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Research Update:

Austria-Based Immofinanz Upgraded To 'BBB' And Ratings Put On CreditWatch Negative After Takeover By CPI Property Group

June 3, 2022

Rating Action Overview

- On May 30, CPI Property Group S.A. (CPI) successfully closed its voluntary public takeover of Immofinanz AG, and now holds 76.87% of Immofinanz's equity.
- In our view, Immofinanz will be integral to CPI's strategy, and we expect that CPI would support Immofinanz in case of financial distress.
- To align our ratings on Immofinanz to those on CPI, we raised our ratings on Immofinanz and its unsecured debt to 'BBB' from 'BBB-'.
- The CreditWatch negative placement reflects that on our long-term ratings on CPI, indicating that if we downgrade CPI, we would also downgrade Immofinanz. This could happen if CPI's anticipated takeover of S-Immo goes ahead and CPI fails to secure sufficient asset disposals, or issue equity or equity-like instruments, in the next three-to-six months to stabilize its capital structure in line with our current rating thresholds.

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Rating Action Rationale

CPI is now Immofinanz's majority shareholder, with 76.87% of its share capital. On May 30, 2022, CPI completed its takeover of Immofinanz, securing a majority stake after the end of the second acceptance period. No minority shareholder owns more than 4.5% of the outstanding shares.

We now consider Immofinanz to be a core subsidiary of the CPI group, and therefore aligned our ratings on Immofinanz with those on CPI. We understand that Immofinanz will be fully integrated as a core division of CPI, and be an important part of the group's identity and strategy. Immofinanz's portfolio would complement that of CPI, both portfolios comprising offices and retail assets in Central and Eastern Europe (CEE), with similar occupancy rates (93%-94% as of March 31, 2022). Immofinanz's portfolio would represent between 25% and 29% of the combined entity's portfolio value (depending on the outcome of CPI's planned takeover of S-Immo), strengthening CPI's position in CEE commercial markets. In addition, CPI has appointed two new supervisory board members for Immofinanz (Miroslava Greštiaková and Martin Nemecek), out of the total four, as well as one of the three new executive members of management (Radka Döhring), which demonstrates CPI's influence on Immofinanz's strategy. We therefore believe CPI would likely support Immofinanz under any foreseeable circumstances and now align our ratings on Immofinanz with that on CPI.

We continue to assess Immofinanz's stand-alone credit profile (SACP) at 'bbb-'. We forecast that Immofinanz's €4.6 billion income-generating property portfolio should continue bringing in relatively stable cash flow over the next 24 months. Following its €291 million convertible bond conversion and €558 million of early bond redemptions, Immofinanz's adjusted debt-to-debt-plus-equity ratio reduced to around 35.0% as of March 31, 2022, from 41.6% on the same date last year. We expect this ratio to increase further to 40%-42% over the next 24 months due to potential development projects and acquisitions, and remain comfortably below our 50% downside threshold. At the same time, although the current rise in interest rates could push up the company's cost of debt through its upcoming refinancing, we still anticipate that its adjusted EBITDA-interest-coverage ratio will remain above 2.0x over the coming 24 months, at 2.0x-2.5x.

CreditWatch

The CreditWatch negative status of our rating on Immofinanz reflects that on CPI, where the possibility of a downgrade depends on whether CPI's takeover of S-Immo takeover is successful, and CPI fails to secure sufficient asset disposals or issue equity or equity-like instruments in the next three-to-six months to stabilize its capital structure in line with our current rating thresholds.

Downside scenario

We could lower our ratings on Immofinanz in the next three-to-six months if CPI's:

- Debt to debt plus equity increases to beyond 50%;
- EBITDA interest coverage remains below 3x; or
- Debt to annualized EBITDA is above 13x;

This could happen if CPI fails to materially deleverage, meaning it is unable to create solid credit metrics headroom before the closing of the anticipated mandatory takeover offer for S-Immo's shares.

Although this would not result in a downgrade, we could revise downward our assessment of Immofinanz's stand-alone credit profile if the company failed to maintain adjusted EBITDA interest coverage higher than 2.0x, if its adjusted debt-to-debt-plus-equity ratio increased to 50% or higher, or if its adjusted debt to EBITDA deviated materially from our base-case scenario.

Upside scenario

We could revise the outlook to stable if the transaction doesn't go through and CPI restores and maintains its credit metrics, with:

- Adjusted debt to debt plus equity well below 50%;

- EBITDA interest coverage above 3x; and
- Debt to annualized EBITDA below 13x.

This would be likely if CPI closes the planned disposals as anticipated and secures equity-like instruments in the next few months.

An outlook revision is also contingent on CPI's financial discipline, including adherence to its publicly stated financial policy and stabilization of its overall operational performance and capital structure with recent transactions. Although this would not result in an upgrade, we could revise upward our assessment of Immofinanz's stand-alone credit profile if the company improved its credit metrics, with adjusted debt to debt plus equity moving to 40% or lower, EBITDA interest coverage rising substantially to 3.5x or higher, and debt to EBITDA nearing 9.5x sustainably.

Company Description

Immofinanz, founded in 1990, is one of the largest listed commercial real estate companies in Austria and CEE, owning offices and retail assets. The company's portfolio of about €5.3 billion, as of March 31, 2022, mainly consists of:

Office properties (61% of the portfolio's value). These comprise offices in capital cities, under the myhive brand, which includes partial and selective flexible offers via mycowork (43%), and other offices, mainly single-tenant buildings (20%); and

Retail assets (37%) comprising retail parks under the Stop Shop brand (24%) and shopping centers under the VIVO! brand (13%).

Immofinanz's portfolio is spread across seven main geographic areas, including Poland (about 19% of the portfolio value as of March 31, 2022), Austria (18%), Romania (15%), Germany (12%; exclusively offices), the Czech Republic (11%), Adriatic (10%, including Serbia, Slovenia, Croatia, and Italy), Hungary (9%), Slovakia (6%), and Turkey (0.3%).

The company is listed on the Vienna Stock Exchange and the Warsaw Stock Exchange. Its largest shareholder is now CPI, which has a 76.87% stake (including 66.72% directly held and 10.15% through the subsidiary WXZ1 a.s.). The remaining shares are floating.

Liquidity

We assess Immofinanz's liquidity as adequate. We anticipate that liquidity sources will cover liquidity uses by more than 1.2x over the 12 months from March 31, 2022. CPI's controlling interest triggered a change-of-control event for Immofinanz's corporate bonds due in 2023 and 2027. These short-term liquidity requirements of €569 million were covered by Immofinanz's available cash of €954 million in March 2022.

Principal liquidity sources over the 12 months started March 31, 2022, comprise:

- Unrestricted cash balances of about €385 million, after the repayment of the €569 million bonds on which a change-of-control event has been triggered;
- An undrawn revolving credit facility of €100 million maturing beyond the next 12 months;
- Our forecast of cash funds from operations of €110 million-€120 million; and
- Nonmaterial contracted disposals.

Principal liquidity uses over the 12 months started March 31, 2022, comprise:

- Short-term debt maturities of around €430 million, including contractual debt amortizations, and excluding prolonged bank loans;
- Around €65 million of committed capex; and
- No dividends, since Immofinanz does not have the status of a real estate investment trust, therefore there is no mandatory dividend payout.

Environmental, Social, And Governance

ESG credit indicators: To E-2, S-2, G-3; From E-2, S-2, G-2

Because CPI is now controlling Immofinanz, governance factors are a moderately negative consideration in our credit analysis of Immofinanz, as is the case for CPI.

We believe CPI's recent transactions, including related-party deals, shareholdings with joint ventures, and cross-stake holdings are increasing complexity in the group's corporate structure and governance concerns. We understand that CPI takes measures to maintain a sound governance structure, such as its appointment of a minority shareholder representative (Apollo Global Management) at the board level, and the recent stepping down of Radovan Vitek and his wife from the CPI board. However, we believe that related-party transactions, such as family-related deals; cross-stake holdings between CPI, Immofinanz, and S-Immo; or growth through joint ventures, such as joint control with Aroundtown S.A. (BBB+/Stable/A-2) over commercial real estate peer Globalworth Real Estate Investments (BBB-/Stable/--), creates governance-related risks and complexity, which could harm the company's operational performance or creditworthiness. In our view, a material remaining minority interest may also limit CPI's control and influence over its targets.

Environmental and social factors remain an overall neutral consideration in our credit analysis of Immofinanz.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Watch Neg/--
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)

Issuer Credit Rating	BBB/Watch Neg/--
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile:	bbb-
Group credit profile	BBB
Entity status within group	Core

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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

Ratings List

Upgraded; CreditWatch Action

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

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