

Research Update:

# Austrian Commercial Real Estate Company Immofinanz Outlook Revised To Stable From Negative On Rejected Takeover Offer

June 30, 2021

## Rating Action Overview

- Immofinanz AG announced on June 28, 2021, its decision to cancel its takeover offer for S-Immo after its shareholders' rejection of the maximum voting right amendment.
- Since the transaction will not go through, we no longer believe Immofinanz's credit metrics or liquidity cushion could deteriorate to a level that would not be consistent with an investment-grade rating.
- We therefore revised our outlook on the company to stable from negative, and affirmed our 'BBB-' long-term issuer credit and issue ratings on Immofinanz.
- The stable outlook reflects our view that that the company should continue to generate relatively stable cash flow in the next 12-24 months, despite the uncertain pace of recovery postpandemic, and our view of structural challenges in the office and retail segments.

## Rating Action Rationale

**S-Immo rejected the removal of its voting right cap restriction, which was a necessary condition of Immofinanz's takeover offer.** As a result, on June 28, 2021, Immofinanz published its decision to cancel its takeover offer for S-Immo. Our negative outlook on Immofinanz had reflected our view that a successful takeover could lead to deteriorating credit metrics or liquidity cushion, which would not be in line with an investment-grade rating.

**We believe Immofinanz's S&P Global Ratings-adjusted EBITDA interest coverage could slightly deteriorate in 2021, still remaining above our 2.0x downside threshold, and recovering to prepandemic levels from 2022.** We believe the challenging health and economic context could further affect the office and retail leasing activity in 2021, which would likely deteriorate the company's EBITDA interest coverage ratio. Immofinanz's occupancy level declined to 94.5% in first-quarter 2021 from 96.0% at end-2020, mainly due to leases expiring in the offices segment.

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We understand that Immofinanz expects an uptick in occupancy in 2021, but we believe extended pandemic-related restrictions in early 2021 could further affect rental income in the retail segment, and work-from-home trends could lower some companies' demand for office space. As a result, we expect the company's adjusted EBITDA interest coverage ratio to slightly deteriorate to 2.2x-2.5x in 2021 from 2.7x at year-end 2020, although remaining above our 2.0x downgrade threshold. From 2022, we expect this ratio to revert to prepandemic levels, through a slight postpandemic recovery in organic growth, in addition to revenue growth following the execution of the capital expenditure (capex) program and potential external growth.

**We expect that the recently announced changes in shareholder structure and management will not affect Immofinanz's strategic direction.**

The company's current CEO Ronny Pecik agreed on Jan. 29, 2021, to sell his stake in RPPK Immo GmbH (50.03%) which owns about 10.6% of Immofinanz, to a subsidiary of Aggregate Holding SA. The sale of Mr. Pecik's shares in RPPK, which he holds through RPR Privatstiftung, was subject to the approval of Peter Korbacka, who owned 49.97% of RPPK. As of today, we understand that the transaction with Aggregate has never materialized. As announced June 29, 2021, by Immofinanz, RPR Privatstiftung has transferred its entire share in RPPK Immo GmbH to Mr. Korbacka (through Eurovea Services; s.r.o). Therefore, Mr. Korbacka is now the only shareholder of RPPK Immo. After this transaction, Mr. Pecik resigned as a member of the executive board. At this stage, we do not have any visibility about Mr. Pecik potential succession. Although such uncertainty could lead to governance concerns in our view, we still assume that Immofinanz's management and board of directors will continue to serve the interests of all stakeholders. We will observe any further changes and potential impact on the company's creditworthiness closely in the next couple of quarters and may adjust our analysis if necessary.

**We expect liquidity to remain adequate, with sufficient headroom, following the takeover offer's cancellation.**

We anticipate that Immofinanz's liquidity sources will comfortably cover its uses by more than 1.2x for the 12 months from March 31, 2021. The company has €900 million cash available, and a €100 million revolving credit facility maturing beyond the next 12 months. We expect cash funds from operations of €90 million-100 million over the same period. These sources should more than cover its €360 million debt maturities over the next 12 months, including the €295 million put option on the company's 2024 convertible bond, as well as the planned €65 million-€70 million dividends payments. However, Immofinanz has significant debt maturities of €1.02 billion from March 31, 2022, to March 31, 2023, including about €540 million debt maturities; and a €480 million put option for the company's convertible bond maturing in 2024.

## Outlook

The stable outlook on Immofinanz reflects our view that the company's income-generating property portfolio should continue bringing in relatively stable cash flow in the next 12-24 months. Still, we believe that growth in rental income and valuation might be subdued in the coming two years, due to the uncertain pace of recovery postpandemic, and structural challenges in the office and retail segments.

Assuming minor further operational disruptions from the pandemic, we anticipate that Immofinanz will 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 the company's adjusted ratio of debt to EBITDA to remain relatively high, at 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 scenario. This could result from:

- More disruption from the pandemic and subsequent damage to the economy 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 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 sustainably. This 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.

## Company Description

ImmoFinanz was founded in 1990 and is one of the largest listed commercial real estate companies in Austria and Central and Eastern Europe (CEE). The company operates in the commercial property segment, mainly with offices and retail. As of March 31, 2021, its total portfolio comprised more than 200 properties valued at about €5.0 billion, including approximately €355 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 (10.5%); and Radovan Patrick Vitek (10.0%). The company has 63% of equity as free float, and 5.7% in treasury shares.

ImmoFinanz's portfolio of about €5.0 billion mainly consists of:

- Office properties (63.8% of the portfolio value as of March 31, 2021). These comprise offices in capital cities, under the myhive brand, which includes partial and selective flexible offer via mycowork (39% of the portfolio value end of March 2021), and other offices, mainly single-tenant buildings (24.8%); and
- Retail assets (34.5% of the portfolio value as of March 31, 2021) comprising retail parks under the Stop Shop brand (20.9% of portfolio value end of March 2021) and shopping centers under the VIVO! brand (13.0%).

ImmoFinanz's total portfolio value is spread across seven main countries, including Poland (about 19.3% of the portfolio value as of March 31, 2021), Austria (17.6%), Romania (15.4%), Germany

(12.7%; exclusively offices), the Czech Republic (11.2%), Hungary (9.5%), and Slovakia (6.4%), with the remaining 7.9% in other countries like Serbia, Slovenia, and Croatia. The company focuses on office and retail real estate in Austria, Germany, and CEE, while ensuring that exposure to development projects is less than 10% of the gross asset value.

## **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
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Research Update: Austrian Commercial Real Estate Company Immofinanz Outlook Revised To Negative On Announced Takeover Offer For S-Immo, March 19, 2021
- Immofinanz AG, Feb. 17, 2021
- Bulletin: Potential Governance Changes Should Not Affect Immofinanz's Strategic Direction, Feb. 2, 2021

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>Immofinanz AG</b>		
Issuer Credit Rating	BBB-/Stable/--	BBB-/Negative/--

### Ratings Affirmed

<b>Immofinanz AG</b>		
Senior Unsecured	BBB-	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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