S&P Global Ratings

Research

CPI Property Group SA

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Table Of Contents

CPI Property Group SA

Business Risk: SATISFACTORY

Vulnerable — Excellent

Financial Risk: INTERMEDIATE

Highly leveraged — Minimal

Anchor	Modifiers	Group/Gov't
bbb	bbb	bbb

Issuer Credit Rating
BBB/Negative/--

Credit Highlights

Overview

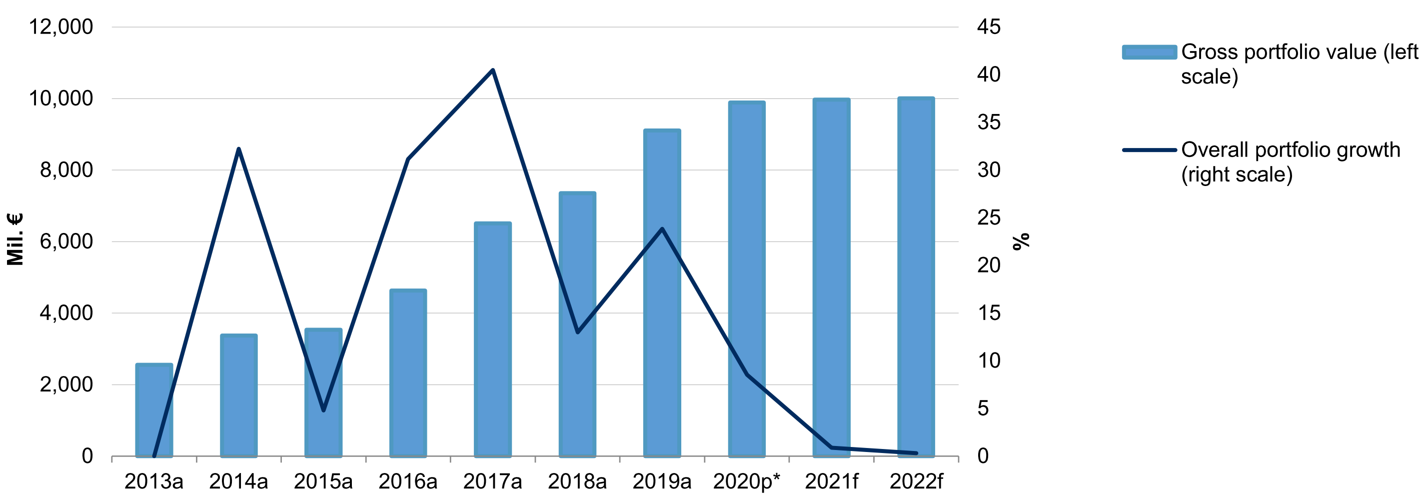
Key strengths	Key risks
Large and diversified portfolio across geographies (mainly Czech Republic, Germany, Hungary, and Poland) and asset classes (office, retail, residential, and hotels), worth €9.1 billion on Dec. 31, 2019.	Material exposure--33% of total gross asset value at year-end 2019--to retail and hotel segments, the most affected by the COVID-19 pandemic and generally more volatile and cyclical than other property segments such as residential.
Good asset quality, since most of the assets are strategically located in urban city centers, where market fundamentals remain favorable.	Lower profitability than peers', due to lower margins in the hotel segment, as well as higher operating costs related to maintenance and refurbishment of assets.
A strong operational track record, with positive like-for-like rental income growth of 3.1% in first-quarter 2020 (4.4% in 2019), and stable occupancy rates at 94.4%.	Exposure to the risk of the Czech koruna's volatility against the euro, although most of the rental income is denominated in euro.
A diversified capital structure with limited upcoming debt maturities, supporting solid liquidity.	Weakening debt-repayment capacity from revenue generation, with a debt-to-EBITDA ratio of 13.0x-14.0x, mainly due to low-yielding German office assets and rising debt.

The temporary shutdown of hotels, partial closure of retail assets to contain the spread of the coronavirus, and a likely global recession in 2020 will hamper CPI Property Group's performance this year. Due to global social distancing measures to contain the pandemic, S&P Global Ratings now expects GDP growth to shrink by 7.8% in the eurozone in 2020, 5.8% in the Czech Republic, and 6% in Germany this year. We now believe that subdued household consumption will likely affect retailers' sales in the coming years, and rental generation across retail assets will decline in 2020 due to weaker rent renegotiations/rent losses or a decrease in occupancy as tenants' credit quality deteriorates. In addition, with the decline in tourism and restricted movement due to lockdowns and weak consumer confidence, we expect a drop in hotel occupancy rates this year. That said, we understand hotels account for less than 10% of CPI's portfolio and the company has taken cost-cutting measures to limit the impact. We also note that more than 95% of the group's property portfolio is open again, excluding hotels. To some extent, CPI's segment and geographic diversification should help mitigate the pandemic's effects. However, we still expect overall activity to remain subdued across the retail and hotel segments. Therefore we estimate a drop in like-for-like income and rental growth of 50%-60% for CPI's hotels and 10%-15% for its retail segment in 2020, with a gradual recovery in 2021.

CPI has continued to invest in its portfolio over the past 18 months, and we expect the portfolio to now stabilize. CPI's portfolio increased by 20% in 2019 to €9.1 billion from €7.6 billion in 2018, supported by positive portfolio revaluation of about €550 million and active investments in the form of capital expenditure (capex) of about €240 million and acquisitions of about €789 million. Acquisitions were mainly related to three office properties in Poland's capital Warsaw (over €560 million), two hotels in the Czech Republic, and two smaller properties in London. Since the beginning of 2020, the company additionally acquired five office assets in Warsaw for about €185 million and a 29.4% stake in Globalworth (BBB-/Stable/--) for €687 million. We believe that, in light of the COVID-19 pandemic, CPI will maintain its investment plans and cash flow flexibility. In addition, we expect the value of CPI's hotel and retail assets to decline by 5%-10% in 2020.

Chart 1

CPI Property Group--Gross Portfolio Value And Total Portfolio Growth

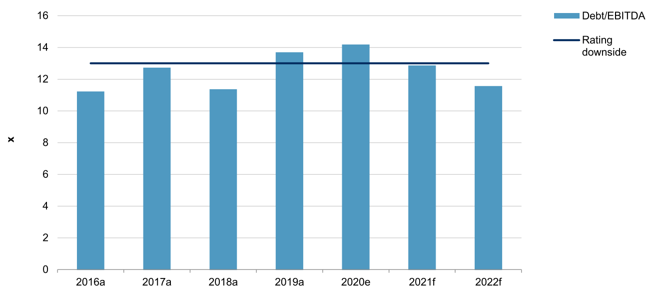


A--Actual. P--Projected. E--Estimate. Source: S&P Global Ratings.*Including equity stake in Globalworth

Deleveraging may take longer because the pandemic could weigh on CPI's EBITDA and valuations. We assume a 5%-10% devaluation of CPI's retail and hotel assets and low single-digit devaluation of its office portfolio in 2020. Including the company's investment activities at the start of this year, we forecast CPI's S&P Global Ratings-adjusted debt to debt plus equity will rise to 49%-50% in 2020 from about 44% as of Dec. 31, 2019. We note the company's intention of adhering to its opportunistic investment plans to sustain its leverage target, while staying committed to its financial policy target of net loan to value (LTV) below 40%. That said, we believe there is a one-in-three probability that CPI's credit metrics will deteriorate further if market conditions worsen more than expected.

Chart 2

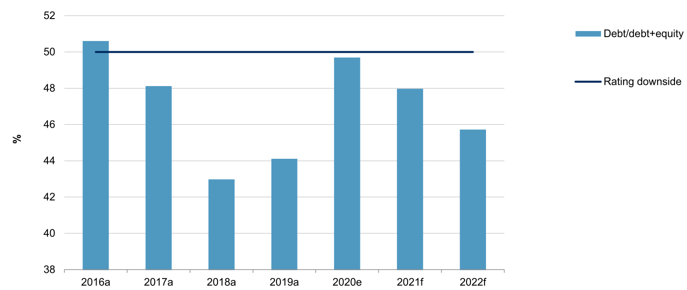
CPI Property Group--Debt To EBITDA



a--Actual. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Chart 3

CPI Property Group--Debt To Debt Plus Equity



a--Actual. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Outlook: Negative

The negative outlook reflects our view that CPI's deleveraging efforts could be delayed due to disruptions from the COVID-19 outbreak, and that operating performance may be more adversely affected than we currently anticipate over the next 24 months.

Downside scenario

We would downgrade the company if, on a prolonged basis:

- Debt to debt plus equity increases to more than 50%;
- EBITDA interest coverage dropped below 3x; or
- Debt to EBITDA increases and stays beyond 13x.

This could happen if CPI's deleveraging plan proves unsuccessful, or if COVID-19 affects the retail and hotel sectors more than we currently anticipate in our base-case scenario, such that the company experiences material rent losses/reductions, negative portfolio valuations, or significantly increasing vacancy rates.

Upside scenario

We could revise the outlook to stable if CPI:

- Maintains its ratio of debt to debt plus equity well below 50%, and
- Debt to EBITDA below 13x.

This could happen if the company quickly rebounds from current disruptions such that it generates positive like-for-like rental growth, while maintaining high occupancy levels and achieving flat-to-positive growth in portfolio valuations. This could also happen if the company executes measures to deleverage quicker than we currently anticipate.

Our Base-Case Scenario

Assumptions

- Contraction of real GDP of 7.3% in the eurozone in 2020, with a 5.8% decline in Czech Republic and 6% in Germany.
- A 15%-20% decline in overall like-for-like rental income in 2020, followed by growth of 4%-5% in 2021. This includes a contraction of like-for-like rental income of 50%-60% in the hotel portfolio in 2020, up to 10%-15% in the retail portfolio in 2020, and 2%-5% in the office assets portfolio for 2020, followed by a gradual recovery in 2021 in line with our consumer price index forecast in countries where CPI operates. We assume positive like-for-like rental growth for residential assets of 1.0%-1.5% in 2020 and 2021.
- Gradually increasing profitability on the back of an improving cost structure, further supported by dividend income from equity affiliate, Globalworth.
- About 3%-4% overall portfolio devaluation in 2020 and a flat price development in 2021, reflecting current challenges in the commercial market.
- Acquisitions of about €1.0 billion this year, mostly completed in the first quarter, including the €650 million-€700 million acquisition of a stake in Globalworth.
- Annual capex of €200 million-€250 million for the next 12-24 months.
- No dividend payments in the next 12-24 months.

Key metrics

	2019a	2020e	2021f
EBITDA interest coverage (x)	3.8	3.0-3.2	3.0-3.2
Debt to debt plus equity (%)	44.1	49-50	47-48
Debt to EBITDA (x)	13.7	~14	~13

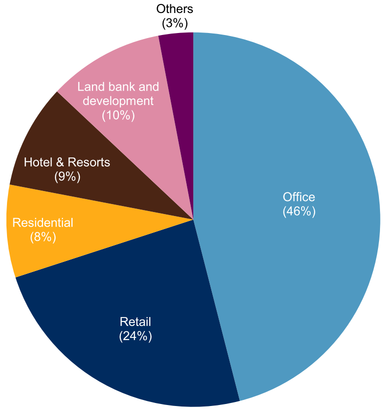
a--Actual. e--Estimate. f--Forecast.

Company Description

CPI is a real estate holding company primarily focusing on office, retail, residential, and hotel properties in Central and Eastern Europe (CEE), and Germany. The company primarily operates in the Czech Republic (46% of the portfolio by property value as of Dec. 31, 2019) and is a leading retail and office space owner in this region. CPI largely invests its €9.1 billion portfolio in offices (46% of portfolio value) and retail (24% of property value), along with smaller 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 91% owned by Radovan Vitek and is listed on the Frankfurt stock exchange.

Chart 4

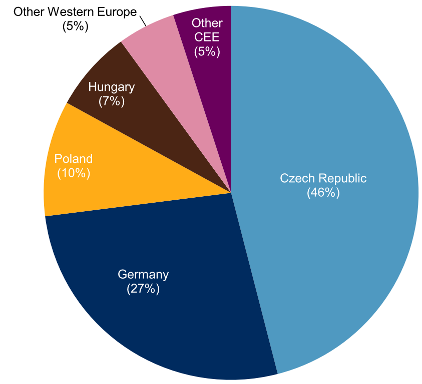
CPI Property Group--Segment Diversity



Source: S&P Global Ratings.

Chart 5

CPI Property Group--Geographic Diversity



Source: S&P Global Ratings. CEE--Central and Eastern Europe.

Table 1

CPI Property Group--Portfolio Summary

Segment focus	Diversified (office, retail, residential, and hotel)
Total portfolio value	€9.1 billion
Total units or total GLA (units or sqft)	332 office and retail, 11,919 residential units, 12,416 hotel beds
Average occupancy (%)	94.30
Average lease maturity (years)	3.4 years
EPRA net initial yield (%)	4.37
Overall portfolio quality*	Good quality office and retail assets
Market capitalization (€)**	~6.49 billion

*S&P Global Ratings' view, based on December 2019 results. **As of June 2020.

Peer Comparison

The company's portfolio (€9.1 billion on Dec. 31, 2019) is well diversified geographically and supported by high exposure in the Prague, Warsaw, and Berlin (office) markets and the Czech Republic retail market where demand for the respective asset remains solid. We factor in the company's high focus on office assets in locations with ground market fundamentals, and we believe office space will remain more resilient than retail and hotel assets. This strength remains a key factor in our assessment of the company's business risk at the higher end of its category compared with its close peers.

Table 2

CPI Property Group--Operating Peer Comparison

Companies	CPI Property Group SA	Aroundtown S.A.*	Merlin Properties, Socimi, S.A.	NEPI Rockcastle PLC	Immofinanz AG
Ratings (as of July 8, 2020)	BBB/Negative/--	BBB+/Stable/A-2	BBB/Stable/--	BBB/Negative/--	BBB-/Stable/--
Portfolio value (bil. €)	9.10	21.20	12.80	6.30	5.12
Share of development (including land)	<10%	<10%	<5%	3.50%	<10%
WAULT (years)	3.4	8.6	5.6	4.0	4.3
Occupancy (%)	94.3	92.3	94.8	97.9	96.8
Top 10 tenants asa share of GRI (%)	12.5	20.0	30.0	21.5	<20%
Geography diversity	Czech Republic 46%, Germany 27%, Poland 10%, Hungary 7%, Western Europe 5% and Other CEE countries 5%	Germany 88%, Netherlands 7%, United Kingdom 5%	Spain 91%, Portugal 9%	Romania 38%, Poland 23%, Hungary 10%, Slovakia 9%, Bulgaria 8%, Croatia 4%, Czech Republic 3%, Serbia 3%, and Lithuania 2%	Poland 21.1%, Austria 17%, Romania 15.5%, Germany 12.5%, Czech Republic 1.6%, Hungary 10.1%, Slovakia 6.4%, others 6.8%
Assets diversity	Office 46%, Retail 24%, Hotels & Resorts 9%, Residential 8% and Landbank, development & Others 13%	Office 45%, Hotel 28%, Residential 15%, Retail 5%,Logistics/Wholesale/Others 7%	Net leases 14.7%, shopping centres 20.3%, offices 49.3%, logistics 9.9%, hotels, non-core land, and miscellaneous 5.8%	Retail 93%, Office 6% and Industrial 1%	Office 64%, Retail 34%, others 2%

Data as of Dec. 31, 2019. CEE--Central Eastern Europe. *Including 39% stake in Grand City Properties.

Table 3

CPI Property Group--Peer Comparison

	CPI Property Group SA	Aroundtown S.A.	Merlin Properties, Socimi, S.A.	NEPI Rockcastle PLC	Immofinanz AG
Ratings as of July 8, 2020	BBB/Negative/--	BBB+/Stable/A-2	BBB/Stable/--	BBB/Negative/--	BBB-/Stable/--
Mil. €			**--Fiscal year ended Dec. 31, 2019--**		
Revenue	488.0	1,115.4	207.3	407.1	517.7
EBITDA	283.8	762.1	170.9	374.0	409.5
Funds from operations (FFO)	214.6	478.0	115.8	309.0	283.9
Interest expense	75.6	194.9	65.0	57.7	110.1
Cash flow from operations	225.9	503.1	183.5	316.4	294.9
Capital expenditure	337.0	268.8	248.5	278.5	240.7
Free operating cash flow (FOCF)	(111.1)	234.3	(65.0)	37.9	54.2

Table 3

CPI Property Group--Peer Comparison (cont.)					
Dividends paid	18.8	209.4	88.1	161.7	187.1
Cash and short-term investments	778.1	3,038.6	341.2	204.0	254.0
Debt	3,879.5	9,934.0	2,542.9	2,109.2	5,269.6
Equity	4,919.5	12,505.6	2,937.1	4,096.9	6,708.7
Debt and equity	8,799.0	22,439.7	5,480.1	6,206.0	11,978.3
Valuation of investment property	8,933.8	21,443.1	5,185.6	6,022.6	12,516.1
Adjusted ratios					
Annual revenue growth (%)	8.4	16.4	19.1	16.4	6.6
EBITDA margin (%)	58.2	68.3	82.4	91.9	79.1
Return on capital (%)	3.3	5.3	4.7	6.3	3.6
EBITDA interest coverage (x)	3.8	3.9	2.6	6.5	3.7
Debt/EBITDA (x)	13.7	13.0	14.9	5.6	12.9
FFO/debt (%)	5.5	4.8	4.6	14.6	5.4
Debt/debt and equity (%)	44.1	44.3	46.4	34.0	44.0

Business Risk: Satisfactory

The group's business risk profile is underpinned by its position as the largest retail and office property owner in the Czech Republic and Berlin, and one of the largest office property owners in CEE. It manages a portfolio of good-quality office and retail assets that enjoys a good degree of geographic and segment diversity, and we think compares favorably with that of most peers we assess in the same business risk category. Most of the group's tenants are creditworthy multinational companies or regional leaders with triple-net-lease contracts fixed in euros.

The group's portfolio is supported by strong operating performance with positive like-for-like rental income growth of 3.3% in first-quarter 2020 and 4.4% in 2019. Solid rental income performance mainly stems from its exposure to the Berlin office market (10.5% of like-for-like rental income growth in 2019), while the retail segment somewhat mitigated it (-3.1%). The Berlin office market experiences strong demand, fueled by information technology and information technology-enabled service companies, while new supply for office space remains very limited. We expect that the momentum should continue, since the group's strategy is to focus on its core assets while continuing to invest in upgrading and renovating assets when necessary.

Table 4

CPI Property Group--Top 10 Assets

Asset Name	Asset Value (€)	Location	Size (Sqft)	% Total property value
Warsaw Financial Centre	261	Poland	50,000	2.90
Quadrio	258	Czech Republic	25,000	2.80
Eurocentrum	239	Poland	85,000	2.60
Olympia Plzen	157	Czech Republic	41,000	1.70

Table 4

CPI Property Group--Top 10 Assets (cont.)				
Asset Name	**Asset Value (€)**	**Location**	**Size (Sqft)**	**% Total property value**
Reuchlinstraße	151	Germany	49,000	1.70
Zlaty Andel	143	Czech Republic	21,000	1.60
Helmholtzstraße	139	Germany	37,000	1.52
Gustav-Meyer-Allee 25	137	Germany	75,000	1.50
Futurum	131	Czech Republic	39,000	1.40
Franklinstraße	131	Germany	31,000	1.44
Total top 10 assets	1,747			19.16

Table 5

CPI Property Group--Top 10 Tenants	
Top 10 tenants	**% of gross rental income**
Ahold	2.4
Tesco	1.8
Ceska Pojistovna	1.7
Siemens	1.3
CEZ Group	1.3
Penny	1.0
Billa	0.9
Takko Fashion	0.8
PSE	0.7
DM	0.7
Total	12.6

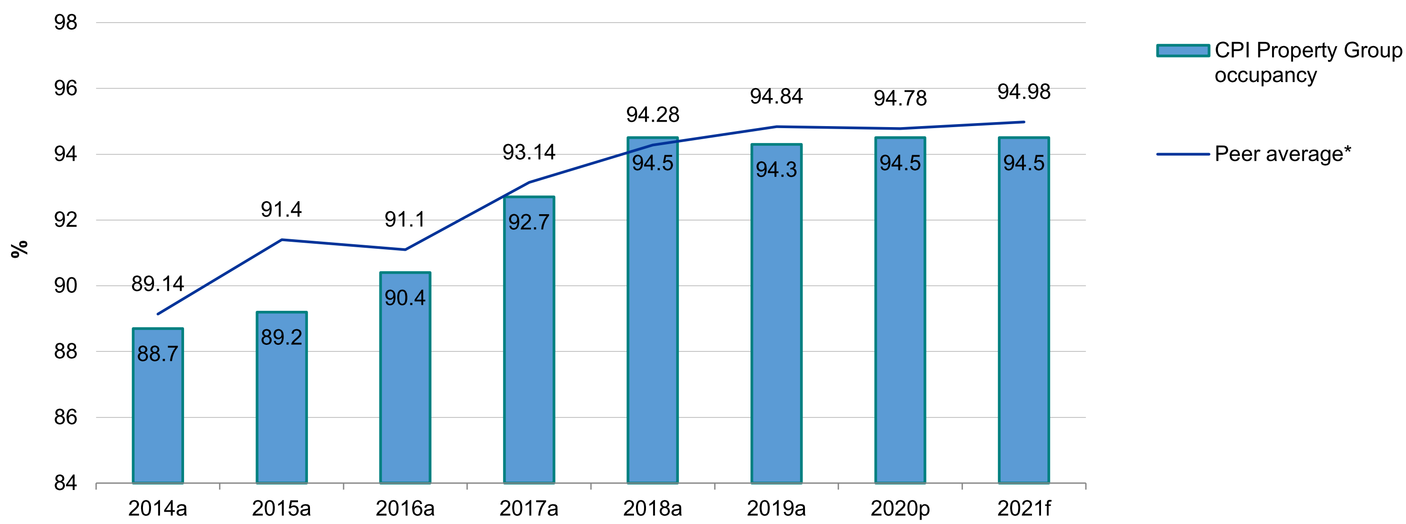
Source: S&P Global Ratings.

The top 10 assets represent 19% of total market value, with the largest accounting for 3%, which is similar for most of the rated peers in the same business risk category. The group's average lease term of 3.4 years is slightly shorter than that of other rated commercial real estate players (five years or longer). However, we understand that this is in line with the group's current strategy of gradually raising rents to the market level, especially for office assets in Berlin. Overall, we see limited risk of tenant concentration, since the group's 10 largest tenants account for just 12.5% of its total rents. We also note that there is limited development risk in the portfolio because the share of assets under development will remain significantly lower than 10% of the current portfolio value.

We note a further improvement in occupancy levels from 88.7% in 2014 to 94.3% in 2019. We expect a decline in hotel occupancy in 2020, but believe that overall occupancy levels should remain above 94% (excluding hotels) for the next 2-3 years.

Chart 6

CPI Property Group--Occupancy Growth Versus Industry Average



A--Actual. P--Projected. E--Estimate. *Average for CPI Property Group, NEPI Rockcastle, Merlin Properties, Aroundtown, and Globalworth. Source: S&P Global Ratings.

CPI has material exposure to the office, retail, and hotel property segments, which we view as more volatile and cyclical than residential, for example, because they are closely linked to corporate business conditions and consumer confidence. We note that current dynamics of the commercial segment are challenged, due to weakening investor confidence and changing corporate sentiment; therefore, these segments might see a permanent structural shift.

The group is exposed to foreign currencies (primarily the Czech koruna) through rental income and expenses. In 2019, the group received 28% of its gross rental income in Czech koruna. However, 54% of the group's property operating expenses and 43% of administrative expenses were also denominated in koruna. As a result, the net remaining exposure to the Czech koruna is limited and we also understand that most of CPI's rents are denominated in euros.

Financial Risk: Intermediate

Our assessment of CPI's financial risk profile is underpinned by the group's moderate debt leverage, with an S&P Global Ratings-adjusted ratio of debt to debt plus equity of 44% and an adjusted EBITDA-to-interest ratio of 3.8x at the end of 2019. The group's prudent financial policy focuses on an LTV ratio of less than 40%, with a temporary increase to 45% to support strategic acquisitions, which corresponds to an adjusted debt-to-debt-plus-equity ratio below 50%, with the difference largely attributed to the treatment of hybrid bonds. We expect CPI's debt-to-debt-plus-equity ratio will increase to 49%-50% in 2020 due to active acquisitions at the beginning of the year and expected negative portfolio revaluation, partly mitigated by the company's decision to not distribute any cash dividends this year. We understand there is limited headroom versus the rating threshold. However, we expect a gradual recovery from 2021 in line with the company's plan to continue with opportunistic investments alongside its focus on restoring headroom against its target LTV ratio of less than 40%.

The group issued about €1.3 billion of new instruments in 2020 (€750 million of 2.75% senior unsecured green bonds maturing in 2026, £350 million of 2.75% senior green bonds due in 2028, SG$150 million of 5.8% perpetual subordinated bonds due in 2025, and a HK$250 million 3.014% bond due in 2030). It used part of the proceeds to refinance a portion of near-term maturities (about €800 million) and the balance for acquisitions (about €500 million) completed in first-quarter 2020.

CPI has demonstrated its ability to access a wide range of funding sources by tapping different currency markets and issuing hybrid bonds. That said, we expect a subsequent increase in the average cost of debt to close to 2.0% by year-end 2020 from 1.6% in 2019, due to the higher average cost of new issuances. Based on the impact on rental income from the COVID-19 pandemic, higher debt to fund recent acquisitions, and higher refinancing costs, we expect S&P Global Ratings-adjusted EBITDA interest coverage will decline to about 3.0x from 3.8x in 2019, and the adjusted debt to EBITDA to deteriorate to about 14x this year before recovering to below 13x in 2021.

Financial summary

Table 6

CPI Property Group--Financial Summary

Industry Sector: Real Estate Investment Trust Or Company					
	--Fiscal year ended Dec. 31--				
Mil. €	**2019**	**2018**	**2017**	**2016**	**2015**
Revenue	488.0	450.0	399.8	319.1	255.5
EBITDA	283.8	271.6	241.1	209.4	153.0
Funds from operations (FFO)	214.6	162.8	131.3	105.2	64.8
Interest expense	75.6	87.0	99.1	93.7	98.1
Cash flow from operations	225.9	158.6	121.5	48.4	67.2
Capital expenditure	337.0	143.5	116.4	94.0	55.6
Free operating cash flow (FOCF)	(111.1)	15.1	5.1	(45.6)	11.6
Dividends paid	18.8	6.3	0.0	0.0	0.0
Cash and short-term investments	778.1	74.4	177.3	243.4	99.0
Debt	3,879.5	3,077.5	3,071.8	2,342.0	2,305.9
Equity	4,919.5	4,087.3	3,315.2	2,288.5	1,338.1
Debt and equity	8,799.0	7,164.8	6,387.0	4,630.5	3,643.9
Valuation of investment property	8,933.8	7,357.9	6,519.5	4,675.2	3,534.3
Adjusted ratios					
Annual revenue growth (%)	8.4	12.6	25.3	24.9	29.8
EBITDA margin (%)	58.2	60.4	60.3	65.6	59.9
Return on capital (%)	3.3	3.7	4.2	4.9	4.6
EBITDA interest coverage (x)	3.8	3.1	2.4	2.2	1.6
Debt/EBITDA (x)	13.7	11.3	12.7	11.2	15.1
FFO/debt (%)	5.5	5.3	4.3	4.5	2.8

Table 6

CPI Property Group--Financial Summary (cont.)

Industry Sector: Real Estate Investment Trust Or Company

	--Fiscal year ended Dec. 31--				
Mil. €	**2019**	**2018**	**2017**	**2016**	**2015**
Debt/debt and equity (%)	44.1	43.0	48.1	50.6	63.3

Reconciliation

Table 7

CPI Property Group--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2019--							
CPI Property Group SA reported amounts (Mil. €)								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**
	4,071.7	5,419.7	289.9	805.1	53.9	283.8	280.7	37.6
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(13.2)	--	--
Cash interest paid	--	--	--	--	--	(37.2)	--	--
Reported lease liabilities	33.0	--	--	--	--	--	--	--
Intermediate hybrids reported as equity	550.0	(550)	--	--	21.7	(18.8)	(18.8)	(18.8)
Postretirement benefit obligations/deferred compensation	2.9	--	--	--	--	--	--	--
Accessible cash and liquid investments	(778.1)	--	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	13.3	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(36)	--
Noncontrolling interest/minority interest	--	49.8	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(1.7)	(1.7)	--	--	--	--
EBITDA: Business divestments	--	--	(0.6)	(0.6)	--	--	--	--
EBITDA: Other	--	--	(3.8)	(3.8)	--	--	--	--
Depreciation and amortization: Asset valuation gains/(losses)	--	--	--	(550)	--	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	1.7	--	--	--	--
Total adjustments	(192.2)	(500.2)	(6.1)	(541.1)	21.7	(69.2)	(54.8)	(18.8)

Table 7

CPI Property Group--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid
	3,879.5	4,919.5	283.8	264.0	75.6	214.6	225.9	18.8

Liquidity: Adequate

We anticipate that liquidity sources will likely cover liquidity uses by well over 1.2x as of March 31, 2020. CPI has sound relationships with a diverse group of banks and a strong standing in capital markets. That said, we assume the group could use a portion of cash for general corporate purposes or growth opportunities in the medium term. Consequently, we continue to view CPI's liquidity as adequate.

Principal liquidity sources

- Unrestricted cash and cash equivalents of about €468 million.
- €510 million on an undrawn revolving credit facility, maturing in more than 12 months.
- Our forecast of cash funds from operations of €250 million-€270 million for the next 12 months.
- Green bond issuance of €750 million in May 2020.

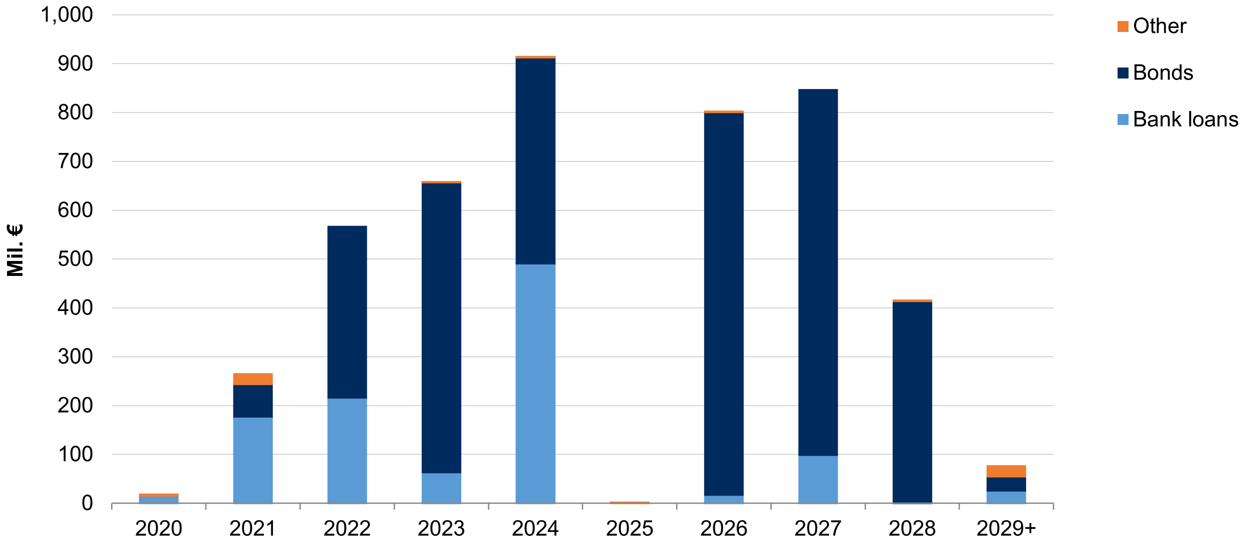
Principal liquidity uses

- Short-term debt maturities of €50 million-€60 million for the next 12 months.
- Repurchased outstanding bonds of €750 million-€800 million in May 2020.
- €100 million-€120 million of committed capex.
- €40 million-€50 million of committed acquisitions.
- Cash dividends for hybrid securities of about €55 million.

Debt maturities

Chart 7

CPI Property Group--Debt Maturities
As of May 31, 2020



Source: Company reports, S&P Global Ratings.

Covenant Analysis

We understand that CPI has financial covenants for its outstanding debt. We estimate that the headroom under these covenants will remain adequate at more than 10%.

Environmental, Social, And Governance

We believe CPI has exposure to ESG factors comparable with that of the broader real estate industry. The company has embedded sustainability in its strategy and is committed to improving its portfolio's environmental performance. CPI's properties comply with green certification standards such as BREEAM/LEED, both for new and some existing assets, which represented around 14% of the total gross leasable area at year-end 2019 versus 8% in 2018. Also, the group replaced older heating systems with natural gas systems, and is seeking to improve the overall level of thermal insulation of its buildings. CPI's other environmental initiatives include recycling of main waste, using eco-friendly materials in reconstruction, and the installation of rain drainage storage in most of its properties. The company's core assets are in the office and retail markets, two segments exposed to shifts in consumer behaviors and demographic trends, with the possibility of material capex necessary to reposition some assets. The company has issued three green bonds since October 2019.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2019, the group's capital structure comprises 25% secured debt and 75% unsecured debt, spread across senior unsecured bonds and secured bank debt.

Table 7

CPI Property Group--Capital Structure And Liquidity 2019	
Average interest cost (%)	1.7
Weighted average debt maturity (years)*	4.00
Average fixed debt (including hedge, %)	88.0
Composition of debt (Secured, %)	25.0
Liquidity (Sources/uses)	Adequate

*Based on S&P Global Ratings' calculations.

Analytical conclusions

We expect that CPI's exposure to secured debt will remain below 40% of total assets (less than 10% as of Dec. 31, 2019). As a result, although unsecured debt issuance is structurally subordinated to other debt obligations, the subordination does not affect the rating on the unsecured debt. Thus, we rate them at the same level as the issuer credit rating.

The 'BB+' issue rating on the outstanding subordinated hybrid bonds includes two downward notches: one for subordination and one for deferability.

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: 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of July 8, 2020)*

CPI Property Group SA	
Issuer Credit Rating	BBB/Negative/--
Senior Subordinated	BB+
Senior Unsecured	BBB
Subordinated	BB+
Issuer Credit Ratings History	
01-Apr-2020	BBB/Negative/--
09-May-2018	BBB/Stable/--

Ratings Detail (As Of July 8, 2020)*(cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.