S&P Global Ratings

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NEPI Rockcastle PLC

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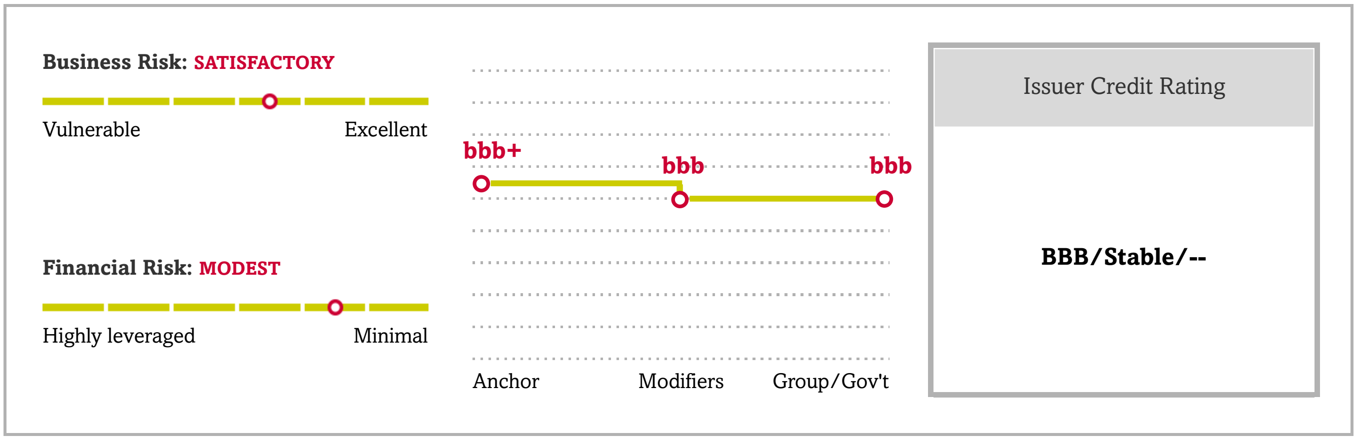
NEPI Rockcastle PLC



Credit Highlights

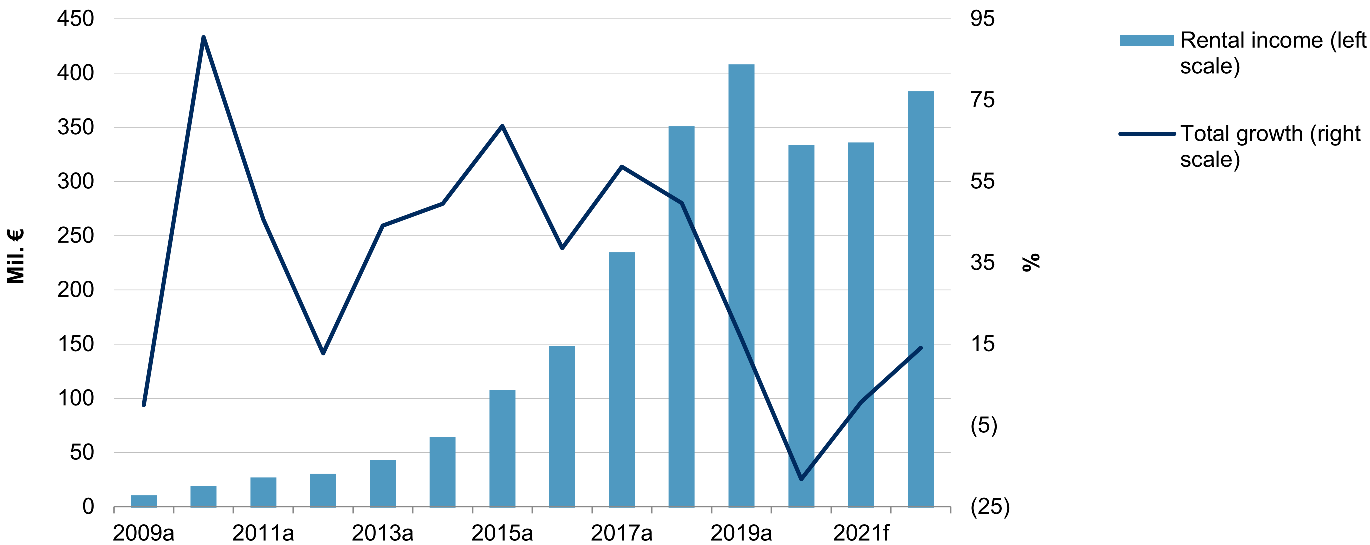
Overview

Key strengths	Key risks
Largest retail property owner in Central and Eastern Europe (CEE) with a property portfolio valued at about €5.8 billion as of June 30, 2021.	High reliance on the retail segment, materially impaired by the COVID-19 pandemic; increasing penetration of e-commerce; and uncertainty regarding the pandemic disrupting the sector's fundamentals and long-term growth.
Good asset quality, mainly composed of large retail shopping centers (average gross leasable area for asset of about 36,300 square meters).	Relatively high concentration in CEE, such as in Romania and Poland, where real estate markets are more volatile and less mature than in Western Europe.
Well-diversified tenant base with less than 5% of total rental income linked to tenants' turnover.	Risk related to foreign currency volatility due to operations in non-euro-denominated markets.
Prudent financial policy centered on a maximum loan-to-value (LTV) ratio of 35% (corresponding to a debt to debt plus equity of 34%-35%) and a well-diversified capital structure with limited upcoming debt maturities, supporting solid liquidity.	Weaker credit ratios than those of peers we assess as having modest financial risk, with an adjusted ratio of debt to debt plus equity at 33.7% as of June 30, 2021, and debt to EBITDA (rolling 12 months) at 6.3x.

S&P Global Ratings understands that NEPI Rockcastle's gross leasable area is fully operational with high occupancy rates and increasing footfall, which will support recovery from the pandemic's impact amid the still-difficult retail environment. NEPI continued to face operating pressures in the first six months of 2021, due to closure of nonessential stores and social-distancing measures. It reported a decline in net rental operating income of 3.0% versus first-half 2020 (-22.5% versus first-half 2019), mainly due to the impact of government-regulated concessions in Poland and Slovakia and the full periodic rental impact from the disposal of its office assets, completed in August 2020. That said, we recognize the company's stable and high occupancy level of 95.6% and slightly increasing footfall (+2.2% versus the first half of 2020, but down 34.3% versus first-half 2019). In addition, tenant sales were 28.1% higher than in the first half of 2020 and 23.1% lower than in the first half of 2019 (on a property like-for-like basis, excluding hypermarkets and entertainment), signaling a gradual recovery. We believe the likelihood of further rent renegotiations or unpaid rents is limited for this year, assuming no further lockdowns where NEPI operates. We also view as positive that more than 94% of the company's contracts are at fixed rents as of June 30, 2021, which provide greater stability and predictability of cash flows. Hence, we expect like-for-like rental income growth of only 1%-2% for the full year of 2021, including the continuing uncertainty related to coronavirus variants that could disrupt the market in the short term and structural changes across retail markets with e-commerce penetration.

Chart 1

NEPI Rockcastle Rental Income And Rental Growth



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

We forecast an overall positive operating performance for the next 12 to 24 months, which should help NEPI's credit metrics remain commensurate with our current rating. Our adjusted ratio of debt to debt plus equity for NEPI stood at 33.7% as of June 30, 2021 versus 37.9% as of June 30, 2020, with debt to EBITDA (rolling 12 months) at 6.3x versus 6.8x. This is well in line with NEPI's target of a reported loan-to-value ratio below 35% (31.8% as of June 30, 2021). We forecast that the company can maintain a ratio of debt to debt plus equity at 34%-35% and debt to EBITDA below 7x over the next 12-24 months. We expect flat valuation in 2021, given some signs of value stabilization for NEPI's assets. The company reported a revaluation increase of €25.5 million (+0.4% of total portfolio value) during the first half of 2021. NEPI's good-quality assets should help facilitate an improvement in operating performance. NEPI has also taken measures to support its conservative capital structure, such as the sale of its Romanian office portfolio (net cash proceeds of €294 million) in August 2020 and two Serbian assets in July 2021 (net cash proceeds of €60.4 million), as well as scrip dividends paid in 2020 to ensure cash flow flexibility.

A change in retail property market fundamentals requires property owners to revisit their operating strategy. The share of retail e-commerce in CEE markets was 7.8% before the pandemic, but increased by 30% in 2020, according to Global Data. We expect it to reach about 10% in the next two years but remain below the Western European average of 15%. Given the change in consumer behavior and habits, the demand for an omnichannel has increased, with consumers wanting the flexibility to choose their shopping experience (physical or online). Subsequently, tenants' ability to operate through multiple sales channels also increased significantly. Most food court tenants have enrolled in food delivery platforms, hypermarkets have been activating shop assistant/loyalty and pick-up services, and many other retailers have started selling online in various forms. NEPI is working toward accommodating consumers' demands to sustain tenants' footfall, sales, and thereby occupancy rates, which stayed above 95% even during the pandemic. We acknowledge NEPI's efforts to support its performance in the long term. Nevertheless, we believe the digital transformation and change in consumer habits will continue to evolve and affect retail landlords' operating performance.

We do not anticipate any change in the companyś strategy or financial policy, following the upcoming departure of NEPIś CEO and CFO. Mr. Alexandru Morar (CEO) and Ms. Mirela Covasa (CFO) have decided to leave the company once the board has found their successors. At this stage, we do not anticipate any change in the company's overall strategy or current prudent financial policy.

Outlook: Stable

The stable outlook on NEPI reflects our view that the company's operating performance will continue to stabilize with improving footfall numbers and tenants' sales as economic activity recovers in CEE, particularly in Romania and Poland, thanks to the quality of their assets and limited new competition. We also believe that its debt to debt plus equity will be about 34%-35% and EBITDA interest coverage will remain higher than 4.0x over the next two years, supported by resilient cash flows and conservative financial policy. We expect NEPI will maintain a large liquidity buffer.

Downside scenario

We could consider taking a negative rating action if:

- Debt to debt plus equity increased significantly above 35% for a long period, for instance as a result of unexpected asset devaluations;
- Debt to EBITDA moved above 7.5x; or
- EBITDA interest coverage falls below 3.8x for a sustained period due to weaker operating performance.

We could also take a negative rating action on NEPI if Romania experienced an economic slowdown and monetary policy flexibility weakened, leading to a sovereign downgrade.

Upside scenario

An upgrade would hinge on NEPI materially improving its portfolio in terms of size, as well as geographic and segment diversification, making it more comparable with that of peers with stronger business risk profiles. Necessary conditions for an upgrade are the ability to continue generating positive like-for-like rental income growth and showing positive portfolio revaluations.

In addition, a positive rating action on NEPI would be contingent on an improvement in Romania's credit quality or a significant dilution of the company's exposure to Romania to less than 25% of its assets and maintaining its debt to debt plus equity below 35%.

Our Base-Case Scenario

We consider consumer confidence, retail sales, and shopping centers' density among the most important rent factors for retail property investors. We expect 3.8% GDP growth in CEE in 2021 after a drop of 3.8% in 2020. Uncertainty and challenged economic activity could lead unemployment to increase beyond 5.0% in 2021 and reduce inflation, since we expect a consumer price index of about 2.5% in 2021, and 2.2% in 2022.

Assumptions

- Like-for-like rental income growth of 1%-2% in 2021, encompassing some expected rent discounts/loss or some negative renegotiation, even after the lockdown measures end, largely offset by a large number of fixed-rent contracts (above 94% as of June 30, 2021). We estimate a rebound of 10%-12% in 2022 compared with 2021, since we expect higher footfall and no major social distancing restrictions or closing of shopping centers in 2022.
- Occupancy to remain above 95% in 2021-2022.
- Flat asset valuation in 2021-2022 given that signs of value stabilization for NEPI's assets, although capturing ongoing challenges facing the retail segment, including anticipated increasing e-commerce penetration (+0.4% of total portfolio value during the first half of 2021).
- Some asset acquisitions in 2021-22 of €160 million-€180 million and small disposal of Serbian assets (about €60 million), closed in mid-July 2021.
- Development capital expenditure (capex) of €130 million-€140 million annually in 2021-2022, in line with the company's current development plans. We understand that most of it is not committed.
- Dividend payments to be paid in cash.

Key metrics

NEPI Rockcastle PLC--Key Metrics

	--Fiscal year end Dec. 31--					
	2018a	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
EBITDA Interest Coverage (x)	6.6	6.5	5.0	4.5-5.0	5.0-6.0	5.0-6.0
Debt/EBITDA (x)	6.3	5.6	6.1	6.0-7.0	5.5-6.0	5.0-5.5
Debt to Debt plus Equity (%)	34.3	34.0	33.5	34-35	34-35	32-33

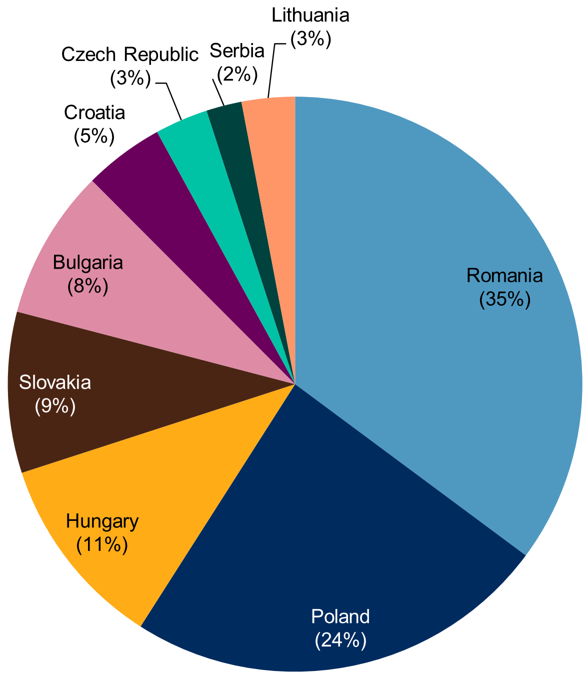
a--Actual. f--Forecast. *All figures adjusted by S&P Global Ratings.

Company Description

NEPI Rockcastle is a property and development company operating in the CEE region. It was established in 2017 by the merger of New Europe Property Investments PLC and Rockcastle Global Real Estate Co. Ltd. The company's property portfolio is valued at €5.8 billion, with a strong focus on retail, alongside additional activities in offices and industrial. It operates in nine countries in CEE, particularly the Romanian and Polish markets.

Chart 2

NEPI Rockcastle Geographic Diversity
(% of portfolio value as of June 2021)



Source: S&P Global Ratings.

Table 1

NEPI Rockcastle PLC--Portfolio Summary

Segment Focus	Retail, Office and Industrial
Total portfolio value	€5.8 billion (includes €220 million under development)
Total units	58
Average occupancy	95.60%
Average lease maturity	3.7 years
Average portfolio yield	6.75%
Overall portfolio quality*	Good quality retail assets with high share of green certifications (71% of portfolio)

*S&P Global Ratings' view, based on June 2021 results.

Peer Comparison

The company's portfolio (€5.8 billion on June 30, 2021) is similar to most rated peers in the same business category. The portfolio is well diversified geographically in the developing CEE. However, we factor in the company's continued focus on the retail segment, which is subject to challenging market dynamics. The retail market was already under pressure due to expanding e-commerce penetration, and the pandemic renders the company's portfolio more volatile and cyclical than those operating in residential segments.

Table 2

NEPI Rockcastle PLC--Operating Peer Comparison As Of June 2021

Companies	NEPI Rockcastle PLC	Carmila S.A.	Mercialys	CPI Property Group S.A.*	Citycon Oyj
Ratings as of Nov. 3, 2021	BBB/Stable/--	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Negative/--	BBB-/Stable/A-3
Business risk profile	Satisfactory	Strong	Satisfactory	Satisfactory	Satisfactory
Portfolio value (bil. €)	5.8	6.1	3.2	10.3	4.3
Share of development (%)	<5	<10	<5	<5	<10
Weighted-averageunexpired lease term(years)	3.7	4.3*	N.A.	3.6	2.9
Occupancy (%)	95.6	95.7	96.0	93.7	93.1
Top 10 tenants (as % of GRI)	24.0	14.1	Top 1: 22.6	11.5	26.2
Geographic diversity	Romania 35%, Poland 24%, Hungary 11%, Slovakia 9%, Bulgaria 8%, Croatia 5%, Czech Republic 3%, Serbia 2%, and Lithuania 3%	France 72%, Spain 22%, Italy 6%	France 100%	Czech Republic 41%, Germany 25%, Poland 15%, Hungary 6%, Western Europe 6% and Other CEE countries 7%	Finland & Estonia 46%, Norway 33%, Sweden & Denmark 18%
Asset diversity	Retail 99%, office and indsutrial 1%	Retail 100%	Retail 100%	Office 52%, Retail 22%, Hotels & Resorts 7%, Residential 9% and Landbank, development & Others 11%	Retail 100%

CEE--Central Eastern Europe. GRI--Gross rental income. N.A.--Not available.

Table 3

NEPI Rockcastle PLC--Peer Comparison

	NEPI Rockcastle PLC	Carmila S.A.	Mercialys	CPI Property Group S.A.	Citycon Oyj
Rolling Twelve Months ending June 30, 2021	BBB/Stable/--	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Negative/--	BBB-/Stable/A-3
(Mil. €)					
Revenue	335.0	359.0	148.3	440.8	204.0
EBITDA	300.5	198.2	130.8	312.5	182.9
Funds from operations (FFO)	247.1	131.1	98.6	183.1	106.6
Interest expense	67.5	62.3	35.9	123.5	60.5
Cash flow from operations	278.0	142.7	136.2	163.3	115.8
Capital expenditure	67.4	124.6	62.2	447.3	183.3
Free operating cash flow (FOCF)	210.7	18.2	74.0	(284.1)	(67.5)
Dividends paid	102.8	167.3	31.7	23.4	85.5
Discretionary cash flow (DCF)	30.7	(149.4)	42.5	(1,120.1)	(153.0)
Cash and short-term investments	380.2	191.7	288.0	220.7	310.8
Debt	1,883.9	2,462.7	1,178.7	5,855.9	2,161.2
Equity	3,710.9	3,205.0	1,901.5	5,267.2	2,161.5
Debt and equity	5,594.9	5,667.7	3,080.1	11,123.1	4,322.7
Adjusted ratios					
EBITDA margin (%)	89.7	55.2	88.2	70.9	89.7

Table 3

NEPI Rockcastle PLC--Peer Comparison (cont.)					
	NEPI Rockcastle PLC	Carmila S.A.	Mercialys	CPI Property Group S.A.	Citycon Oyj
Return on capital (%)	5.4	3.5	2.1	2.7	3.8
EBITDA interest coverage (x)	4.5	3.2	3.6	2.5	3.0
Debt/EBITDA (x)	6.3	12.4	9.0	18.7	11.8
FFO/debt (%)	13.1	5.3	8.4	3.1	4.9
Debt/debt and equity (%)	33.7	43.5	38.3	52.6	50.0

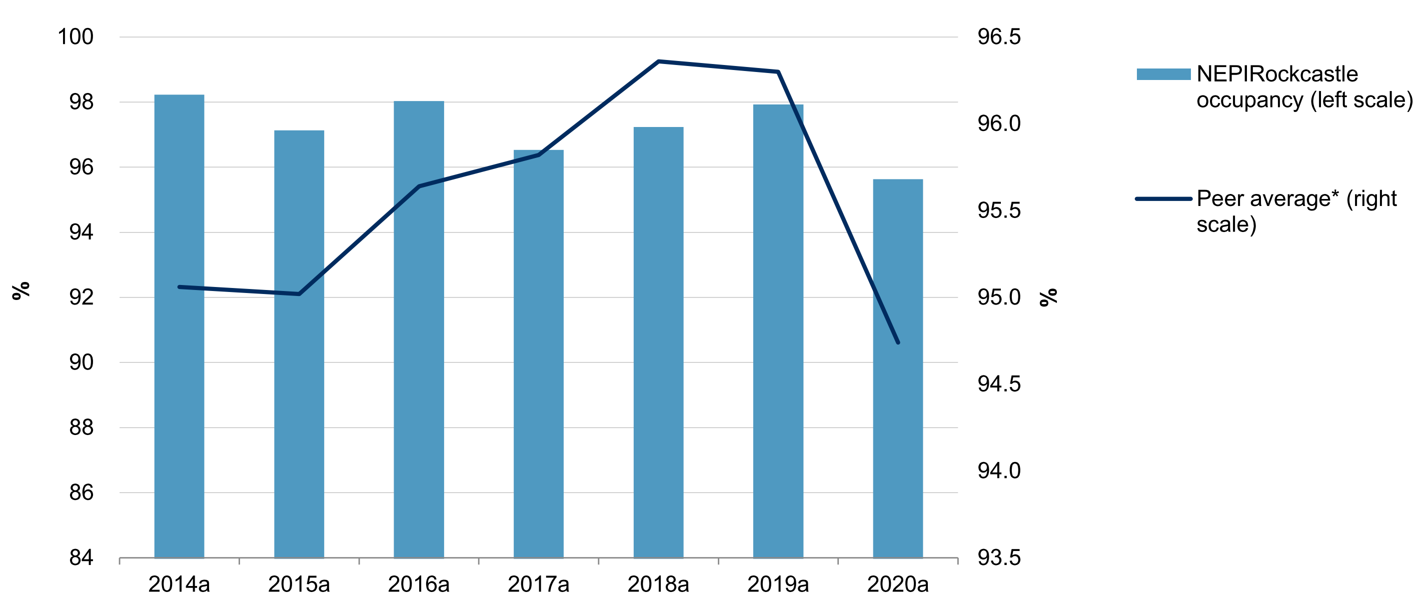
We view NEPI's credit ratios as weaker than those of peers with a modest financial risk profile. This remains a key factor in our assessment of the company's financial risk at the lower end of that category compared with its close peers. We reflect this in the deduction of one notch as a result of our comparable rating analysis, leading to the 'BBB' rating.

Business Risk: Satisfactory

NEPI benefits from its position as the largest retail property owner in CEE. It is the largest retail property owner in Romania and manages a portfolio of prime retail assets worth €5.8 billion as of June 30, 2021.

Chart 3

NEPI Rockcastle: Occupancy



Source: S&P Global Ratings. *Average for NEPI Rockcastle,CPI Property Group, Carmila S.A, Mercilays, Citycon. a--Actual.

The company enjoys a high occupancy ratio of 95.6% (including a very minor drop of 0.1% in first-half 2021), staying well above 95% over the past few years. We anticipate occupancy to remain around 96%, mainly due to the slow leasing environment and expectation of further bankruptcies of small tenants, once pandemic-related support from the government ends. Most of the company's tenants are well established, multinational companies, or regional leaders with triple net lease contracts fixed in euros. NEPI Rockcastle's portfolio consists of 52 core assets (as of June 30, 2021, excluding the sale of two Serbian assets), including large shopping centers with over 36,300 square meters of gross rentable area on average. Overall, the portfolio comprises 30% super-regional malls, 61% regional malls, 5% community centers, 3% lifestyle centers, and 1% strip centers. NEPI also benefits from high geographic diversity because rental income is generated in nine different CEE countries.

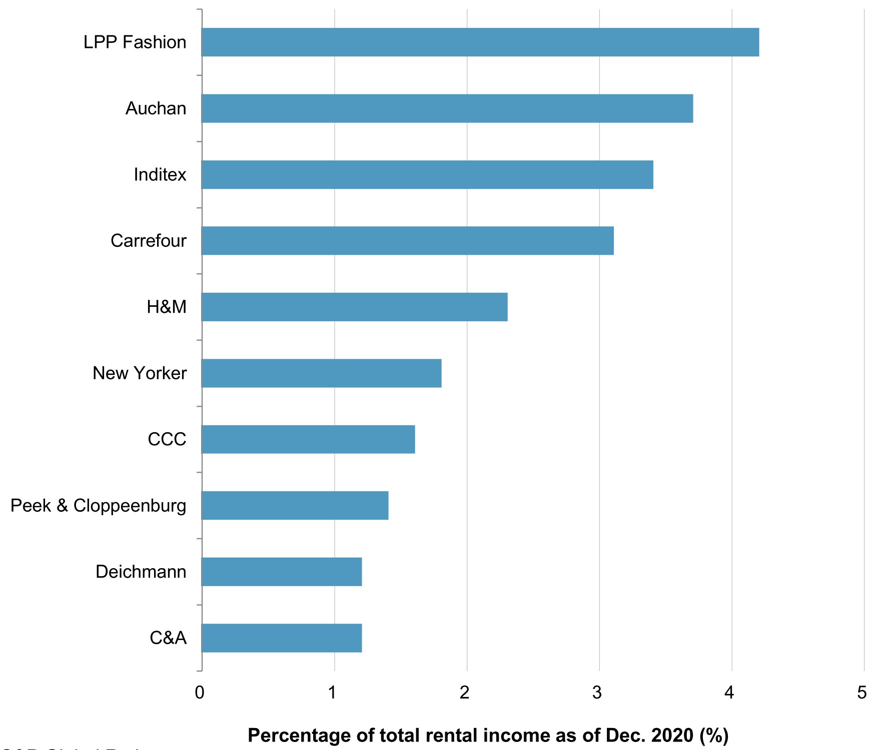
We see limited development risk in the portfolio because a large share of such activities is the extension of existing properties, which are mostly pre-let. Moreover, the share of assets under development was less than 5% of the total portfolio as of June 30, 2021.

We believe that NEPI's rent generation ability will be supported by its good asset quality. Its leasing profile is in line with industry standards, with an average weighted lease maturity of about 3.7 years. That said, the business risk profile is mainly constrained by the company's exposure to developing economies--such as Romania, Hungary, or Bulgaria--which pose relatively high country risk. In addition, barriers to entry in most CEE countries where NEPI Rockcastle is present are relatively low compared with those in developed markets such as Germany or France, creating a risk of oversupply.

Furthermore, we see a risk from an increasing rent burden for tenants, due to currency movements (rents are contracted in euros, while tenants' revenue is in local currencies). We understand that NEPI's tenants have relatively modest occupancy costs (rent-to-sales ratio) of about 12% on average (excluding 2020), which somewhat mitigates this risk. We also note some tenant concentration, given the top 10 tenants account for 24% of total rents.

Chart 4

NEPIRockcastle Top 10 Tenants



Source: S&P Global Ratings.

Financial Risk: Modest

We consider NEPI's financial policy to be prudent, centered on an LTV ratio of less than 35% (corresponding to debt to debt plus equity of 34%-35%), which is relatively low for the industry. We understand that the company has good access to equity capital markets, as shown by its track record of issuing equity in recent years to fund its retail-assets acquisition pipeline. The company benefits from the support of its shareholders--two large South African property funds and one pension fund, together holding 37.9% of the company's shares--with the remainder owned by a large number of investors.

We expect the current challenging retail market dynamics may put pressure on NEPI's operating performance. That said, we expect NEPI to maintain an adjusted debt to debt plus equity ratio of 35% (33.7% as of June 30, 2021) and debt to EBITDA below 7.0x (rolling 12 months at 6.3x) over next 12-24 months. These metrics support the current rating, owing to recent office asset and Serbian asset disposals, although with weak headroom versus our thresholds. Overall, NEPI's credit metrics remained below our downside thresholds in the past 12 months, and we now believe that improving macroeconomic fundamentals should help the company maintain stable leverage in the next 12-24 months.

We also forecast EBITDA interest coverage ratio sustainably above 4.0x over next 12-24 months although declining from a solid 6.5x as of 2019, mainly due to lower EBITDA generation because of direct discounts provided during the pandemic. This is supported by a low average cost of debt of 2.4% as of June 30, 2021. We expect NEPI to resort to a partial scrip dividend payment to sustain cash flow flexibility along with investor confidence, although it is not legally required to distribute dividends because it is not a real estate investment trust.

In first six months of 2021, the company repaid five of its secured bank loans from Slovakia and Poland, totaling €242 million, and signed a green unsecured financing agreement for €73.5 million with a seven-year tenor. NEPI generally enjoys a strong cash flow buffer with €570 million available under its committed undrawn back-up facility as of second-quarter 2021 and limited debt maturities in the next 12 months. In addition, the company increased the weighted-average tenor of its debt to 4.2 years as of June 30, 2021, from 3.6 years on June 30, 2020.

Financial summary

Table 4

NEPI Rockcastle PLC--Financial Summary

Industry sector: Real estate investment trust or company

	June 2021	December 2020	June 2020	December 2019	June 2019
(Mil. €)					
Revenue	158.5	176.5	156.3	206.2	201.0
EBITDA	147.8	152.8	150.8	185.7	188.3
Funds from operations (FFO)	125.3	121.8	121.0	155.8	153.2
Interest expense	33.5	33.9	27.4	30.7	27.0
Cash flow from operations	106.4	171.6	67.7	169.2	147.2
Capital expenditure	17.9	49.5	72.6	147.5	131.0
Free operating cash flow (FOCF)	88.5	122.1	(4.9)	21.8	16.2
Dividends paid	102.8	(0.0)	150.7	66.3	95.4
Discretionary cash flow (DCF)	(16.3)	46.9	(159.3)	(48.3)	(79.3)
Cash and short-term investments	380.2	639.6	138.1	204.0	366.2
Debt	1,883.9	1,857.1	2,280.6	2,109.2	2,091.4
Equity	3,710.9	3,692.3	3,736.4	4,096.9	3,975.1
Debt and equity	5,594.9	5,549.5	6,017.0	6,206.0	6,066.4
Valuation of investment property	5,849.9	5,802.4	6,171.4	6,022.6	6,188.8
Adjusted ratios					
EBITDA margin (%)	89.7	91.2	92.8	91.9	91.3
Return on capital (%)	5.4	5.3	5.6	6.2	6.1
EBITDA interest coverage (x)	4.5	5.0	5.8	6.5	6.7
Debt/EBITDA (x)	6.3	6.1	6.8	5.6	5.9
FFO/debt (%)	13.1	13.1	12.1	14.6	13.8
Debt/debt and equity (%)	33.7	33.5	37.9	34.0	34.5

N.M.--Not meaningful.

Reconciliation

Table 5

NEPI Rockcastle PLC--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

--Rolling 12 months ended June 30, 2021--

NEPI Rockcastle PLC reported amounts

	Debt	Shareholders' equity	Revenue	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Dividends	Capital expenditure
Reported	2,230.9	3,705.7	335.0	300.0	216.1	64.9	300.5	280.6	102.8	70.0
S&P Global Ratings' adjustments										
Cash taxes paid	--	--	--	--	--	--	(8.0)	--	--	--
Cash interest paid	--	--	--	--	--	--	(42.8)	--	--	--
Reported lease liabilities	33.3	--	--	--	--	--	--	--	--	--
Accessible cash and liquid investments	(380.2)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	2.6	(2.6)	(2.6)	--	(2.6)
Share-based compensation expense	--	--	--	1.8	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	--	2.7	--	--	--	--	--
Noncontrolling interest/minority interest	--	5.3	--	--	--	--	--	--	--	--
EBITDA: Foreign exchange gain/(loss)	--	--	--	1.0	1.0	--	--	--	--	--
EBITDA: Other	--	--	--	(2.3)	(2.3)	--	--	--	--	--
Depreciation and amortization: Asset valuation gains/(losses)	--	--	--	--	83.2	--	--	--	--	--
Total adjustments	(346.9)	5.3	0.0	0.5	84.6	2.6	(53.4)	(2.6)	0.0	(2.6)

S&P Global Ratings' adjusted amounts

	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends	Capital expenditure
Adjusted	1,883.9	3,710.9	335.0	300.5	300.7	67.5	247.1	278.0	102.8	67.4

Liquidity: Adequate

We anticipate that liquidity sources will cover liquidity uses by over 1.2x for the next 12 months. Debt covenant headroom is adequate, in our view. NEPI has sound relationships with a diverse group of banks and a generally satisfactory standing in capital markets. We view the company's financial flexibility and access to capital markets as somewhat weaker than its larger peers' in Western Europe. As such, we believe the absorbability of high-impact, low-probability shocks might become challenging for NEPI. Consequently, we continue to view liquidity as adequate.

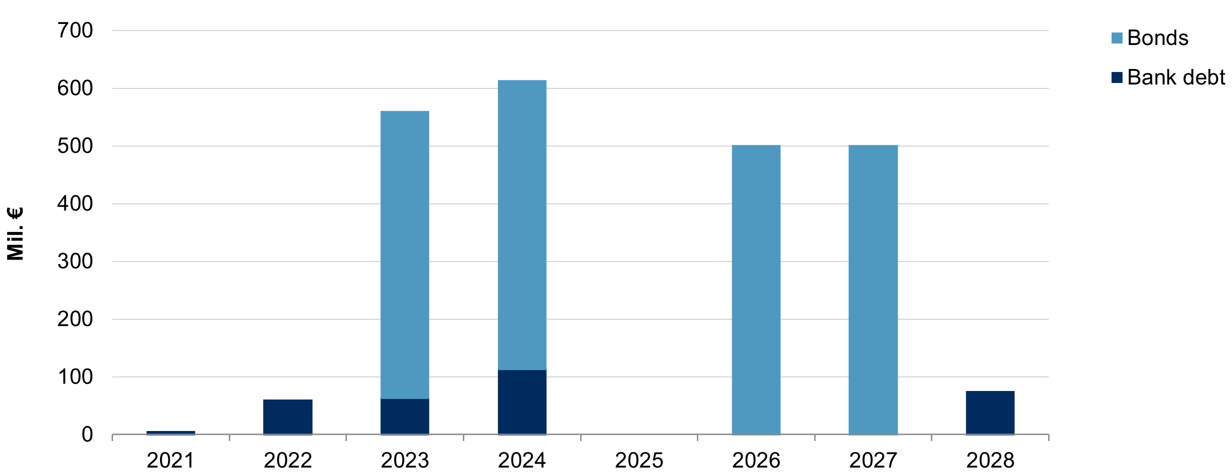
Principal liquidity sources	Principal liquidity uses
• As of June 30, 2021, unrestricted cash balances of about €380.2 million; • Undrawn revolving credit facilities of €570 million maturing in more than 12 months; • Our forecast of funds from operations of €250 million-€270 million for the next 12 months; and • Committed asset sales of about €61 million.	• €7 million-€8 million of contractual short-term debt repayments during the next 12 months; • Capex needs of €130 million-€140 million in the next 12 months for the development pipeline, although we understand most of it is not committed; and • Dividend payments of about €230-240 million.

Debt maturities

The average remaining debt term is 4.2 years as of June 30, 2021.

Chart 5

NEPI Rockcastle--Debt Maturities As Of July 2021



Source: Company report.

Covenant Analysis

Compliance expectations

We understand that NEPI has financial covenants for its outstanding debt. We estimate that the headroom for these covenants is strong (more than 15%).

Requirements

NEPI Rockcastle has to comply with the following covenants for unsecured loans and bonds:

- Solvency ratio of maximum 60%. As of June 30, 2021, the ratio was 38%.
- Consolidated coverage ratio of minimum 2.0x. As of June 30, 2021, the ratio was 4.2x.
- Unsecured consolidated total assets/unsecured consolidated total debt of minimum 150%. As of June 30, 2021, the ratio was 271%.

Environmental, Social, And Governance

We view NEPI's exposure to environmental, social, and governance (ESG) factors as in line with other CEE peers. The company has improved its overall portfolio certifications, which now stands at 71% of its buildings being BREEAM certified as "very good" or "excellent" as of Dec. 31, 2020. Of the remaining portfolio, 21% of the properties are under registration proceedings. Over 95% of the properties are accessible by public transport and some of shopping centers offer facilities for bikes and charging points for electric cars. In December 2019, NEPI Rockcastle signed an ESG-linked unsecured revolving credit facility of €175 million and issued €500 million of unsecured green bonds in July 2020. In June 2021, NEPI renegotiated the contractual terms on all its existing RCFs making them sustainability linked, further showing its dedication to increasing its sustainability framework.

Rating Above The Sovereign

Given NEPI Rockcastle's high share of revenue from Romania (35% of gross portfolio value), which is currently rated one notch lower than NEPI, we perform an analysis to test NEPI's resilience to a Romanian sovereign default. To do this, we assume a 25% drop of the company's liquidity sources in a stress scenario. Even under this hypothetical stress scenario, we estimate the company would have sufficient cash flow to cover its needs, and liquidity sources would cover uses by more than 1.0x for one year. In addition, the LTV would remain below 80% in line with our rating benchmark. For these reasons, we believe NEPI Rockcastle can be rated one notch higher than Romania.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2021, NEPI's capital structure comprised 11% secured debt and 89% unsecured debt, spread across bond and bank debt.

Table 6

NEPI Rockcastle PLC--Capital Structure And Liquidity, June 2021	
Average interest cost (%)	2.4
Weighted average debt maturity (years)	4.2
Average fixed debt (including hedge, %)	99.0
Composition of debt (Secured, %)	11.0
Liquidity (Sources/Uses)	Adequate

Analytical conclusions

We expect that NEPI's secured debt will remain lower than 40% of total assets (less than 10% as of June 30, 2021). 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. We align our ratings on NEPI's senior unsecured debt with the 'BBB' issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/--

Business risk: Satisfactory

- **Country risk:** Moderately high
- **Industry risk:** Low
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/leverage:** Modest

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:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Related Criteria

- 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
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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 November 8, 2021)*

NEPI Rockcastle PLC	
Issuer Credit Rating	BBB/Stable/--
Issuer Credit Ratings History	
23-Aug-2021	BBB/Stable/--
01-Apr-2020	BBB/Negative/--
13-Jul-2017	BBB/Stable/--

*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.

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