Research Update:

Austria-Based Immofinanz AG Downgraded To 'BBB-' After Same Action On Parent CPI Property Group; Outlook Stable

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Rating Action Overview

- On Oct. 4, 2022, S&P Global Ratings downgraded CPI Property Group (CPI), the parent company of Immofinanz AG, because recent merger and acquisition activities and weakening market conditions are keeping the group's credit metrics outside our rating expectations.
- Immofinanz is a core subsidiary of CPI, integral to the group's current identity and future strategy since the successful takeover this year, and our ratings on both companies are aligned.
- We therefore lowered our long-term issuer credit rating on Immofinanz to 'BBB-' from 'BBB'.
- The stable outlook mirrors that on CPI and reflects our expectation that the group should be able to integrate recent transactions successfully and maintain robust operating performance with solid occupancy levels and positive like-for-like rent growth.

Rating Action Rationale

We downgraded CPI on Oct. 4, 2022, amid the group's recent merger and acquisition activities, as well as weakening market conditions. These factors are keeping CPI's credit metrics outside of our rating expectations, with S&P Global Ratings-adjusted debt to debt plus equity expected to remain above 50% (51.7% as of June 30, 2022) and EBITDA interest coverage falling to 2.3x-2.5x (2.4x as of June 30, 2022).

We still consider Immofinanz a core subsidiary of CPI, and therefore lowered our ratings on the company in line with those on CPI. Since CPI's takeover earlier this year, we understand that Immofinanz is fully integrated as a core division and an important part of the group's identity and strategy. Immofinanz's portfolio complements that of CPI, with both comprising offices and retail assets in Central and Eastern Europe (CEE) with similar occupancy rates (93%-94% as of June 30, 2022). Immofinanz's portfolio represents 25%-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, we note that CPI appointed two (Miroslava Greštiaková and Martin Matula) out of the four members of Immofinanz's supervisory board, with the third member (Martin Nemecek) being CPI's former CEO. The only executive member of management (Radka Döhring) was also appointed by CPI. These appointments demonstrates CPI's influence on Immofinanz's strategy. We overall believe CPI would likely support Immofinanz under any foreseeable circumstances and now align our ratings on Immofinanz with those on CPI.

We continue to assess Immofinanz's stand-alone credit profile (SACP) at 'bbb-', although the company's EBITDA interest coverage ratio is close to our downside threshold. We forecast that Immofinanz's €4.8 billion income-generating property portfolio should continue bringing in relatively stable cash flows over the next 24 months. We anticipate that the company can partly pass on currently high inflation to its tenants because its leases are indexed. This should somewhat offset the EBITDA impact from potential limited rental upside in the current environment with challenging economic conditions, as well as the increasing popularity of remote working practices. At the same time, we understand that Immofinanz plans to focus its growth strategy toward higher-yield assets, such as retail parks. Although we view this type of asset to have a weaker quality, since it is more vulnerable to a potential deterioration of household consumption, the high-yield nature will likely increase cash flows. In addition, interest rate increases could push up the company's cost of debt through its upcoming refinancing requirements. Still, we expect this ratio to remain above our 2.0x downside threshold over the coming 24 months, albeit with tight headroom, at 2.0x-2.4x. Following the company's €291 million convertible bond conversion and €558 million of early bond redemptions earlier this year, its adjusted debt to debt plus equity reduced to about 34.3% at June 30, 2022, from 40.2% on the same date in 2021. We expect this ratio to increase to 40%-42% over the next 24 months due to potential development projects and acquisitions, remaining comfortably below our 50% downside threshold. We also anticipate that Immofinanz will maintain an adequate liquidity buffer over the next 12 months.

Outlook

The stable outlook on Immofinanz mirrors that on CPI and reflects our expectation that the group should be able to integrate recent transactions successfully and maintain solid occupancy rates, achieving positive like-for-like rental income growth, supported by its inflation-linked rental contracts. Our base case assumes S&P Global Ratings' adjusted ratio of debt to debt plus equity will be about 51%-54% in the next 12-24 months, with an EBITDA interest coverage ratio of about 2.3x-2.5x and debt to annualized EBITDA at about 15x by the end of 2023.

Downside scenario

We could lower our ratings on Immofinanz if CPI's:

- Debt to debt plus equity increases to 60% or above;
- EBITDA interest coverage decreases toward 1.8x or below; or
- Debt to annualized EBITDA materially differs from our forecast.

The above could occur if the company's operational environment deteriorates, with occupancy levels falling or valuations strongly declining or if CPI is unable to execute its disposal strategy or continues its acquisitive direction. We could also take a negative rating action if unexpected events further weaken the company's creditworthiness.

Although this would not result in a downgrade, we could revise down our assessment of Immofinanz's SACP if the company cannot maintain adjusted EBITDA interest coverage higher than 2.0x, its adjusted debt to debt plus equity increases to 50% or higher, or its adjusted debt to EBITDA deviates materially from our base-case scenario.

Upside scenario

We could raise the ratings on Immofinanz if CPI's:

- Adjusted debt to debt plus equity falls and stays well below 50%;
- EBITDA interest coverage increases well above 2.4x; and
- Debt to annualized EBITDA reaches below 13x.

A positive rating action would also require CPI to successfully integrate recent transactions, including finalizing its disposal plans, so that cash flow generation becomes highly visible and predictable again. We would also expect CPI to establish a consistent strategy with the market environment without harming its creditworthiness.

Although this would not result in an upgrade, we could revise up our assessment of Immofinanz's SACP if the company improves 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 €5.4 billion, as of June 30, 2022, mainly consists of:

- Office properties (61% of portfolio value). These comprise offices in capital cities, under the myhive brand, which includes partial and selective flexible offers via mycowork (41%), and other offices, mainly single-tenant buildings (20%); and
- Retail assets (38%) comprising retail parks under the Stop Shop brand (24%) and shopping centers under the VIVO! brand (15%).

Immofinanz's portfolio is spread across seven main areas, including Poland (about 19% of portfolio value at June 30, 2022), Austria (18%), Romania (15%), Germany (12%; exclusively offices), the Czech Republic (11%), the 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 free floating.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of June 30, 2022, Immofinanz's capital structure mainly comprised secured bank facilities of about €1.9 billion and senior unsecured bonds of a nominal amount of €424 million.

Analytical conclusions

The issue ratings on the company's unsecured debt remain aligned with the long-term issuer credit rating, at 'BBB-'. This is because Immofinanz's ratio of secured debt to total fair value assets was about 15.5% as of June 30, 2022--well below our 40% threshold. Above the threshold, 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)
Stand-alone credit profile:	bbb-
Group credit profile	BBB-
Entity status within group	Core

ESG credit indicators: E-2, S-2, G-3

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 | 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
- 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

Related Research

- CPI Property Group S.A Downgraded To 'BBB-' On Sustained Higher Leverage; Outlook Stable, Oct. 4, 2022

Ratings List

Downgraded; CreditWatch/Outlook Action

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