S&P Global
Ratings

Research

Research Update:

CPI Property Group S.A. Ratings Placed On CreditWatch Negative On Plan To Acquire A Further Stake In Globalworth

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Rating Action Overview

- Real estate companies CPI Property Group S.A. (CPI) and Aroundtown S.A. have formed a 50%/50% joint venture and announced their intention to purchase all the outstanding shares in Globalworth Real Estate Investments Ltd. (Globalworth) for €7 per share in cash. We anticipate a capital commitment of up to €330 million for CPI if all Globalworth's remaining shareholders accept the offer price.
- CPI's leverage ratios had already deteriorated near to our downgrade thresholds in 2020 due to several transactions that increased net debt and also the impact of the COVID-19 pandemic. Taking into account CPI's recent share buyback and the announced offer for Globalworth's remaining shares, we believe that CPI's credit metrics may weaken further if it fails to take sufficient deleveraging measures, including equity or equity-like funding, in the short term.
- Therefore, we are placing our 'BBB' long-term issuer credit rating on CPI, our 'BBB' issue rating on its senior unsecured debt, and our 'BB+' issue rating on its senior subordinated debt on CreditWatch with negative implications.
- The CreditWatch negative placement reflects the possibility of us lowering the ratings if CPI fails to offset the potential cash impact of acquiring additional shares in Globalworth, including through the near-term adoption of equity-like deleveraging measures, and if its deleveraging plans are delayed further.

Rating Action Rationale

CPI Property Group S.A.'s (CPI's) announced joint offering with Aroundtown S.A. for the remaining shares in Globalworth Real Estate Investments Ltd. (Globalworth) could delay the deleveraging we had anticipated for CPI. CPI and Aroundtown already owned 29.6% and 22.0%, respectively, of Globalworth's share capital before they formed a 50%/50% joint venture that gives them joint control of more than 50% of Globalworth's share capital. Through their joint venture, CPI and Aroundtown aim to acquire the remaining shares in Globalworth. We anticipate that CPI's cash outflow could be anywhere from €0 million up to €330 million, depending on how many of Globalworth's remaining shareholders--those holding shares that CPI and Aroundtown do not already own--accept the offer. We understand that CPI remains committed to its current financial policy, including keeping its net loan-to-value (LTV) ratio below 40%, which translates into an S&P Global Ratings-adjusted ratio of debt to debt plus equity of well below 50%. We also understand that CPI is looking into short- to near-term deleveraging measures, including third-party equity investments or equity partnerships. CPI's capital requirement to acquire additional shares in Globalworth will be materially offset by the deleveraging measures, which we expect to include some equity and equity-like financing ahead of the transaction closing.

In our view, rating stability now depends on CPI stabilizing its business and executing further measures to facilitate deleveraging. These measures could include obtaining equity investments, selling landbank or noncore assets, and capital recycling. CPI's leverage ratios were already under pressure in 2020 due to several transactions during the year that increased net debt, and to the impact of the COVID-19 pandemic. Debt to debt plus equity stood at 49.1% as of Dec. 31, 2020, versus 44.1% in 2019, and debt to EBITDA increased to 16.0x from 13.7x in 2019. The company's EBITDA interest coverage remained solid, although it declined to 2.9x in 2020 from 3.8x in 2019. Taking into account a recent share buyback of about €395 million in the first quarter of 2021 and the announced share offer for Globalworth, we believe that CPI's credit ratios could weaken further if the company does not take sufficient steps to deleverage, including equity funding, in the next few months. We therefore see a risk that CPI's debt to debt plus equity could breach our downgrade threshold of 50%, We also believe that CPI may find it challenging to bring debt to annualized EBITDA back below 13x and EBITDA interest coverage above 3.0x.

We see a one-in-two chance that CPI's credit metrics will not improve within the next six-to-nine months. We understand that the company is looking into several measures to deleverage, restore rating headroom, and meet its publicly stated target for LTV. These measures include the disposal of nonstrategic assets, equity generation through acquisitions at sharp discounts to the fair value, or equity financing and capital recycling. Our base-case assumption is that CPI will be able to restore its credit metrics within the next six-to-nine months, but we see a one-in-two likelihood that it will not achieve this. We also believe that the possible deleveraging measures are uncertain and subject to execution risk that could impede deleveraging.

We expect CPI's liquidity profile to remain solid. The company's cash position remains strong. It had approximately €632.3 million of cash and cash equivalents and €700 million available under its committed undrawn revolving credit facility as of Dec. 31, 2020, and limited upcoming debt maturities. Including the share buyback in the first quarter of 2021 and a potential capital commitment of up to €330 million to acquire the 50% stake in Globalworth, we believe that CPI will be able to maintain an adequate liquidity position.

CreditWatch

The CreditWatch negative placement reflects our view that CPI's capital commitment to increase its stake in Globalworth could weaken its credit metrics beyond our thresholds for the current long-term issuer credit rating if it does not manage to take sufficient steps to deleverage, including equity measures, in the next few months. We will resolve the CreditWatch placement once we have more visibility on the final amount that CPI will pay for the additional stake in Globalworth following the conclusion of the offer and the implementation of deleveraging measures, including equity investments.

Downside scenario

We could consider lowering the ratings in the next three months if:

- On closing the transaction, CPI's capital requirement to acquire additional shares in Globalworth has not been materially offset by deleveraging measures, which we expect to include equity and equity-like financing ahead of the transaction closing; and
- The execution of CPI's deleveraging plans is delayed.

The consequences of this would be:

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

Upside scenario

We would likely remove the ratings from CreditWatch and affirm them if CPI demonstrates financial discipline. This would result in adjusted debt to debt plus equity well below 50% and debt to annualized EBITDA below 13x in the next six-to-nine months. In addition, we would take a positive view of CPI stabilizing its business, including a quick rebound from pandemic-related disruption and positive like-for-like rental growth, alongside high occupancy rates and flat-to-positive growth in portfolio valuations. This would also require CPI to maintain its focus on more resilient asset classes.

Company Description

CPI is a real estate group primarily focusing on office, retail, residential, and hotel properties in Central and Eastern Europe and Germany. The group primarily operates in the Czech Republic (41% of the portfolio by property value as of Dec. 31, 2020), and is a leading retail and office space owner in this region. CPI largely invests its €10.3 billion portfolio in offices (52% of portfolio value) and retail (22% of property value), with less exposure to the residential and hotel segments. The company has more than 25 years of experience in the real estate market and operates in 12 countries. CPI is 93.59% owned by Radovan Vitek and is listed on the Frankfurt stock exchange.

Ratings Score Snapshot

Issuer credit rating: BBB/Watch Neg/--

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
- 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

Ratings List

CreditWatch Action

	To	From
CPI Property Group S.A.		
Issuer Credit Rating	BBB/Watch Neg/--	BBB/Negative/--
Senior Unsecured	BBB/Watch Neg	BBB
Subordinated	BB+/Watch Neg	BB+

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