FitchRatings

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Property/Real Estate
Isle Of Man

# NEPI Rockcastle plc

## Ratings

| Rating Type | Rating | Outlook | Last Rating Action |
|---|---|---|---|
| Long-Term IDR | BBB | Stable | Affirmed 17 Nov 2020 |
| Senior Unsecured | BBB | | Affirmed 17 Nov 2020 |

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NEPI Rockcastle plc's ratings are underpinned by its EUR5.8 billion (including developments, but excluding sold Romanian office assets) portfolio of mainly regionally dominant shopping centres spread across nine Central and Eastern European (CEE) countries, including Romania (35% of market value), Poland (24%) and Hungary (10%).

NEPI's financial profile is robust for its rating, with Fitch Ratings forecasting that net debt to EBITDA may fall to 6x in the financial year ending December 2021 (FY21). As at 1H20, it had a Fitch-adjusted loan-to-value (LTV) ratio of 38% (Fitch's calculation excludes development property). These strengths are partly offset by large exposure to lower rated countries, albeit with diversification across them.

A surge in the number of new Covid-19 cases in CEE countries has led to tightening restrictions in several of the countries where NEPI operates. The impact on tenants' sales and ultimately NEPI's rents remains uncertain but we expect it to be manageable and less adverse than for Western European peers.

NEPI is well positioned to withstand a second lockdown due to its conservative financial position and the actions it took to conserve liquidity following the first wave, reducing capex and non-essential costs. A second wave will nonetheless hit retailers whose financial profiles have been weakened by poor trading.

## Key Rating Drivers

**New Pandemic-Related Restrictions:** In the Czech Republic and Bulgaria, non-essential stores have been closed again. Poland opened non-essential stores on 28 November, after three weeks of closure. Restaurant and leisure tenants have also been restricted in Slovakia, Lithuania, Hungary and the most affected regions in Romania. NEPI estimates that the new restrictions affect tenants that represent only 15% of NEPI's leased retail space, leaving the remaining 85% fully operating at present.

The new restrictions will put further pressure on tenants' already weakened financial profiles, which in turn may negatively affect NEPI's occupancy rate and rents which have remained fairly stable so far. This will also affect NEPI's rent collection for the period, particularly if the Polish government's earlier decision to suspend the rent obligations of tenants with closed stores remains in place.

**Good Rent Collection:** NEPI has managed its rent collection by granting rent relief to struggling tenants, switching to monthly rent invoicing and allowing some rents to be deferred by up to 60 days. During 9M20, rent relief granted to tenants totalled cash rents of EUR56 million (around 15% of the group's gross rent, including government-mandated relief).

In total, including rent deferrals and non-payments, 23% of contractual rent remained uncollected at end-3Q20, of which 13% corresponds to the relief granted. This corresponds to 77% collected contractual rents (unadjusted for granted concessions) or 90% if concessions are excluded. The rate is higher than for UK peers but below that of peers in the Nordics, where more state support was offered to tenants.

In exchange for rent relief or easing of payment conditions, NEPI obtained various concessions such as lease extensions or improved terms. By end-October, NEPI had agreed terms of rental agreements with tenants representing 94% of gross rental income.

## Applicable Criteria

Corporate Rating Criteria (May 2020)
Sector Navigators - Addendum to the Corporate Rating Criteria (June 2020)
Corporates Notching and Recovery Ratings Criteria (October 2019)

## Related Research

What Investors Want to Know: Coronavirus and EMEA Retail Property Portfolios (August 2020)
What Investors Want to Know: Coronavirus and EMEA Retail Property Portfolios (June 2020)
What Investors Want to Know: Coronavirus and EMEA Retail Property Portfolios (April 2020)

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**Footfall and Tenant Sales:** Prior to the latest round of store restrictions (starting in October and November), September footfall recovered to 77% compared with the same period last year. Like other places in Europe, tenant sales have generally been higher than footfall as consumers spent more on each visit. In August, tenant sales were materially higher at 89%.

The recovery of tenant sales will be key for the financial health of NEPI's retail tenants and rental levels in 2021. Further restrictions on trading may lead to setbacks and a slower recovery until an effective vaccine is in place. The occupancy rate declined to 96% in September 2020 (end-2019: 98%).

NEPI's short weighted-average lease length of four years corresponds to a CEE market standard and presents the risk of tenant lease expiries or rents re-setting at lower rental levels. Exposure to fashion retailers poses the risk of weaker tenants during an economic downturn.

**Agreement on Office Sale:** A new agreement for the delayed sale of NEPI's Romanian office portfolio was signed in August and proceeds have now been received. The sale will support NEPI's conservative financial profile and provide additional liquidity. The transaction value was EUR307 million and net proceeds were EUR294 million.

**Robust Financial Profile:** Leverage will be primarily driven by how rental levels and occupancy rates develops in 2021 considering NEPI's conservative approach to investments and willingness to adapt its cash dividends. Assuming that capex remains at the lower level of 2020, we forecast NEPI's financial position to remain robust for its rating, with net debt to EBITDA falling to 6.0x in FY21 and remaining below 6x in FY22.

Should trading restrictions worsen, NEPI has the flexibility to spend less and to adjust cash dividends accordingly, which leaves room for additional investment should conditions improve. In our rating case, we have assumed a three-month loss of rent for non-trading tenants in 2020, followed by a slow recovery in 2021. Despite lower collection of rent, NEPI's interest coverage ratio remained strong at 4.3x in FY20.

**Uncertainties Prevent Upgrade:** NEPI meets various rating sensitivities for an upgrade but these are balanced by the huge pandemic-related uncertainties on retail operations and the potential for retailer insolvencies turning prospective rental value declines into lower rents for landlords. However, NEPI has entered this period of uncertainty with considerable financial headroom.

## Key Rating Issues

### Recovery Under Treat

| | | | |
|---|---|---|---|
| The Issue | A second wave of the coronavirus pandemic is a threat to recovery. | | |
| Our View | Recent surge in infections in CEE countries and partial reintroduction of mobility restrictions in some CEE countries will affect footfall and turnover in shopping centres and put tenants under stress, especially from food and beverage (F&B) and entertainment sectors already weakened during 1H20 lockdowns. These tenants are important to increase dwell time and generate footfall in destination-type shopping centres, like the ones operated by NEPI. | | |
| Timeline | Short to medium term | Rating Impact: | Negative, inherent in the existing rating. |

Source: Fitch Ratings

In response to the rapid surge in the number of coronavirus infections, governments in some CEE countries have tightened social-distancing measures, which they had previously and gradually relaxed after the lockdowns in 1H20. The governments of Poland (24% of NEPI's portfolio by market value, or MV), Bulgaria (8%) and Czech Republic (3%), ordered the closure of all non-essential stores, with restaurants in malls serving only take-away or deliveries. Poland opened non-essential stores on 28 November, after three weeks of closure. Dine-in restaurants have been closed in Slovakia (9%), Lithuania (3%) and the most affected areas in Romania (35%

in total). In those regions, entertainment tenants are also not allowed to operate. These partial restrictions directly affect around 15% of NEPI's total retail gross leasable area (GLA). However, F&B, entertainment, and fitness tenants are vital to increasing dwell time and generating footfall in destination shopping centres. Given the increase in new cases of Covid-19 in the region, the introduction of further restrictions cannot be ruled out.

### Summary of Main Restrictions in Geographies Where NEPI Operates

| Country (share in portfolio's MV) | Operational retail GLA (%) | Main restrictions |
|---|---|---|
| Romania (35%) | 90 | Local restrictions affecting food courts and cinemas |
| Poland (24%) | 95 | Cinemas closed. Restaurants serve take-away or delivery |
| Slovakia (9%) | 94 | Restaurants serve take-away or delivery, operations of entertainment tenants limited |
| Hungary (10%) | 83 | Limitations on restaurants and entertainment |
| Bulgaria (8%) | 30 | Non-essential shops closed. Restaurants serve take-away or delivery |
| Croatia and Serbia (8%) | 100 | No restrictions |
| Czech Republic (3%) | 35 | Non-essential shops and cinemas closed. Restaurants serve take-away or delivery |
| Lithuania (3%) | 79 | Cinemas and entertainment closed. Restaurants serve take-away or delivery |
| **Total:** | **85** | |

Source: Fitch Ratings, NEPI, as of 30 November 2020

The population mobility restrictions and general deterioration of customers' sentiment affected by the resurgence of coronavirus pandemic will reduce retail sales in physical stores and shift sales to ecommerce. These developments will be detrimental to the recovery of "bricks and mortar" retail, which was underway. In September, NEPI announced that its shopping centres were fully operational and that customers had started to return. Footfall was around 80% (September 2020) of 2019 levels and tenants' sales were higher at 89% in 3QFY20 as customers spend more on each visit. In October, when coronavirus cases increased, footfall fell back again to 72% lower yoy.

### Support for Tenants

| | | | |
|---|---|---|---|
| The Issue | To preserve occupancy, NEPI granted rent concessions and eased payments conditions to its tenants. | | |
| Our View | NEPI, similar to other Fitch-rated retail landlords, decided to provide its struggling tenants with rents concessions and the easing of payments conditions. Although detrimental for NEPI's cash flow metrics, it was necessary to maintain occupancy levels and thereby maintain a conducive retail environment in its malls, which is essential for income generation in the longer term. Lower rent collection was offset by lower dividend payments and capex. | | |
| Timeline | Short term | Rating Impact: | Neutral, inherent in the existing rating. |

Source: Fitch Ratings

NEPI's shopping centres' tenant mix is mainly fashion-oriented (more than 50% of rental income) with grocery tenants responsible for more than 10% of rental income. During lockdown (ranging from a period of 42 days in Lithuania to 84 days in Romania, and 58 days on average across the portfolio) in most of the countries where NEPI operates, only essential stores remained open. Those generated more than 20% of total retail rent.

### NEPI's Top 10 Tenants by GRI - June 2020

| Tenant | Sector | of total GRI (%) |
|---|---|---|
| LPP | Fashion | 4.0 |
| Auchan | Food | 3.6 |
| Inditex | Fashion | 3.3 |
| Carrefour SA | Food | 3.0 |
| H&M | Fashion | 2.2 |
| New Yorker | Fashion | 1.7 |
| CCC | Shoes | 1.8 |
| Peek&Cloppenburg | Fashion | 1.4 |
| C&A | Fashion | 1.3 |
| Deichmann | Shoes | 1.2 |
| **Total** | | **23.5** |

Note: GRI = gross rental income
Source: Fitch Ratings, NEPI, tenants' websites

| Tenant Profile - June 2020 | % by rentable area |
|---|---|
| Large international and national tenants, large listed tenants, government and major franchisees (companies with assets and/or turnover in excess of EUR200 million) | 69 |
| Smaller international and national tenants, smaller listed tenants and medium-to-large professional firms (companies with assets and/or turnover ranging of EUR100 million-200 million) | 3 |
| Other tenants | 28 |

Source: Fitch Ratings

To provide relief to non-operating tenants, NEPI agreed to defer rent payments for up to 60 days and did not charge marketing contribution fees for the lockdown period. Where necessary, quarterly invoicing was changed to monthly. Non-essential operating expenses were reduced to decrease service charges. These measures varied among the countries as in some cases, such as Poland, special laws interfered with bilateral tenant-landlord relations.

In Poland, under certain conditions, rights and obligations arising from tenancy agreements in shopping centres were suspended by law (no rents, service charges or marketing fees were payable) for a period when a tenant's trading was prohibited. In 1H20, this cost NEPI EUR8.6 million of lost rent and EUR2.4 million of service charges. In return, rental contracts were extended by the lockdown period plus six months. The same law applies to the closure period announced in November 2020.

In the Czech Republic, up to 50% of rent forgiven for closed premises during three months (1 April to 30 June) can be paid by the government if the landlord provided tenants with a 30% rent discount (subsidy limited to CZK10 million per tenant). Tenants who have had to close their premises in October and November are allowed governmental support equal to 50% of rents regardless of discounts provided by the landlord.

In Slovakia (9% of portfolio's MV) and Lithuania (2%), governments decided to partially cover tenants' payments due in the closure period in 1H20 under condition that landlords provided rental discounts. In other countries (61%), no specific legislations have been introduced.

Since the lockdown period in 1H20, NEPI has been conducting case-by-case negotiations with previously closed tenants. As at end-October 2020, with about 84% (by GRI) of tenants' negotiations were concluded and lease modifications signed. The effect of concessions granted before signing formal contracts modifications was recognised in NEPI's 3Q20 income statement as a loss totalling EUR54.2 million. The concessions for the period after the relevant contract has been formally amended (EUR1.4 million as at end-3Q20) have been treated as a lease incentive and straight-lined over the remaining lease term. In exchange for granted concessions, NEPI negotiated the extension of lease periods, an increase in sales-based rents, landlord break options or the introduction of step-up rents.

## Cash Flow Leverage Maintained

| | | | |
|---|---|---|---|
| The Issue | Despite the lost rental income, cash flow leverage remained under control. | | |
| Our View | Fitch forecasts that NEPI will maintain its cash flow leverage well below its positive rating sensitivity of 7.0x, supported by implemented cash-preserving measures including suspending non-essential capex; limiting cash dividends; and using proceeds from the sale of the Romanian office portfolio. | | |
| Timeline | Ongoing | Rating Impact: | Positive, and inherent in the existing rating. |

Source: Fitch Ratings

Fitch estimates that NEPI's net rental income (NRI) will be around 21% lower in 2020 on a like-for-like basis than in 2019. To reduce the effect of lower rent receipts on its cash position, NEPI decided to reduce non-essential development and maintenance capex. NEPI's policy regarding developments assumes limited usage of general contractors, with the majority of projects being contracted gradually, in stages. Although this approach exposes NEPI to higher risk of costs overruns, it enables more flexibility to suspend or cancel projects. In 1H20, NEPI spent EUR84 million in capex and intends to spend EUR72 million in 2H20 (in total, EUR156 million versus EUR 284 million in 2019).

As a non-REIT property company, NEPI is not constrained by distribution requirements and decided to suspend its 1H20 cash dividend (payable in 2H20). A EUR156 million cash dividend for 2H19 was paid in FY20. This cash outlay is comparable to the dividend for FY19, which was EUR162 million paid in cash and EUR161 million as a scrip dividend. The decision on the 2H20 dividend will be made in February 2021. In our rating case, we assumed cash dividends in FY21 and thereafter are 90% of funds from operations (FFO).

In July, NEPI resumed talks related to its then uncompleted sale of its Romanian office portfolio to AFI Europe. In August, the parties signed a new agreement. After paying an initial deposit, the transaction closed in August. The final sale price was in line with the book value of the properties (EUR307 million) and after customary adjustments resulted in around EUR294 million of cash proceeds. The annualised loss of rent related to the disposal amounts to around EUR23 million.

**Disposed Romanian Office Portfolio**

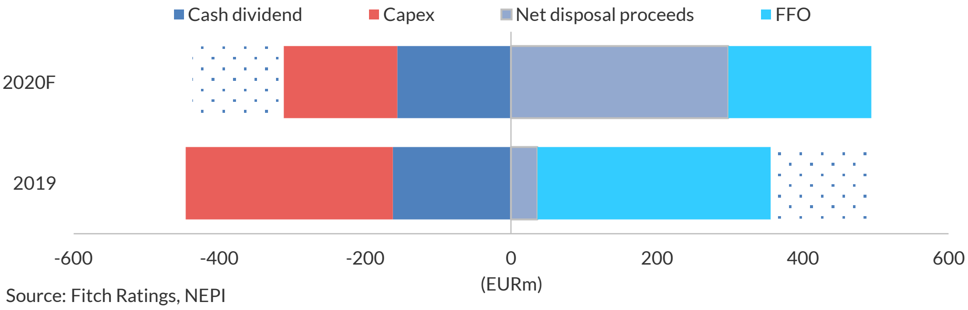
| Property | Location | GLA (square metres) | Average rent (EUR per square metre/month) |
|---|---|---|---|
| Floreasca Business Park | Bucharest | 36,300 | 18.0 |
| The Lakeview | Bucharest | 25,600 | 17.5 |
| Victorei Office | Bucharest | 7,800 | 29.9 |
| City Business Centre | Timisoara | 47,800 | 14.7 |

Source: Fitch Ratings

We estimate that all these cash-preservation measures, supported by the proceeds arising from the disposal of the Romanian office portfolio, will allow NEPI to conserve its strong leverage position despite reduced NRI affected by rent discounts.

**Main Cash Flow Sources and Uses**

Dotted fields show the differences between 2019 (actual) and 2020 (forecast)




Source: Fitch Ratings, NEPI

## Financial Summary

| (EURm) | Dec 2018 | Dec 2019 | Dec 2020F | Dec 2021F |
|---|---|---|---|---|
| Gross revenue | 350 | 407 | 298 | 377 |
| Operating EBITDA margin (%) | 90.9 | 91.6 | 89.5 | 91.0 |
| Total net debt with equity credit/operating EBITDA (x) | 6.3 | 5.6 | 7.2 | 6.0 |
| Operating EBITDA/interest paid (x) | 7.8 | 7.9 | 4.3 | 5.7 |

F – Fitch's Forecast.
Source: Fitch Ratings, Fitch Solutions

## Rating Derivation Relative to Peers

NEPI's EUR5.8 billion portfolio (including developments, but excluding sold Romanian office assets), spread across nine CEE countries, is larger and more geographically diversified than that of CEE peers such as Atrium European Real Estate Limited (BBB/Stable), which has a EUR2.5 billion portfolio, and Globalworth Real Estate Investments Limited (BBB-/Stable), which has a EUR2.8 billion office-focused portfolio. Atrium's portfolio is focused on shopping centres in the centre of capital cities whereas NEPI's regional portfolio is more focussed on secondary cities.

NEPI's conservative financial profile is demonstrated by its low FY19 net debt to EBITDA of 5.6x. This is partly due to its higher income-yielding assets (net initial yield: 6.7% versus Atrium at 6.2%, which would be lower excluding non-core Russia). The Fitch-calculated loan-to-value (LTV) ratio was 34%. The resulting financial profile is better than that of Atrium and Globalworth. However, the majority of Atrium's assets are located in countries rated 'A-' and above, whereas the lower average country risk rating of NEPI's exposure more resembles that of Globalworth.

Western European peers like Hammerson plc (IDR: BBB/Negative) and The British Land Company PLC (IDR: A-/Stable) have assets located in the more mature Western European markets, where income yields are tighter, meaning their financial metrics are not directly comparable with those of CEE entities.

## Navigator Peer Comparison

| Issuer | | Business profile | | | | | | Financial profile | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | IDR/Outlook | Operating Environment | Management and Corporate Governance | Property Portfolio | Rental Income Risk Profile | Asset-Liability Matching | Access to Capital | Profitability | Financial Structure | Financial Flexibility |
| Atrium European Real Estate Limited | BBB/Sta | a | bbb | bbb- | bbb | bbb | bbb+ | bb+ | a- | bbb+ |
| Citycon Oyj | BBB-/Sta | aa | a- | bbb | bbb- | bbb | bbb+ | bbb | bbb- | a- |
| Hammerson plc | BBB/Neg | aa- | bbb+ | bbb+ | bbb+ | bbb+ | bbb+ | bb | bbb- | bbb+ |
| IGD SIIQ S.p.A. | BBB-/Neg | bbb+ | bbb+ | bbb- | bbb- | bb+ | bbb | bbb- | bb+ | bbb |
| NEPI Rockcastle plc | BBB/Sta | bbb+ | a- | bbb | bbb | bbb | bbb+ | bbb- | a- | a- |

Source: Fitch Ratings. Importance: Higher | Moderate | Lower

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Maintaining similar occupancy rates, current conservative financial profile, and like-for-like rental growth
- Proportional increase to higher-rated countries in the portfolio, either through expansion or through upgrades
- Net debt to EBITDA below 7.0x on a sustained basis
- Average debt maturity no shorter than five years

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Material expansion into new or existing non-investment-grade countries
- Significant deterioration of operating metrics on a sustained basis, such as higher vacancies
- Increase in leverage with such metrics as LTV (adjusted net debt/investment properties) consistently exceeding 45% or net debt to EBITDA surpassing 8.0x on a sustained basis
- A liquidity score below 1.25x on a sustained basis

## Liquidity and Debt Structure

**Strong Liquidity**: At end-June 2020 (1H20), NEPI had EUR109 million readily available cash (EUR138 million reported cash less around EUR29 million which Fitch considers not readily available for debt repayment) and EUR195 million of availability under its revolving credit facility (RCF).

In July 2020, NEPI issued EUR500 million of unsecured bonds. The proceeds were used to repay RCF outstandings, increasing the undrawn available amount to EUR575 million. Cash balances have been further strengthened by EUR294 million of proceeds from the disposal of its Romanian office portfolio. This is compared with EUR28 million debt due in the next 12 months. We have not included the EUR150 million RCF, which expires in December 2020, in our liquidity calculations.

## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of ‘3’. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch’s ESG Relevance Scores, visit www.fitchratings.com/esg.

## Liquidity and Debt Maturity Scenario with No Refinancing

### Liquidity Scenario

| (EURm) | 30 June 2020 |
|---|---|
| Fitch available cash | 109 |
| + Undrawn portion of committed facility | 45[a] |
| + Fitch's forecasted free cash flow[b] | -130 |
| + Uncommitted capex/developments[c] | 130 |
| -/+ Analyst adjustments | 794[d] |
| **Total sources** | **223** |
| (12-month debt maturities) | 28 |
| **Total uses** | **28** |
| **Fitch liquidity ratio** | **34** |

[a] Available RCFs less EUR150 million RCF maturing December'20
[b] Including all capex (committed and uncommitted)
[c] Add back the uncommitted capex
[d] EUR500 million bonds proceeds plus EUR294 million of disposal proceeds
Source: Fitch Ratings, Fitch Solutions, NEPI Rockcastle plc

**Debt maturity schedule**

| (EURm) | 31 July 2020 |
|---|---|
| 2020 | 5 |
| 2021 | 250 |
| 2022 | 128 |
| 2023 | 559 |
| 2024 | 612 |
| Thereafter | 1,000 |
| **Total debt** | **2,554** |

Source: Fitch Ratings, Fitch Solutions, NEPI Rockcastle plc

## Key Assumptions

### Fitch's Key Assumptions Within its Rating Case for the Issuer

- Given the second pandemic wave and related tightening of social-distancing measures (including the closure of non-essential shops in some countries), FY21 rents include no continued adverse effects on rent other than a 5% decrease of rents being renewed; a decrease in occupancy to 93%; and one month of lost rent in FY21 (adjusted for an amount reflecting NEPI's share of essential stores).
- In FY20, lower rent is matched by lower cash dividends (including another year's scrip), meaning that, after a free cash flow (FCF) outflow, incremental debt is carried into FY21.
- Capex is a mixture of non-income yielding reinvestment (EUR50 million a year) and continued development spend. Rent from completed and signed pre-let projects is included in FY21 rents.

## Financial Data

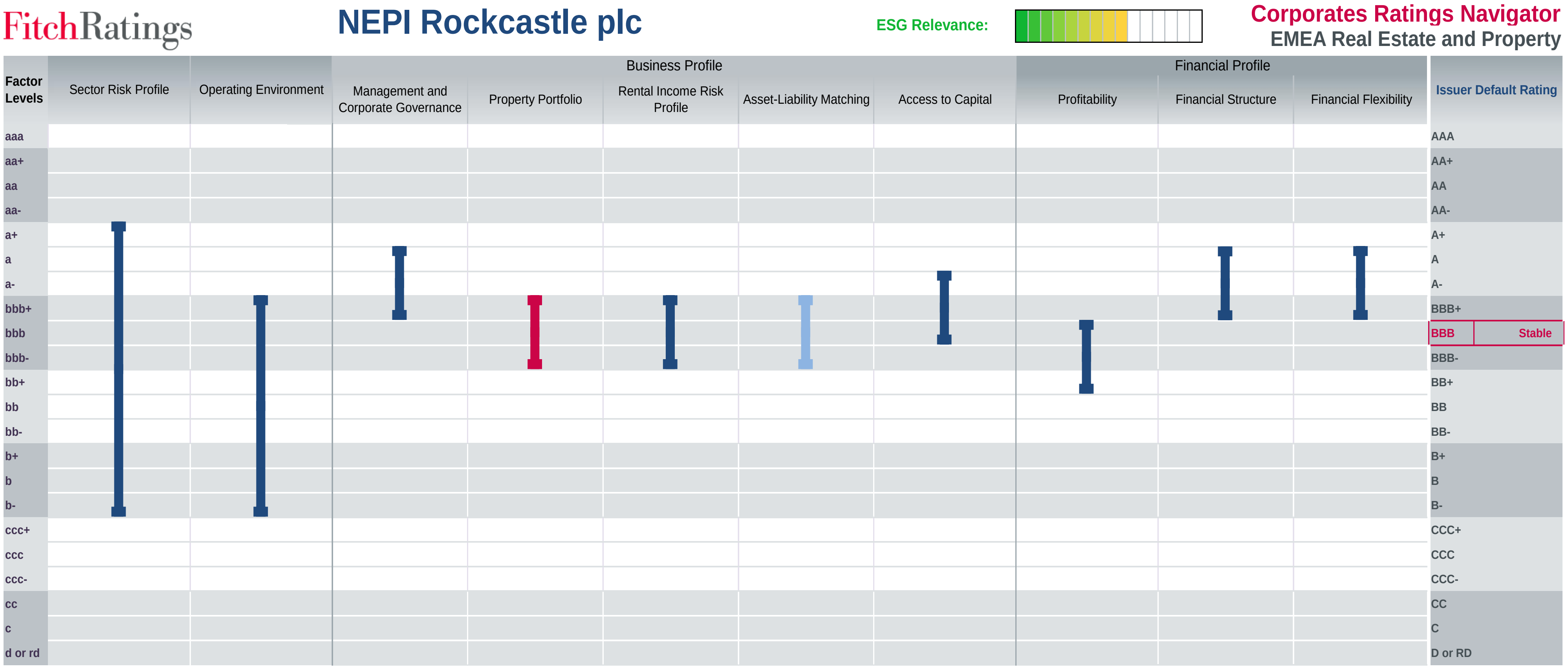
| | Historical | | | Forecast | | |
|---|---|---|---|---|---|---|
| (EURm) | Dec 2017 | Dec 2018 | Dec 2019 | Dec 2020 | Dec 2021 | Dec 2022 |
| **Summary income statement** | | | | | | |
| Gross revenue | 234 | 350 | 407 | 298 | 377 | 419 |
| Revenue growth (%) | 0 | 49.7 | 16.3 | -30.0 | 30.0 | 10.0 |
| Operating EBITDA (before income from associates) | 217 | 318 | 373 | 266 | 343 | 383 |
| Operating EBITDA MARGIN (%) | 92.8 | 90.9 | 91.6 | 89.5 | 91.0 | 91.4 |
| Operating EBITDAR | 217 | 318 | 373 | 266 | 343 | 383 |
| Operating EBITDAR Margin (%) | 92.8 | 90.9 | 91.6 | 89.5 | 91.0 | 91.4 |
| Operating EBIT | 217 | 318 | 373 | 267 | 343 | 383 |
| Operating EBIT margin (%) | 92.8 | 90.9 | 91.6 | 89.6 | 91.0 | 91.5 |
| Gross interest expense | -24 | -40 | -52 | -63 | -60 | -61 |
| Pretax income (including associate income/loss) | -532 | 277 | 459 | 204 | 283 | 323 |
| **Summary balance sheet** | | | | | | |
| Readily available cash and equivalents | 196 | 90 | 208 | 679 | 293 | 213 |
| Total debt with equity credit | 1,647 | 2,107 | 2,293 | 2,585 | 2,335 | 2,384 |
| Total adjusted debt with equity credit | 1,647 | 2,107 | 2,293 | 2,585 | 2,335 | 2,384 |
| Net debt | 1,452 | 2,018 | 2,085 | 1,906 | 2,041 | 2,171 |
| **Summary cash flow statement** | | | | | | |
| Operating EBITDA | 217 | 318 | 373 | 266 | 343 | 383 |
| Cash interest paid | -24 | -41 | -47 | -63 | -60 | -61 |
| Cash tax | -3 | -6 | -12 | -8 | -11 | -13 |
| Dividends received less dividends paid to minorities (inflow/(out)flow) | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items before FFO | 5 | 8 | 4 | 0 | 0 | 0 |
| Funds flow from operations | 197 | 279 | 320 | 196 | 272 | 310 |
| FFO margin (%) | 84.3 | 79.9 | 78.5 | 65.8 | 72.1 | 73.9 |
| Change in working capital | 16 | 3 | 2 | 0 | 0 | 0 |
| Cash flow from operations (Fitch defined) | 213 | 282 | 321 | 196 | 272 | 310 |
| Total non-operating/non-recurring cash flow | 0 | 0 | 0 | | | |
| Capital expenditure | -157 | -260 | -284 | | | |
| Capital intensity (capex/revenue) (%) | 67.2 | 74.4 | 69.7 | | | |
| Common dividends | -39 | -296 | -162 | | | |
| Free cash flow | 17 | -275 | -124 | | | |
| Net acquisitions and divestitures | -790 | -499 | 36 | | | |
| Other investing and financing cash flow items | 102 | 266 | 52 | 6 | 1 | 1 |
| Net debt proceeds | 422 | 402 | 159 | 292 | -251 | 50 |
| Net equity proceeds | 396 | 0 | -4 | 0 | 0 | 0 |
| Total change in cash | 148 | -106 | 119 | 471 | -386 | -80 |
| **Leverage ratios** | | | | | | |
| Total net debt with equity credit/operating EBITDA (x) | 6.7 | 6.3 | 5.6 | 7.2 | 6.0 | 5.7 |
| Total adjusted debt/operating EBITDAR (x) | 7.6 | 6.6 | 6.1 | 9.7 | 6.8 | 6.2 |
| Total adjusted net debt/operating EBITDAR (x) | 6.7 | 6.3 | 5.6 | 7.2 | 6.0 | 5.7 |
| Total debt with equity credit/operating EBITDA (x) | 7.6 | 6.6 | 6.1 | 9.7 | 6.8 | 6.2 |
| FFO adjusted leverage (x) | 7.5 | 6.6 | 6.3 | 10.0 | 7.0 | 6.4 |
| FFO adjusted net leverage (x) | 6.6 | 6.3 | 5.7 | 7.4 | 6.2 | 5.9 |
| FFO leverage (x) | 7.5 | 6.6 | 6.3 | 10.0 | 7.0 | 6.4 |
| FFO net leverage (x) | 6.6 | 6.3 | 5.7 | 7.4 | 6.2 | 5.9 |
| **Calculations for forecast publication** | | | | | | |
| Capex, dividends, acquisitions and other items before FCF | -986 | -1,056 | -410 | -23 | -408 | -441 |
| Free cash flow after acquisitions and divestitures | -773 | -774 | -89 | 173 | -136 | -131 |
| Free cash flow margin (after net acquisitions) (%) | -330.6 | -221.1 | -21.7 | 58.0 | -36.1 | -31.3 |
| **Coverage ratios** | | | | | | |
| FFO interest coverage (x) | 9.2 | 7.8 | 7.7 | 4.1 | 5.5 | 6.1 |
| FFO fixed-charge coverage (x) | 9.2 | 7.8 | 7.7 | 4.1 | 5.5 | 6.1 |
| Operating EBITDAR/interest paid + rents (x) | 9.0 | 7.8 | 7.9 | 4.3 | 5.7 | 6.3 |
| Operating EBITDA/interest paid (x) | 9.0 | 7.8 | 7.9 | 4.3 | 5.7 | 6.3 |
| **Additional metrics** | | | | | | |
| CFO-capex/total debt with equity credit (%) | 3.4 | 1.0 | 1.6 | 1.2 | 4.7 | 6.2 |
| CFO-capex/total net debt with equity credit (%) | 3.9 | 1.1 | 1.8 | 1.6 | 5.3 | 6.8 |

Source: Fitch Ratings, Fitch Solutions.

### How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

## Ratings Navigator




| Bar Chart Legend: | | | |
|---|---|---|---|
| Vertical Bars = Range of Rating Factor | | Bar Arrows = Rating Factor Outlook | |
| | | ⇧ | Positive |
| ■ | Higher Importance | ⇩ | Negative |
| ■ | Average Importance | ⇳ | Evolving |
| ■ | Lower Importance | □ | Stable |

FitchRatings

# NEPI Rockcastle plc

## Corporates Ratings Navigator
EMEA Real Estate and Property

### Operating Environment

| | | | |
|---|---|---|---|
| a- | Economic Environment | bbb | Average combination of countries where economic value is created and where assets are located. |
| bbb+ | Financial Access | a | Strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market. |
| | Systemic Governance | bbb | Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'bbb'. |
| b- | | | |
| ccc+ | | | |

### Management and Corporate Governance

| | | | |
|---|---|---|---|
| a+ | Management Strategy | a | Coherent strategy and good track record in implementation. |
| a | Governance Structure | a | Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders. |
| a- | Group Structure | a | Group structure shows some complexity but mitigated by transparent reporting. |
| bbb+ | Financial Transparency | bbb | Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges. |
| bbb | | | |

### Property Portfolio

| | | | |
|---|---|---|---|
| a- | Portfolio Liquidity and Ability to Leverage Assets | bbb | Average institutional appetite (buyers/sellers/lenders) in strong markets, indicating liquidity and ability to leverage assets. |
| bbb+ | Investment Granularity | bb | Limited portfolio granularity; small or concentrated portfolio. Top 10 assets comprise 40%-60% of net rental income or value. |
| bbb | Geographic Strategy | bbb | A strong and focused presence in a prime market; or focus on two to three markets with appropriate scale. Markets display different economic and business cycles. |
| bbb- | Asset Quality | bbb | Prime and good secondary. |
| bb+ | Development Exposure | a | Committed development cost to complete of 5% of investment properties for average risk projects. |

### Rental Income Risk Profile

| | | | |
|---|---|---|---|
| a- | Occupancy | a | Limited occupancy volatility through cycles. Occupancy consistently above 95%. Track record of limited tenant defaults. |
| bbb+ | Lease Duration, Renewal and NOI Volatility | bb | Lease duration between three to five years with some renewed, flat or negative net rental income growth and/or above-average volatility compared to industry average. |
| bbb | Lease Expiry Schedule | bbb | Smoothed lease maturity profile with no large lease expiries in the near term. |
| bbb- | Tenant Concentration and Tenant Credit | bbb | Top 10 tenants comprise 15%-30% of annual base rent revenue; average tenant credit risk. |
| bb+ | | | |

### Asset-Liability Matching

| | | | |
|---|---|---|---|
| a- | Debt Maturity Profile | bb | Average debt tenor between three to five years. No year represents more than 25% of total debt. |
| bbb+ | Fixed/Floating Interest Rate Liability Profile | a | Fixed or hedged debt above 75% of total debt. Evidence of consistent policy through the cycle. |
| bbb | | | |
| bbb- | | | |
| bb+ | | | |

### Access to Capital

| | | | |
|---|---|---|---|
| a | Sources of Capital | bbb | Solid access to all common and preferred equity, unsecured bonds/bank debt, secured debt, and/or joint ventures. |
| a- | Unencumbered Asset Pool | a | Leveragable unencumbered pool with no adverse selection. |
| bbb+ | Absolute Scale | a | Rent-yielding property assets of at least EUR5bn. |
| bbb | | | |
| bbb- | | | |

### Profitability

| | | | |
|---|---|---|---|
| bbb+ | FFO Dividend Cover | bbb | 1.1x |
| bbb | Asset Class Volatility | bb | Portfolio values change less than 40% peak to trough with a track record of recovery |
| bbb- | | | |
| bb+ | | | |
| bb | | | |

### Financial Structure

| | | | |
|---|---|---|---|
| a+ | Loan-To-Value | a | 40% |
| a | Unencumbered Asset Cover | a | 2.5x |
| a- | Managing Balance Sheet Through the Cycle | a | Proven track record of balance-sheet management through the cycle. Maintenance of a suitable LTV taking asset volatility into account. |
| bbb+ | Net Debt/Recurring Operating EBITDA | a | 8.0x |
| bbb | | | |

### Financial Flexibility

| | | | |
|---|---|---|---|
| a+ | Financial Discipline | a | Clear commitment to maintaining a conservative policy with only modest deviations allowed. |
| a | Liquidity Coverage | bbb | 1.0x. |
| a- | Recurring Income EBITDA Interest Cover | a | 2.5x |
| bbb+ | FX Exposure | bbb | Some FX exposure on profitability and/or debt/cash flow match. Effective hedging. |
| bbb | | | |

### Credit-Relevant ESG Derivation

NEPI Rockcastle plc has 7 ESG potential rating drivers

- Sustainable building practices including Green building certificate credentials
- Portfolio's exposure to climate change-related risk including flooding
- Shift in market preferences
- Governance is minimally relevant to the rating and is not currently a driver.

| | | | Overall ESG |
|---|---|---|---|
| key driver | 0 | issues | 5 |
| driver | 0 | issues | 4 |
| potential driver | 7 | issues | 3 |
| not a rating driver | 2 | issues | 2 |
| | 5 | issues | 1 |

For further details on Credit-Relevant ESG scoring, see page 3.

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Navigator Version: RN 2.10.0.0

FitchRatings

# NEPI Rockcastle plc

**Corporates Ratings Navigator**
**EMEA Real Estate and Property**

## Credit-Relevant ESG Derivation

NEPI Rockcastle plc has 7 ESG potential rating drivers

- NEPI Rockcastle plc has exposure to unsustainable building practices risk but this has very low impact on the rating.
- NEPI Rockcastle plc has exposure to extreme weather events but this has very low impact on the rating.
- NEPI Rockcastle plc has exposure to shifting consumer preferences but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

| | | | Overall ESG Scale |
|---|---|---|---|
| key driver | 0 | issues | 5 |
| driver | 0 | issues | 4 |
| potential driver | 7 | issues | 3 |
| not a rating driver | 2 | issues | 2 |
| | 5 | issues | 1 |

## Environmental (E)

| General Issues | E Score | Sector-Specific Issues | Reference | E Scale |
|---|---|---|---|---|
| GHG Emissions & Air Quality | 1 | n.a. | n.a. | 5 |
| Energy Management | 1 | n.a. | n.a. | 4 |
| Water & Wastewater Management | 1 | n.a. | n.a. | 3 |
| Waste & Hazardous Materials Management; Ecological Impacts | 3 | Sustainable building practices including Green building certificate credentials | Rental Income Risk Profile; Profitability; Financial Structure; Financial Flexibility | 2 |
| Exposure to Environmental Impacts | 3 | Portfolio's exposure to climate change-related risk including flooding | Property Portfolio; Profitability; Financial Structure; Financial Flexibility | 1 |

## Social (S)

| General Issues | S Score | Sector-Specific Issues | Reference | S Scale |
|---|---|---|---|---|
| Human Rights, Community Relations, Access & Affordability | 1 | n.a. | n.a. | 5 |
| Customer Welfare - Fair Messaging, Privacy & Data Security | 2 | Data security | Property Portfolio; Rental Income Risk Profile; Profitability; Financial Structure; Financial Flexibility | 4 |
| Labor Relations & Practices | 2 | Impact of labor negotiations and employee (dis)satisfaction | Rental Income Risk Profile; Profitability; Financial Flexibility | 3 |
| Employee Wellbeing | 1 | n.a. | n.a. | 2 |
| Exposure to Social Impacts | 3 | Shift in market preferences | Property Portfolio; Rental Income Risk Profile; Profitability; Financial Structure; Financial Flexibility | 1 |

## Governance (G)

| General Issues | G Score | Sector-Specific Issues | Reference | G Scale |
|---|---|---|---|---|
| Management Strategy | 3 | Strategy development and implementation | Management and Corporate Governance | 5 |
| Governance Structure | 3 | Board independence and effectiveness; ownership concentration | Management and Corporate Governance | 4 |
| Group Structure | 3 | Complexity, transparency and related-party transactions | Management and Corporate Governance | 3 |
| Financial Transparency | 3 | Quality and timing of financial disclosure | Management and Corporate Governance | 2 |
| | | | | 1 |

**How to Read This Page**
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

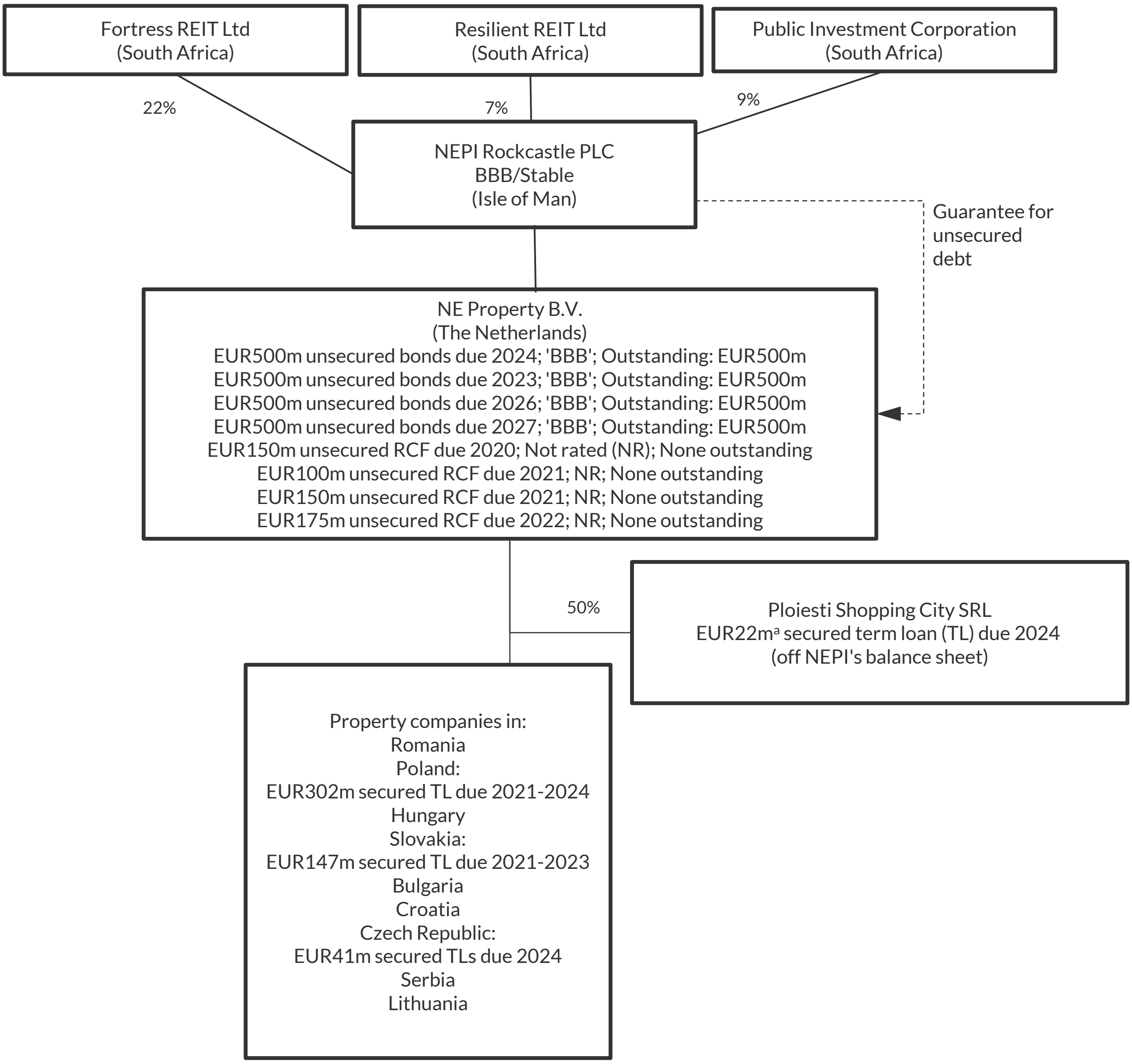
**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

**CREDIT-RELEVANT ESG SCALE**

**How relevant are E, S and G issues to the overall credit rating?**

| | |
|---|---|
| 5 | Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator. |
| 4 | Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator. |
| 3 | Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator. |
| 2 | Irrelevant to the entity rating but relevant to the sector. |
| 1 | Irrelevant to the entity rating and irrelevant to the sector. |

## Simplified Group Structure Diagram




[a] Indicated on a 100% basis. Note: Ownership is 100% unless otherwise stated.
Source: Fitch Ratings, Fitch Solutions, NEPI Rockcastle plc, as of 29 September 2020.

## Peer Financial Summary

| Company | Issuer Default Rating | Financial statement date | Gross revenue (EURm) | Operating EBITDA margin (%) | Total Net debt with equity credit/operating EBITDA (x) | Operating EBITDA/interest paid (x) |
|---|---|---|---|---|---|---|
| NEPI Rockcastle plc | BBB | | | | | |
| | BBB | 2019 | 407 | 91.6 | 5.6 | 7.9 |
| | BBB | 2018 | 350 | 90.9 | 6.3 | 7.8 |
| | BBB | 2017 | 234 | 92.8 | 6.7 | 9.0 |
| Atrium European Real Estate Limited | BBB | | | | | |
| | BBB | 2019 | 177 | 79.1 | 7.3 | 3.5 |
| | BBB | 2018 | 175 | 82.6 | 8.1 | 3.7 |
| | BBB- | 2017 | 189 | 75.9 | 5.9 | 4.0 |
| Globalworth Real Estate Investments Limited | BBB- | | | | | |
| | BBB- | 2019 | 152 | 83.7 | 9.0 | 3.0 |
| | BBB- | 2018 | 116 | 83.3 | 11.2 | 4.4 |
| | | 2017 | 54 | 75.9 | 15.0 | 3.1 |
| Citycon Oyj | BBB- | | | | | |
| | | 2019 | 232 | 83.8 | 10.1 | 3.2 |
| | | 2018 | 237 | 80.6 | 11.0 | 2.4 |
| | | 2017 | 257 | 79.3 | 10.0 | 3.1 |

Source: Fitch Ratings, Fitch Solutions.

## Fitch Adjustment and Reconciliation Table

| (EUR Millions) | Notes and Formulas | Reported Values | Sum of Adjustments | CORP - Lease Treatment | Other Adjustments | Adjusted Values |
|---|---|---|---|---|---|---|
| 31 December 2019 | | | | | | |
| **Income Statement Summary** | | | | | | |
| Revenue | | 407 | | | | 407 |
| Operating EBITDAR | | 374 | -1 | -1 | -0 | 373 |
| Operating EBITDAR After Associates and Minorities | (a) | 374 | -1 | -1 | -0 | 373 |
| Operating Lease Expense | (b) | 0 | | | | 0 |
| Operating EBITDA | (c) | 374 | -1 | -1 | -0 | 373 |
| Operating EBITDA After Associates and Minorities | (d) = (a-b) | 374 | -1 | -1 | -0 | 373 |
| Operating EBIT | (e) | 374 | -1 | -1 | -0 | 373 |
| **Debt and Cash Summary** | | | | | | |
| Total Debt with Equity Credit | (f) | 2,281 | 12 | | 12 | 2,293 |
| Lease-Equivalent Debt | (g) | 0 | | | | 0 |
| Other Off-Balance-Sheet Debt | (h) | 0 | | | | 0 |
| Total Adjusted Debt with Equity Credit | (i) = (f+g+h) | 2,281 | 12 | | 12 | 2,293 |
| Readily Available Cash and Equivalents | (j) | 204 | 4 | | 4 | 208 |
| Not Readily Available Cash and Equivalents | | 5 | | | | 5 |
| **Cash Flow Summary** | | | | | | |
| Operating EBITDA After Associates and Minorities | (d) = (a-b) | 374 | -1 | -1 | -0 | 373 |
| Preferred Dividends (Paid) | (k) | 0 | | | | 0 |
| Interest Received | (l) | 2 | | | | 2 |
| Interest (Paid) | (m) | -48 | 1 | 1 | 0 | -47 |
| Cash Tax (Paid) | | -12 | | | | -12 |
| Other Items Before FFO | | 4 | | | | 4 |
| Funds from Operations (FFO) | (n) | 320 | -0 | -0 | 0 | 320 |
| Change in Working Capital (Fitch-Defined) | | 2 | | | | 2 |
| Cash Flow from Operations (CFO) | (o) | 322 | -0 | -0 | 0 | 321 |
| Non-Operating/Nonrecurring Cash Flow | | 0 | | | | 0 |
| Capital (Expenditures) | (p) | -284 | | | | -284 |
| Common Dividends (Paid) | | -162 | | | | -162 |
| Free Cash Flow (FCF) | | -124 | -0 | -0 | 0 | -124 |
| **Gross Leverage (x)** | | | | | | |
| Total Adjusted Debt/Operating EBITDAR[a] | (i/a) | 6.1 | | | | 6.1 |
| FFO Adjusted Leverage | (i/(n-m-l-k+b)) | 6.2 | | | | 6.3 |
| FFO Leverage | (i-g)/(n-m-l-k) | 6.2 | | | | 6.3 |
| Total Debt with Equity Credit/Operating EBITDA[a] | (i-g)/d | 6.1 | | | | 6.1 |
| (CFO-Capex)/Total Debt with Equity Credit (%) | (o+p)/(i-g) | 1.7% | | | | 1.6% |
| **Net Leverage (x)** | | | | | | |
| Total Adjusted Net Debt/Operating EBITDAR[a] | (i-j)/a | 5.6 | | | | 5.6 |
| FFO Adjusted Net Leverage | (i-j)/(n-m-l-k+b) | 5.7 | | | | 5.7 |
| FFO Net Leverage | (i-g-j)/(n-m-l-k) | 5.7 | | | | 5.7 |
| Total Net Debt with Equity Credit/Operating EBITDA[a] | (i-g-j)/d | 5.6 | | | | 5.6 |
| (CFO-Capex)/Total Net Debt with Equity Credit (%) | (o+p)/(i-g-j) | 1.8% | | | | 1.8% |
| **Coverage (x)** | | | | | | |
| Operating EBITDA/(Interest Paid + Lease Expense)[a] | a/(-m+b) | 7.8 | | | | 7.9 |
| Operating EBITDA/Interest Paid[a] | d/(-m) | 7.8 | | | | 7.9 |
| FFO Fixed-Charge Coverage | (n-l-m-k+b)/(-m-k+b) | 7.6 | | | | 7.7 |
| FFO Interest Coverage | (n-l-m-k)/(-m-k) | 7.6 | | | | 7.7 |

[a]EBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, NEPI Rockcastle plc

## Covenant Summary

The unsecured bonds include the following financial covenants (aligned with RCF facilities):

- Solvency ratio at a maximum of 60% (3Q20 actual: 40%)
- Consolidated coverage ratio at a minimum of 2.0x (3Q20 actual: 5.5x)
- Unsecured ratio at minimum of 150% (3Q20 actual: 264%).

The secured term loan agreements include following covenants:

- Maximum LTV of 60%-80%
- Minimum debt service coverage ratio of 120%-150%
- Minimum interest service coverage ratio of 200%-300%

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.