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Research Update:

CPI Property Group Affirmed At 'BBB' On Immofinanz Takeover Announcement; Outlook Remains Negative

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Rating Action Overview

- On Dec. 3, 2021, CPI Property Group (CPI) announced that it had acquired a 21.4% stake in Immofinanz AG and intends to launch a mandatory takeover offer (MTO) for all outstanding shares of Immofinanz, subject to the purchase of the 10.6% stake from Peter Korbacka (third-largest shareholder in Immofinanz) via RPPK Immo GmbH (RPPK). The deal is conditional on receipt of antitrust approvals. Upon antitrust clearance, CPI would own at least 32% of Immofinanz's shares.
- CPI also announced that it has acquired a 10.8% stake in S-IMMO. In total, CPI owns about 11.6% of S-IMMO, which also owns 14.2% of Immofinanz.
- Following several transactions throughout 2020 and 2021, in addition to the COVID-19 pandemic's effect on the company's operating performance, credit metrics continued weakening over the past 12 to 18 months. We now believe it will take CPI longer than we previously expected to restore its credit metrics and maintain its current rating level.
- Therefore, we maintained our negative outlook on CPI and affirmed our 'BBB' long-term issuer credit rating on the company. We also affirmed our 'BBB' issue rating on CPI's senior unsecured debt, and our 'BB+' issue rating on its subordinated debt.
- The negative outlook indicates that, compared with our previous assumptions, it will take CPI longer to restore its credit metrics under our downside thresholds for the current rating. We understand that the company remains committed to reducing leverage and building sufficient headroom under its financial policy; hence, we expect CPI to take significant steps in the next three to six months, in line with its commitment.

Rating Action Rationale

CPI has acquired a 21.4% stake in Austrian commercial real estate peer Immofinanz , and intends to launch an MTO for all outstanding Immofinanz shares. CPI announced that it had acquired the 11.4% stake of Mountfort in Immofinanz, an investment vehicle owned by Patrick Vitek, the son of CPI founder Radovan Vitek. In addition, CPI has purchased about 10% of Immofinanz's shares from the open market, leading to a total stake of 21.4%. We understand that the acquisition of Mr. Korbacka's stake is fully subject to antitrust approvals, which expects to receive before March 2022. If successful, CPI will own at least 32% in Immofinanz. CPI is offering €21.20 in cash per Immofinanz share, which is the closing share price of Immofinanz on Dec. 2, 2021, with no minimum acceptance level. The company expects the full transaction to close most likely by June 2022. Further, CPI has also announced that it has purchased a 10.8% stake in S-IMMO, and now owns about 11.6% of S-IMMO.

Rating stability now depends on CPI executing significant deleveraging measures over the short term. CPI's leverage ratios have already been under pressure in the past 18 months on the back of several transactions undertaken by management, and because of the pandemic's impact on hotel and retail operations. The S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio increased to 52.6% as of June 30, 2021, from 49.1% in December 2020. Debt to EBITDA stood at 18.7x versus 16.4x for the same period. Furthermore, EBITDA interest coverage fell to 2.5x in the first half of 2021 this year, from 2.8x in 2020. Although we view positively the company's recent equity increases of €550 million (see "CPI Property Group S.A.'s Announced Equity Raise Is Credit Positive In The Short Term," published Nov. 23, 2021), this is mitigated by usage of the proceeds, which have been deployed for recent purchases of the Immofinanz stake rather than repaying outstanding debt. We understand that CPI has signed a €2.5 billion bridge loan to fund the transaction as a backstop, and that it remains committed to its financial policy, including a net loan-to-value (LTV) ratio below 40%, which translates into an S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio of well below 50%. CPI plans to take significant steps over the short term to restore its credit metrics and maintain headroom following the transaction. Moreover, the company is planning to dispose assets of up to €1.0 billion over the next few months (it expects €700 million to sign and partially close in 2021, and the rest to be sold in early 2022), and issue equity-like instruments. Our new base case, which takes CPI's plans into account, anticipates that the company will reduce its debt-to debt-plus-equity ratio back to below 50% over the next three to six months, despite uncertainty around additional funding needs for the announced transaction. Our updated base case also assumes the company's EBITDA interest coverage to move back close to 3x over the same period. That said, our forecast does not take into account any further severe impact from COVID-19, which could constrain the company's operational performance and credit metrics beyond our current assessment.

We view Immofinanz's asset portfolio as compatible with that of CPI, although we would not consider the transaction to be substantially transformative for CPI's business risk profile. We believe that Immofinanz's portfolio could strengthen CPI's leadership position in the Central and Eastern Europe (CEE) commercial property market. As of Sept. 30, 2021, Immofinanz's portfolio stood at €5.0 billion (€4.5 billion standing investments), spread across offices (62.7% of portfolio), retail (35.8%), and others (1.5%). The company's assets are in Poland (19.4%), Austria (18.2%), Romania (15.4%), Germany (11.6%), Czech Republic (11.4%), Hungary (9.0%), and other Southern European and CEE countries (15%). If the full takeover is successful, CPI's portfolio will grow to about €16.5 billion from €11.2 billion. However, we do not view the transaction as transformative, but as a complementary fit to CPI's existing portfolio. CPI's office assets and Immofinanz's office assets are located in city centers, mainly in Berlin, Warsaw, Prague, or Vienna, where we view demand trends as supportive. That said, CPI's overall portfolio would remain focused mainly on CEE markets, which we generally view as less resilient to volatility and as having lower barriers to entry than more mature markets such as France or Germany (except for Czech Republic, where the barriers to entry are high).

We believe recent transactions, including related party deals, shareholdings with joint ventures, and cross-stake holdings are increasing complexity in CPI'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 Mr. 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 a joint control with Aroundtown S.A. (BBB+/Stable/--) 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.

We expect CPI's liquidity profile to remain adequate, but liquidity could become tight when the MTO is triggered. CPI had approximately €541.9 million of cash and cash equivalents and €700 million available under its committed undrawn revolving credit facility (RCF) as of Sept. 30, 2021. We understand that the whole transaction, including the acquisition of recent stakes in Immofinanz and S-IMMO, is financed by CPI's internal liquidity sources, including cash received from recent equity raised (€550 million) and planned assets disposal of up to €1.0 billion, of which €700 million is expected to sign and partially close in 2021. Furthermore, liquidity is supported by a €2.5 billion signed bridge loan facility. Immofinanz has about €3.1 billion of outstanding debt as of Sept. 30, 2021, with about €1.0 billion cash on hand. We understand that the change of control of Immofinanz's outstanding senior unsecured bonds (about €1.3 billion) will be triggered at the launch of the unconditional MTO and bondholders can choose to exercise the change of control put option. Depending on CPI's successful execution of its disposal plans and further unexpected liquidity needs, liquidity headroom may deteriorate. CPI remains committed to maintaining ample headroom under its liquidity, with a very good standing in the capital market and a solid relationship with the banks.

Outlook

The negative outlook reflects our view that it will take CPI longer than we previously expected to restore its credit metrics under our downside thresholds for the current rating. We understand that the company remains committed to reducing leverage and building sufficient headroom under its financial policy; hence, we expect CPI to take significant steps in the next three to six months, in line with its commitment. Our base case assumes material asset sales of about up to €1.0 billion, in line with CPI's public plans.

In addition, the negative outlook also captures the risk of material liquidity needs if the majority of Immofinanz's lenders make use of the change-of-control clause.

Downside scenario

We could lower our rating on CPI in the next three to six months if:

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

- The liquidity-cushion decreases, for example because of additional cash-funded transactions or a liquidity shortage from the anticipated transaction.

This could happen if CPI fails to execute material deleveraging measures, meaning it is unable to create solid headroom under its credit metrics, ahead of the anticipated launch of the MTO for Immofinanz's shares; or if it delivers weaker-than-anticipated operating performance (such that the company experiences additional rent loss, rent reductions, or increasing vacancy rates, for example due to further lockdowns).

Upside scenario

We could revise the outlook back to stable if CPI demonstrates financial discipline and restores its credit metrics back to:

- An adjusted debt to debt plus equity well below 50%;
- EBITDA interest coverage above 3x; and
- Debt to annualized EBITDA below 13x.

The outlook revision is also contingent upon CPI securing ample headroom under its liquidity before triggering the launch of the MTO on Immofinanz.

Company Description

CPI is a real estate group focusing primarily on office, retail, residential, and hotel properties in CEE and Germany. The group operates primarily in the Czech Republic (39% of the portfolio by property value as of June 30, 2021) and is a leading retail and office space owner in this region. CPI largely invests its €11.2 billion portfolio in offices (48% of portfolio value) and retail (22% of property value), with less exposure to the residential and hotel segments. The group has more than 25 years of experience in the real estate market and operates in 12 countries. CPI is 89% owned by Radovan Vitek and is listed on the Frankfurt stock exchange.

Ratings Score Snapshot

Issuer credit rating: BBB/Negative/--

Business risk: Satisfactory

- Country risk: Intermediate
- Industry risk: Low
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

Anchor: bbb

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: Neutral (no impact)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- 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

Ratings Affirmed	
CPI Property Group S.A.	
Issuer Credit Rating	BBB/Negative/--
Senior Unsecured	BBB
Subordinated	BB+

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.