo, on which we have limited visibility at this stage. We are also monitoring the required cash settlement for S-Immo's shareholders, depending on the acceptance rate of the offer, and upcoming debt maturities for Immofinanz totaling €753 million in 2022 (considering the put option for the company's convertible bond maturing in 2024) and €892 million in 2023. Still, we take into account the company's solid liquidity position, with available cash of about €1 billion at year-end 2020 and very limited refinancing needs for 2021.

The combined entity would likely benefit from an increased portfolio scale and diversity. As of Sept. 30, 2020, S-Immo's portfolio stood at €2.4 billion, covering mainly offices (40%), residential assets (31%), retail assets (19%) and hotels (8%). With 67% of operations in Germany/Austria and 33% in main metropolitan cities in Central and Eastern Europe (CEE), we believe S-Immo would be a good addition to Immofinanz's portfolio. We estimate the combined portfolio's size would be slightly more than €7 billion. S-Immo's occupancy rate stood at 94.3% as of Sept. 30, 2020, compared with Immofinanz's 95.5%. S-Immo's higher exposure to more resilient economies like Germany and Austria compared with the CEE, plus the exposure to a very stable residential segment, could also improve the combined entity's portfolio quality. However, we have limited visibility of the combined entities' future portfolio strategy.

Outlook

The negative outlook reflects our view that that a successful takeover could lead to deteriorating credit metrics or liquidity cushion, which would not be in line with an investment-grade rating anymore.

Downside scenario

We could consider lowering the rating on Immofinanz if the transaction materializes, and the combined entity's creditworthiness deteriorates. This could be the case if:

- S&P Global Ratings-adjusted debt to debt plus equity fails to stabilize around or below 50%;
- S&P Global Ratings-adjusted EBITDA-interest-coverage falls below 2.0x;
- S&P Global Ratings-adjusted debt to EBITDA deviates materially from our initial base-case for a prolonged period; and
- Liquidity cushion tightens, such as from triggered changes of control clauses for S-Immo debtholders with no sufficient backup financing.

We could also view negatively if operational disruptions from the pandemic, for instance due to

lockdowns in Immofinanz's operating countries, results in a decline in demand for office or retail space, or more devaluations than in our base-case scenario.

Upside scenario

We would likely revise the outlook to stable if the transaction does not go through, for instance because of regulatory hurdles or a lack of acceptance by S-Immo shareholders. We would also revise our outlook to stable if the required credit metric levels for an investment-grade rating are comfortably met or restored under the combined group, while maintaining adequate liquidity.

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 with offices and retail. As of Sept. 30, 2020, its total portfolio comprised 208 properties valued at about €4.9 billion, including approximately €302 million of properties under construction.

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, RPPK Immo GmbH (11.2%), and Mr. Tomas Krsek (7.5%). Mr. Ronny Pecik's share of 50.03% in RPPK has been sold to Aggregate Holding SA (however, this sale is subject to the approval of Mr. Pecik's co-investor, which is pending). Around 65% of shares are free float.

Immofinanz's standing portfolio of about €4.5 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.

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.

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Negative/--

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

Related Research

- Immofinanz AG, Feb. 17, 2021

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Immofinanz AG		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Senior Unsecured	BBB-	BBB-

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