S&P Global
Ratings

Research

Research Update:

# CPI Property Group S.A. Ratings Placed On CreditWatch Negative On Planned Takeover Of S-Immo

**April 19, 2022**

## Rating Action Overview

- CPI Property Group (CPI) has requested an extraordinary general meeting at Austrian commercial real estate company S-Immo AG (S-Immo) to eliminate the 15% voting rights cap, followed by a mandatory takeover offer for the 57.4% outstanding shares it doesn't own.
- We understand the minimum €22 per share with dividend transaction could cost up to €850 million if S-Immo's remaining shareholders accept the offer price, which would increase CPI's leverage, absent more equity, at a time when ratios already exceed our downside thresholds following recent acquisitions.
- We see a one-in-two chance if the transaction goes through that CPI is unable to restore its credit metrics below our downside thresholds within the next three-to-six months, notably if it fails to take sufficient deleveraging measures, including further material asset disposals and new equity or equity-like funding, ahead of closing.
- Therefore, we placed our 'BBB' long-term issuer credit and issue ratings on CPI and its senior unsecured debt, as well as our 'BB+' issue rating on its senior subordinated debt, on CreditWatch with negative implications.
- The CreditWatch negative reflects the possibility of a downgrade if the anticipated S-Immo takeover is successful and CPI gains control but 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 has acquired a 42.6% stake (directly and indirectly) in S-Immo and now intends to take control of the company.** CPI currently owns a 16.1% direct stake in S-Immo and 26.5% indirectly through Immofinanz, totaling 42.6%. S-Immo's article of association includes a voting rights cap, which limits the voting rights of shareholders to 15%, regardless of their actual shareholding. CPI has requested an extraordinary general meeting at S-Immo to remove the 15% voting cap and, once approved, will trigger a mandatory takeover offer for the outstanding shares at a minimum of €22 per share with dividend. We understand the transaction could cost CPI up to €850 million if all remaining S-Immo shareholders accept the offer price. The transaction also remains subject to antitrust approvals in the relevant jurisdictions.

**Rating stability now depends on significant deleveraging measures from CPI over the short term.** The planned S-Immo takeover will likely further delay credit metric restoration at CPI when the ratios are already above our downside rating thresholds pro-forma the transaction. The announcement comes with CPI already in the middle of another takeover offer for Immofinanz, a related party to S-Immo. Our forecast takes CPI's plans into account such as significant nonstrategic asset disposals (already achieved in part at the CPI level), further equity raises or equity-like financing, active reduction of gross debt and expected EBITDA improvements as the COVID-19 pandemic wanes, in the short term. This could help restore its debt to debt plus equity to below 50% over the next three-to-six months, debt to annualized EBITDA close to 13x, and EBITDA interest coverage close to 3x, in line with our thresholds for a stable outlook. That said, if the disposals or equity raise don't happen within the timeframe, the adjusted credit ratios would remain above our downside thresholds and even weaken if the S-Immo takeover is successful. We also believe that the proposed deleveraging measures are uncertain and subject to execution risk considering current market volatility. S&P Global Ratings-adjusted debt to debt plus equity improved to about 44.5% (below our ratings downside threshold of 50%) at year-end 2021 from 52.6% on June 30, 2021. However, this was only temporary and the company issued equity in fourth-quarter 2021 to support the Immofinanz transaction, which took place in first-quarter 2022. S&P Global Ratings-adjusted debt to EBITDA stood at 16.4x and EBITDA interest coverage at about 2.5x at year-end 2021.

**We view S-Immo's asset portfolio profile as in line with that of CPI, although we do not consider the potential transaction substantially transformative for CPI's business risk profile assessment.** We believe that S-Immo's portfolio could strengthen CPI's position in Austrian and central and eastern European (CEE) commercial property together with the recent Immofinanz transaction, which also focuses on similar markets. At Sept. 30, 2021, S-Immo's portfolio stood at €2.7 billion, spread across offices (43.6%), residential (30%), retail (16.9%), hotels (7.6%), and others (2.0%). About 67% of the buildings are in Austria and Germany, while the other 33% are in CEE. If the full takeover is successful, CPI's portfolio will expand to about €16.5 billion-€17.0 billion (pro-forma the transaction, including planned disposals) from €13.1 billion at Dec. 31, 2021. However, we do not view the deal as transformative, but a complementary fit to CPI's portfolio, which would keep it well diversified in terms of geographies and segments. Moreover, CPI's portfolio would remain focused on CEE markets, which we generally view as less resilient and as having lower barriers to entry than more mature markets such as France or Germany. In addition, both transactions could still be characterized by significant minority shareholders at each company, depending on final acceptance rates. This could weaken CPI's full control over the acquired entities compared to 100% ownership.

**We believe the S-Immo transaction could resolve cross-stake holdings at Immofinanz and S-Immo and simplify corporate structures between the three entities.** We believe the takeover may help CPI to resolve the cross ownership between Immofinanz, S-Immo, and CPI, which creates complexity and less transparency for governance structures. CPI's related-party transactions, such as family related deals or growth through joint ventures, remain our concerns from a governance perspective.

**We expect CPI's liquidity will remain adequate.** CPI had approximately €502 million of cash and cash equivalents and €700 million available under its committed undrawn revolving credit facility (RCF) at Dec. 31, 2021. Despite funding needs for the not-yet-closed Immofinanz transactions, we understand that the S-Immo takeover could cost up to €850 million, including about €1.5 billion of outstanding debt at S-Immo at Sept. 30, 2021, with about €840 million of cash on hand (pro-forma, including cash received from sale of Immofinanz shares to CPI). It will be financed via CPI's internal available liquidity sources and a €1.25 billion signed bridge loan facility, which it plans to repay through significant additional noncore asset disposals and equity-like financing. We understand that CPI remains committed to maintaining ample liquidity headroom, with a very good standing in the capital markets and solid relationships with banks. That said, we note the recent capital market volatility and weaker trading of CPI's outstanding bonds, which may affect the company's ability to access debt markets and the timing.

## CreditWatch

The CreditWatch negative reflects the possibility of a downgrade if the 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 rating on CPI in the next three-to-six months if:

- Debt to debt plus equity increases back to above 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 metric headroom ahead of the closing of the anticipated mandatory takeover offer for S-Immo's shares.

### Upside scenario

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

- 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 publicly stated financial policy and stabilizing its overall operational performance and capital structure with recent transactions.

## 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 (36% of the portfolio by property value at Dec. 31, 2021) and is a leading retail and office space owner in this region. CPI largely invests its €13.1 billion portfolio in offices (48% of portfolio value) and retail (21%), 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 about 89% owned by Radovan Vitek and about 5.5% by Clerius Properties (affiliate of Apollo Funds). It 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)

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

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- 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: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- CPI Property Group Affirmed At 'BBB' On Immofinanz Takeover Announcement; Outlook Remains Negative, Dec. 7, 2021

## Ratings List

**CreditWatch Action**

| | To | From |
|---|---|---|
| **CPI Property Group S.A.** | | |
| Issuer Credit Rating | BBB/Watch Neg/-- | BBB/Negative/-- |
| **CPI Property Group S.A.** | | |
| Senior Unsecured | BBB/Watch Neg | BBB |
| Subordinated | BB+/Watch Neg | 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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 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. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914