FitchRatings

Corporates
Property/Real Estate
Netherlands

NEPI Rockcastle N.V.

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB+	Stable	Upgraded 4 Nov 22
Senior Unsecured	BBB+		Upgraded 4 Nov 22

Click here for full list of ratings

The upgrade of NEPI Rockcastle N.V.'s ratings reflect the improvements in its recent years' operational metrics, with increasing occupancy, footfall and tenants' sales exceeding pre-pandemic levels. NEPI's EUR5.7 billion income-producing properties portfolio benefits from diversification across central and eastern European (CEE) countries, assets and tenants. The portfolio's quality and moderate occupancy costs position it to withstand lower consumption as the rising cost of living puts pressure on consumers' disposable incomes.

The upgrades also reflect NEPI's long record of a prudent financial profile and Fitch's expectation that this will continue. With end-2021 net debt/EBITDA leverage at 5.7x, NEPI has maintained a significant buffer from Fitch Ratings' previous 7.0x upgrade to 'BBB+' rating sensitivity. Its interest coverage was 5.7x at end-2021 and we forecast it to remain strong despite rising interest rates.

Key Rating Drivers

Improved Operating Performance: In 1H22 tenants' sales in NEPI's portfolio were 8% higher than the equivalent period in 2019. This was due to an increase in average shopping basket value, which was 27% higher in 1H22 than in 1H19, while footfall still lagged behind pre-pandemic levels. The pattern of lower footfall but higher tenants' sales in retail is evident across several European markets.

The sales of all tenants' segments in NEPI's portfolio in 1H22 exceeded pre-pandemic levels except for entertainment (2% of the portfolio's total tenants' sales) where sales were around 17% lower and fashion (45% of total), which was broadly in line with 1H19. The vacancy rate for NEPI's retail portfolio decreased to 3.2% at end-1H22 (1H21: 4.4%). Of the leases expiring during 2022, 80% were renewed by mid-August.

Uncertain Rental Growth Prospects: Inflation, which has so far aided growth of the shopping basket, may erode households' disposable income, affecting retailers' performance. Inflation also feeds into higher rents through inflation-linked rent indexation clauses included in most of NEPI's leases. These leases are usually euro denominated and use EU27 CPI as a reference. Fitch expects EU27 CPI to be lower than inflation in countries where NEPI operates.

This, combined with a moderate occupancy cost ratio (1H22: 13.3%, excluding hypermarkets), will help tenants absorb rent increases to some extent. However, if lower disposable incomes lead to lower tenants' sales, rent increases may prove unsustainable. To maintain the portfolio's high occupancy rate like other retail landlords, NEPI may choose not to maximise CPI-linked rent increases. The affordable rent profile may also be affected by a sharp depreciation of domestic currencies, in which retailers' revenues are earned, versus the euro.

Stable Cash Flow Leverage: NEPI's end-2021 net debt/EBITDA remained low at 5.7x despite pandemic-related rent discounts provided to some tenants. Fitch forecasts net leverage to increase moderately to 6.1x during 2023-2025 as the capex programme continues, after falling to 5.4x in 2022 as expiring rent discounts are partially offset by increased cash dividends and capex. We expect interest cover to remain comfortable (2022: 6.6x; 2023: 6.9x) as NEPI benefits from strong cash flows, low leverage and long-dated interest rate fixing.

Accelerated Development Activity: At end-1H22, NEPI had four projects under construction with total capex to complete at around EUR300 million. The projects include the mixed-use extension of Promenada Mall (around 60,000 sqm of new space) in Bucharest; refurbishment and extension of Bonarka City Center in Krakow (4,500 sqm); and development of a new shopping centre (64,000 sqm) in Craiova, Romania. The fourth is a residential complex adjacent to an existing NEPI-owned retail park in Bucharest.

Applicable Criteria

Corporate Rating Criteria (October 2022)
Sector Navigators: Addendum to the Corporate Rating Criteria (October 2022)
Corporates Recovery Ratings and Instrument Ratings Criteria (April 2021)

Related Research

EMEA Real Estate Outlook 2023 (November 2022)
Inflation: Impact on EMEA Property Companies' Rents (November 2022)
EMEA Real Estate - The Adverse Effects of Rising Interest Rate (November 2022)
Real Estate and Property - Long-Term Climate Vulnerability Scores (June 2022)

Analysts

Fredric Liljestrand
+46 85051 7809
fredric.liljestrand@fitchratings.com

Pawel Jagiello
+48 22 103 3033
pawel.jagiello@fitchratings.com

Projects under permitting and pre-leasing with EUR230 million of total capex expected include construction of new retail assets in Bulgaria and Romania, and an investment in photovoltaic panels.

CEE Retailers: NEPI's tenants include well-known international and regional brands. Regional retailers have been less exposed to flat retail sales growth, other geographies' higher and increasing e-commerce share and their oversupply of retail space than their western European peers. This provides some buffer against the risk of a decline in consumer demand, increasing staff salaries or inventories prices in CEE retail markets. NEPI's tenant diversification (top 10 generating 24% of total rental income) helps mitigate the risk of specific tenant default.

Property Management Internalisation: NEPI decided to unify its property management operations and systems. This means that in Poland, Lithuania, Czech Republic and Hungary, NEPI will take over property management functions from third-party managers. It will allow for more active management, better information flow and some cost savings. The process is scheduled for completion by mid-2024. Fitch considers nimble property management an important success factor in a fast-changing retail environment.

New Management Team: In June 2022, interim CEO Rudiger Dany and CFO Eliza Predoiu were appointed to their positions on a permanent basis. Marek Noetzel was appointed COO. The new CFO and COO have many years' experience with the company. Rudiger Dany joined NEPI in July 2021 having extensive experience in the retail real estate sector. Fitch understands that management is committed to NEPI's prudent financial profile.

Key Rating Issues

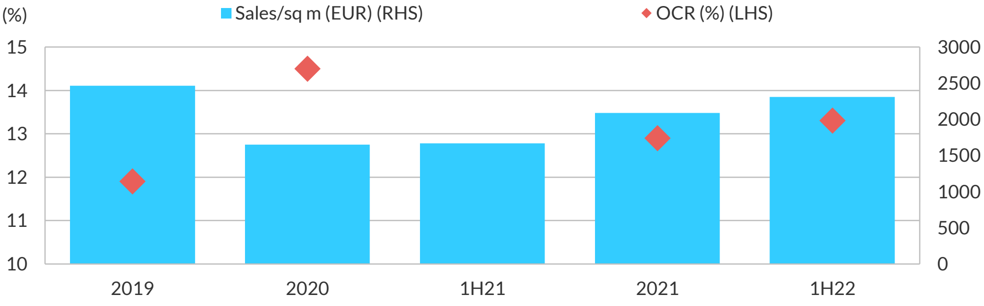
NEPI's Improved Operating Performance

The issue	In 1H22 NEPI recorded a rebound in tenants' sales after the pandemic-affected 2020 and 2021.		
Our view	The absence of pandemic-related social distancing measures aided footfall to return to near the levels recorded in 2019. Tenants' sales exceeded pre-pandemic levels as real wages kept up with accelerating inflation. This resulted in moderate occupancy cost ratios for NEPI's assets. The improved operating environment encouraged retailers to accelerate their leasing activity. These positive developments may be difficult to sustain in the coming months as further increases in the cost of living are likely to reduce consumers' purchasing power and undermine their confidence. In Fitch's view, NEPI's quality portfolio, relevant tenant mix and active property management will help contain the impact of these negative trends on the group's results.		
Timeline	Short-term	Rating Impact:	Negative, included in the existing rating.

Source: Fitch Ratings

In 1H22 all NEPI centres were open except the leisure and entertainment segment in the Slovakian assets, which remained closed until mid-January. Remaining restrictions and social distancing measures were lifted by end-March. This helped improve footfall and tenants' sales. Footfall in 1H22 was 28% higher compared to 1H21 but remined below 1H19 (-12%) for a like-for-like properties. Fewer visitors continued to spend more per visit. The average shopping basket increased by 15% in 2021 (vs 2020) and by 27% in 1H22 (vs 1H19). As a result, tenants' sales in 1H22 were 45% higher than in 1H21 (8% vs. 1H19).

NEPI - tenants' sales vs OCR

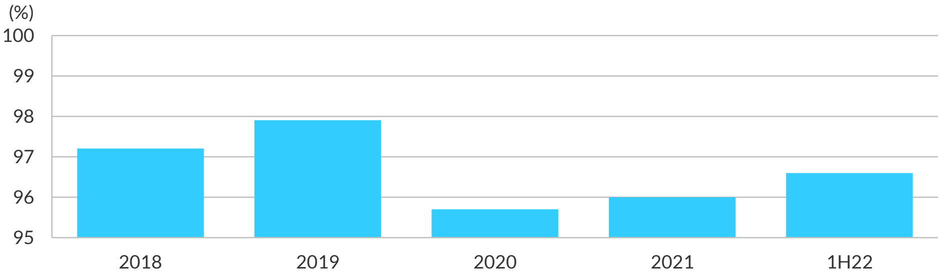


Source: Fitch Ratings, NEPI

No restrictions and an improvement in tenants' trading meant that NEPI did not need to provide any material rent discounts to its tenants and the collection rate largely returned to pre-pandemic levels. In 1H22 NEPI signed 433 new leases and lease extensions for a total area of 97,000 sqm (5% of total gross lettable area). These included 228 new leases (47,300 sqm, 2.4% of total gross lettable area) helping to reduce vacancy to 3.4% at end-June 2022 (end-2021: 4%).

NEPI Rockcastle - Occupancy rate (%)

EPRA occupancy



Source: Fitch Ratings, NEPI

Inflation Affects NEPI's Like-for-Like Rent Growth

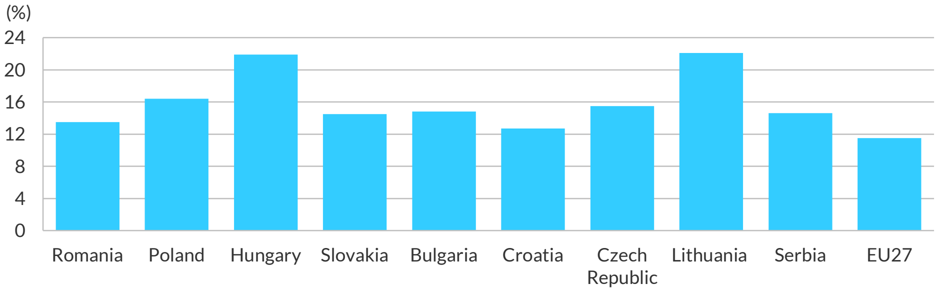
The issue	NEPI is contractually entitled to benefit from inflation-linked rent indexation included in its leases.		
Our view	NEPI's lease expiry profile shows that 15%-19% of rental income is due to expire each year, while over 80% of income remains in place. Assuming stable occupancy, most of these leases will have their rents indexed. This means that the higher inflation than in previous years is likely to be the key driver for like-for-like rent changes, even if NEPI decides not to maximise inflation-linked rent increases.		
Timeline	Mid-term	Rating Impact:	Positive, included in the existing rating.

Source: Fitch Ratings

The typical lease contract used by NEPI allows the group to increase base rent charged to tenants by inflation using an annual CPI-linked rent indexation mechanism. As most of NEPI's leases are euro denominated, it uses different Eurostat inflation indices (usually EU27 HICP) as a reference. The details of contractual arrangements are broadly the same across the portfolio, including Slovakia or Lithuania which are the only eurozone member countries in NEPI's portfolio. For the majority of leases, rents are indexed in 1Q each year using CPI for the last 12 months. In practice this means that 2022 indexation in NEPI's portfolio was already applied and the next one is scheduled for 1Q23, which will reflect the higher inflation of the last 12 months.

Inflation in countries where NEPI operates vs inflation for EU27

HICP - average rate of change; data as of October 2022



Source: Fitch Ratings, Eurostat

NEPI, like other retail landlords, has a contractual right to charge tenants higher rents, but it may consider not doing so or doing so only partially depending on how the resultant occupancy costs will increase in relation to tenants' sales. NEPI reported strong tenant performance in 1H22 and a moderate occupancy cost ratio for 1H22 (13.3%), a period that does not include the 4Q yearly sales peak. Strong tenant performance in 2H22 will increase the likelihood of full indexation in 2023.

If tenants' sales continue their growth (which is in Fitch's view is a less likely scenario) as experienced in 1H22, NEPI may also benefit from higher turnover-linked rent. This rent component is calculated as a percentage of tenants' sales. It is charged on top of base rent when tenant's sales exceed a certain contractually agreed level.

Active Debt Management and Interest Rate Fixing

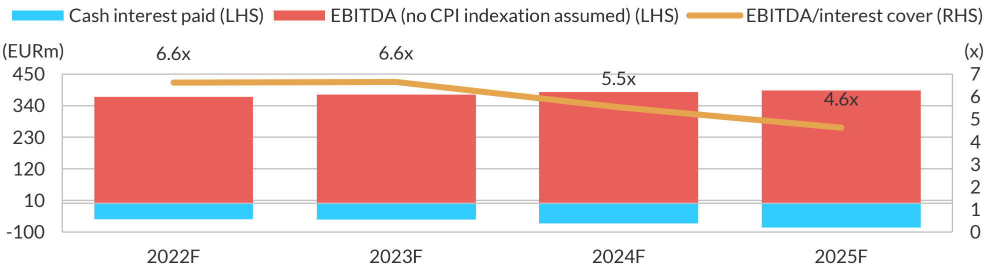
The issue	Increasing interest rates will translate into higher cost of debt, affecting NEPI's interest coverage ratio.		
Our view	NEPI's external debt predominantly consists of long-dated, fixed-coupon bonds. This, combined with CPI-linked rent growth, should give NEPI time to adjust its operating cash flows to offset increased interest requirements when the existing debt is refinanced using new, more expensive funding. Even if rents remain flat NEPI's interest coverage ratio provides a material buffer to cover higher interest expense.		
Timeline	Mid-term	Rating Impact:	Positive, included in the existing rating.

Source: Fitch Ratings

In January 2022 NEPI, taking advantage of the low-interest-rate environment, issued an eight-year EUR500 million bond with a 2% coupon. It used the proceeds to prepay EUR500 million bonds (EUR496 million outstanding) maturing in May 2023 with a 2.63% coupon. NEPI's weighted average remaining debt term was therefore extended to 4.7 years at end-1H22 (end-2021: 3.7 years) with an average cost of debt maintained at 2.4%. At end-1H22, 87% of NEPI's debt comprised four fixed-coupon bonds. The rest was mostly secured loans with a hedged interest component.

NEPI - EBITDA Interest Cover Ratio

Based on Fitch rating case for NEPI with the assumption of flat CPI indexation



Source: Fitch Ratings, NEPI

The resulting debt maturity profile and NEPI's substantial liquidity buffer mean the company does not need to access the bond market within the next 24 months. During this time we expect the conditions for issuing bonds could normalise, after the current adjustment period, allowing NEPI to maintain unsecured debt as its main source of external financing. This, as before, will be supplemented by secured bank financing, which is still available for quality retail assets. NEPI, almost all of whose income-producing assets are now unencumbered, may continue to access secured debt from time to time.

Financial Summary

NEPI Rockcastle N.V.

(EURm)	Dec 20	Dec 21	Dec 22F	Dec 23F
Gross revenue	380	369	414	435
Operating EBITDA (before income from associates)	302	322	371	391
Operating EBITDA margin (%)	79.5	87.1	89.7	89.9
Total net debt with equity credit/operating EBITDA (x)	6.1	5.7	5.4	5.7
Operating EBITDA/interest paid (x)	6.0	5.7	6.6	6.9

F – Fitch Forecast
Source: Fitch Ratings, Fitch Solutions

NEPI - Portfolio Summary at End-June 2022[a]

	No. of assets	Gross leasable area (sqm)	Value (EURm)	Share of total (%)	Passing rent (EURm)	Implied yield (%)	Estimated average rent (EUR/sqm/ month)	EPRA occupancy (%)
Retail	**52**	**1,945,500**	**5,627**	**98**	**395**	**7.0**	**17.5**	**96.8**
Romania	26	826,200	2,016	35	152	7.5		98.6
Poland	12	479,900	1,385	24	91	6.6		95.3
Hungary	2	123,200	587	10	34	5.8		92.7
Slovakia	5	117,400	498	9	33	6.6		95.5
Bulgaria	2	132,300	426	7	33	7.7		96.4
Croatia	1	75,200	264	5	19	7.2		98.2
Czech Republic	2	74,200	176	3	11	6.3		93.6
Lithuania	1	67,900	146	3	12	8.2		100.0
Serbia	1	49,200	129	2	10	7.8		97.4
Office	**2**	**41,400**	**71**	**1**	**5**	**7.0**	**13.9**	**84.3**
Bulgaria	1	28,500	52	1	4	7.7		89.2
Slovakia	1	12,900	19	0	1	5.3		72.6
Industrial	**2**	**27,300**	**18**	**0**	**2**	**11.1**	**6.2**	**98.1**
Romania	2	27,300	18	0	2	11.1		98.1
Total		**2,014,200**	**5,716**	**100**	**402**	**7.0**	**17.2**	**96.6**

[a] fully consolidated property assets
Source: Fitch Ratings

Rating Derivation Relative to Peers

NEPI's peers include Globe Trade Centre S.A. (GTC, BBB-/Stable) with its EUR2.1 billion portfolio, which benefits from diversification across asset classes with offices (65% of market value) and retail (35%) and Globalworth Real Estate Investments Limited (BBB-/Stable) whose office-focused portfolio was valued at EUR2.8 billion. GTC's country risk exposure is the most similar to NEPI's, with a presence in six countries predominantly rated 'BBB' or below (60% of GTC's assets' market value). Globalworth's portfolio is almost equally split between Poland (A-/Stable) and Romania (BBB-/Negative). The smaller (EUR1.0 billion), all-retail portfolio of AKROPOLIS GROUP, UAB (BB+/Stable) is in 60% in Lithuania (A/Stable), with the rest in Latvia (A-/Stable).

NEPI's end-2021 net debt/EBITDA, at 5.7x, is lower than GTC's leverage of around 10x and Globalworth's of about 8.5x.

NEPI has a net initial yield (NIY, this measures annualised net rents to investment property asset values) of 6.7%. The company's CEE peers do not disclose directly comparable NIY data. Fitch believes the quality of Globalworth and GTC's portfolios is broadly similar to that of NEPI.

Akropolis has the lowest leveraged financial profile, with 2022 net debt/EBITDA at 4.9x ahead of a planned construction project, which will increase its leverage. Akropolis's portfolio has a NIY estimated at around 7% and LTV of below 40%. However, its rating is constrained by its concentration on a limited number of assets, restricting asset and geographical diversification.

Navigator Peer Comparison

	IDR/Outlook	Operating Environment	Management and Corporate Governance	Property Portfolio	Rental Income Risk Profile	Liability Profile	Access to Capital	Profitability	Financial Structure	Financial Flexibility
AKROPOLIS GROUP, UAB	BB+/Sta	a+	bb	bb+	bbb-	bb+	bb+	bbb	bbb+	a-
Globalworth Real Estate Investments Limited	BBB-/Sta	bbb	bbb+	bbb	bbb	bbb	bbb	bb+	bbb+	bbb+
Globe Trade Centre S.A.	BBB-/Sta	bbb+	bbb	bbb	bbb-	bbb-	bbb	bbb	bbb-	bbb+
MAS PLC	BB/Pos	bbb+	bbb	bb	bb+	bbb	bb+	bb	bbb+	bbb+
NEPI Rockcastle N.V.	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:

- Given the retail-focused portfolio and mix of CEE countries, Fitch does not expect an upgrade of NEPI to the 'A' rating category in the near future.

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

- Material expansion in new or existing non-investment-grade countries, either through expansion or through downgrades.
- Significant deterioration of operating metrics on a sustained basis, such as higher vacancies.
- Increase in leverage with such metrics as loan-to-value (adjusted net debt/investment properties) consistently exceeding 40% or net debt/EBITDA surpassing 7.0x on a sustained basis.
- A liquidity score below 1.25x on a sustained basis.

Liquidity and Debt Structure

Strong Liquidity: At end-1H22, NEPI had EUR428 million of readily available cash (excluding EUR22 million held on the secured loans' related reserve accounts) and access to EUR620 million of available revolving credit facilities maturing not earlier than December 2024.

Proceeds from EUR500 million eight-year bonds issued in January 2022 were used to repay a bond due in May 2023. The refinancing extended the group's average debt maturity to 4.7 years at end-1H22 from 3.7 years at end-2021. The next meaningful debt repayment is scheduled for November 2024, when EUR499 million of bonds fall due. In 2022 and 2023 only around EUR4 million and EUR66 million, respectively, of secured loans mature.

NEPI's debt is predominantly unsecured. At end-June 2022 its unencumbered investment property pool was valued at EUR5.3 billion (91% of total income-producing assets, by value) pro forma for full consolidation of Ploiesti Shopping City. NEPI acquired the remaining stake in Ploiesti SC in September 2022. The group's pro forma unencumbered income producing investment properties/unsecured debt ratio was 2.6x.

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 Maturities

Liquidity Analysis

(EURm)	30 June 2022
Reported cash and equivalents	450
Cash on secured loans' related reserve accounts	-22
Other restricted cash	-
Total available cash	**428**
Undrawn committed lines	**620**
Total liquidity	**1,048**

Source: Fitch Ratings, Fitch Solutions, Globe Trade Centre

Debt Maturity Schedule

(EURm)	30 June 2022
2022	4
2023	66
2024	615
2025	3
2026	503
Thereafter	1,113
Total debt	**2,303**

Source: Fitch Ratings, Fitch Solutions, Globe Trade Centre

Liquidity Ratio

(EURm)	30 June 2022
Fitch available cash	428
+ Undrawn portion of committed facility	620
+ Expected free cash flow[a]	-182
+ Uncommitted capex/developments[b]	-
-/+ Analyst adjustments	-
Total sources	**867**
(12-month debt maturities)	-9
Total uses	**-9**
Fitch's liquidity ratio (x)	**101**

[a] Including all the capex (committed and uncommitted)
[b] Add back the uncommitted capex
Source: Fitch Ratings, Fitch Solutions, Globe Trade Centre

Key Assumptions

Fitch's Key Assumptions within our Rating Case for the Issuer

- Rent changes arising from acquisitions, disposals or developments coming on stream annualised rather than accounted on a part-year basis
- Like-for-like rent increase of 3% in 2022 and 2% increase in 2023, reflecting partial forfeiture of inflation-linked rent indexation and a mix of rental levels upon lease renewals; rent increases of 1% a year in 2024 and 2025
- Around EUR50 million of net acquisitions spending in 2022
- Over EUR820 million of capex between 2022 and 2025, including EUR40 million a year spent on non-income-yielding reinvestments
- EUR241 million cash dividend in 2022 and 90% of FFO in a given year thereafter

Financial Data

NEPI Rockcastle N.V.

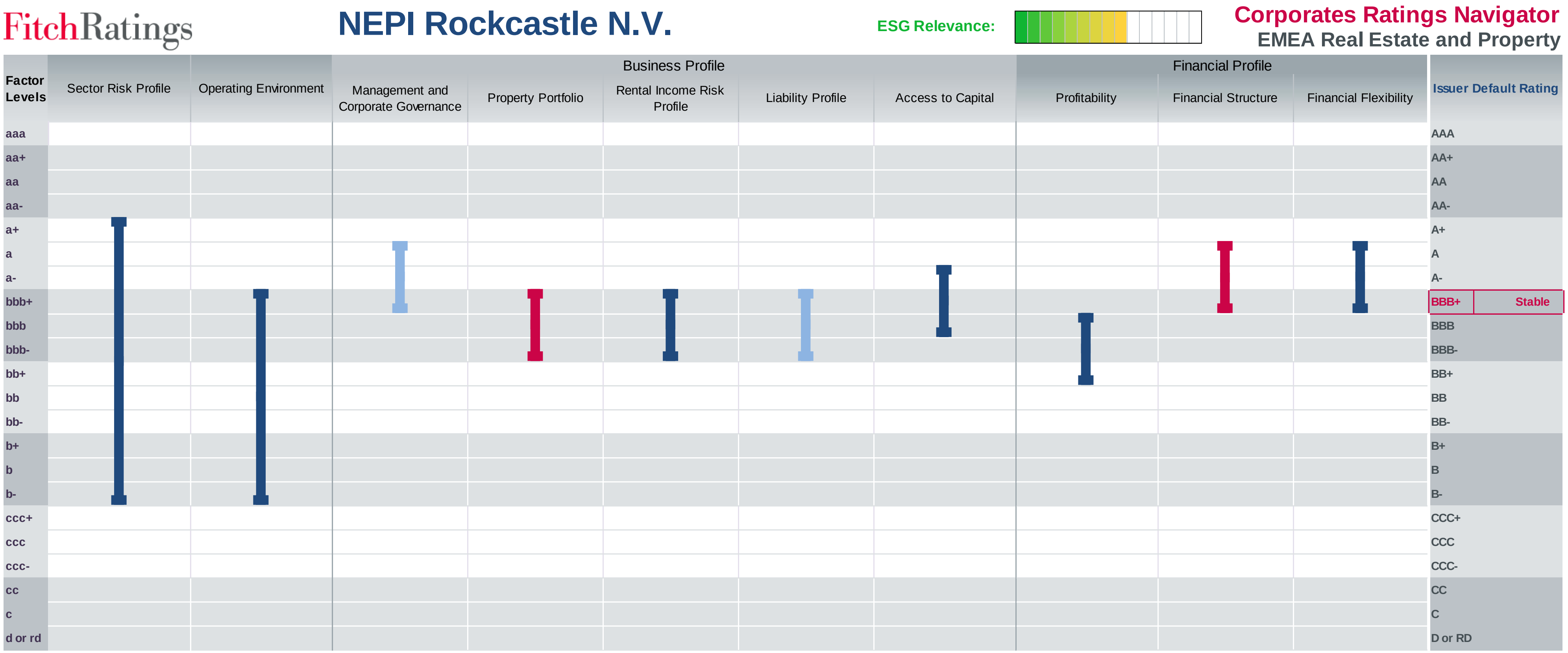
	Historical			Fitch Forecast		
(EURm)	Dec 19	Dec 20	Dec 21	Dec 22F	Dec 23F	Dec 24F
Summary income statement						
Gross revenue	407	380	369	414	435	452
Revenue growth (%)	16.3	-6.7	-2.7	12.0	5.2	3.7
EBITDA (before income from associates)	373	302	322	371	392	407
EBITDA margin (%)	91.6	79.5	87.1	89.7	89.9	90.0
EBITDAR	373	302	322	371	392	407
EBITDAR margin (%)	91.6	79.5	87.1	89.7	89.9	90.0
EBIT	373	302	322	371	392	407
EBIT margin (%)	91.6	79.4	87.1	89.7	89.9	90.0
Gross interest expense	-52	-58	-59	-56	-57	-70
Pretax income (including associate income/loss)	459	-203	262	315	334	336
Summary balance sheet						
Readily available cash and equivalents	208	640	479	276	151	68
Debt	2,293	2,488	2,311	2,298	2,383	2,468
Lease-adjusted net debt	2,293	2,488	2,311	2,298	2,383	2,468
Net debt	2,085	1,848	1,832	2,022	2,232	2,401
Summary cash flow statement						
EBITDA	373	302	322	371	392	407
Cash interest paid	-47	-50	-56	-56	-57	-70
Cash tax	-12	-7	-6	-24	-33	-35
Dividends received less dividends paid to minorities (inflow/(out)flow)	0	0	0	0	0	0
Other items before FFO	4	-4	-3	0	0	0
Funds flow from operations	320	242	258	291	301	301
FFO margin (%)	78.5	63.6	70.0	70.3	69.2	66.6
Change in working capital	2	-6	-1	0	0	0
Cash flow from operations (Fitch defined)	321	236	258	291	301	301
Total non-operating/nonrecurring cash flow	0	0	0			
Capex	-284	-125	-71			
Capital intensity (capex/revenue) (%)	69.7	32.8	19.3			
Common dividends	-162	-151	-210			
Free cash flow	-124	-39	-24			
Net acquisitions and divestitures	36	298	58			
Other investing and financing cash flow items	52	79	0	0	28	0
Net debt proceeds	159	176	-177	-13	84	86
Net equity proceeds	-4	-79	-2	-10	0	0
Total change in cash	119	434	-145	-203	-125	-83
Leverage ratios (x)						
EBITDA net leverage	5.6	6.1	5.7	5.4	5.7	5.9
EBITDAR leverage	6.1	8.2	7.2	6.2	6.1	6.1
EBITDAR net leverage)	5.6	6.1	5.7	5.4	5.7	5.9
EBITDA leverage	6.1	8.2	7.2	6.2	6.1	6.1
FFO leverage	6.3	8.6	7.4	6.6	6.7	6.6
FFO net leverage	5.7	6.4	5.9	5.8	6.2	6.5
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-410	22	-223	-468	-539	-470
Free cash flow after acquisitions and divestitures	-89	258	35	-178	-238	-169
Free cash flow margin (after net acquisitions) (%)	-21.7	68.0	9.3	-43.0	-54.7	-37.4
Coverage ratios (x)						
FFO interest coverage	7.7	5.8	5.6	6.2	6.3	5.3
FFO fixed charge coverage)	7.7	5.8	5.6	6.2	6.3	5.3
EBITDAR fixed charge coverage	7.9	6.0	5.7	6.6	6.9	5.8
EBITDA interest coverage	7.9	6.0	5.7	6.6	6.9	5.8
Additional metrics (%)						
CFO-capex/debt	1.6	4.5	8.1	4.9	1.6	4.1
CFO-capex/net debt	1.8	6.0	10.2	5.5	1.7	4.2

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	
Bar Colours = Relative Importance		⇧	Positive
■	Higher Importance	⇩	Negative
■	Average Importance	⇳	Evolving
■	Lower Importance	☐	Stable

FitchRatings

NEPI Rockcastle plc

Corporates Ratings Navigator
EMEA Real Estate and Property

Operating Environment

	Sub-Factor		Description
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

	Sub-Factor		Description
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

	Sub-Factor		Description
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

	Sub-Factor		Description
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+			

Liability Profile

	Sub-Factor		Description
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

	Sub-Factor		Description
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

	Sub-Factor		Description
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

	Sub-Factor		Description
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

	Sub-Factor		Description
a+	Financial Discipline	a	Clear commitment to maintaining a conservative policy with only modest deviations allowed.
a	Liquidity Coverage	a	1.25x
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.

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
not a rating driver	5	issues	1

Environmental (E)

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

E Scale: 5, 4, 3, 2, 1

Social (S)

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

S Scale: 5, 4, 3, 2, 1

Governance (G)

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

G Scale: 5, 4, 3, 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.

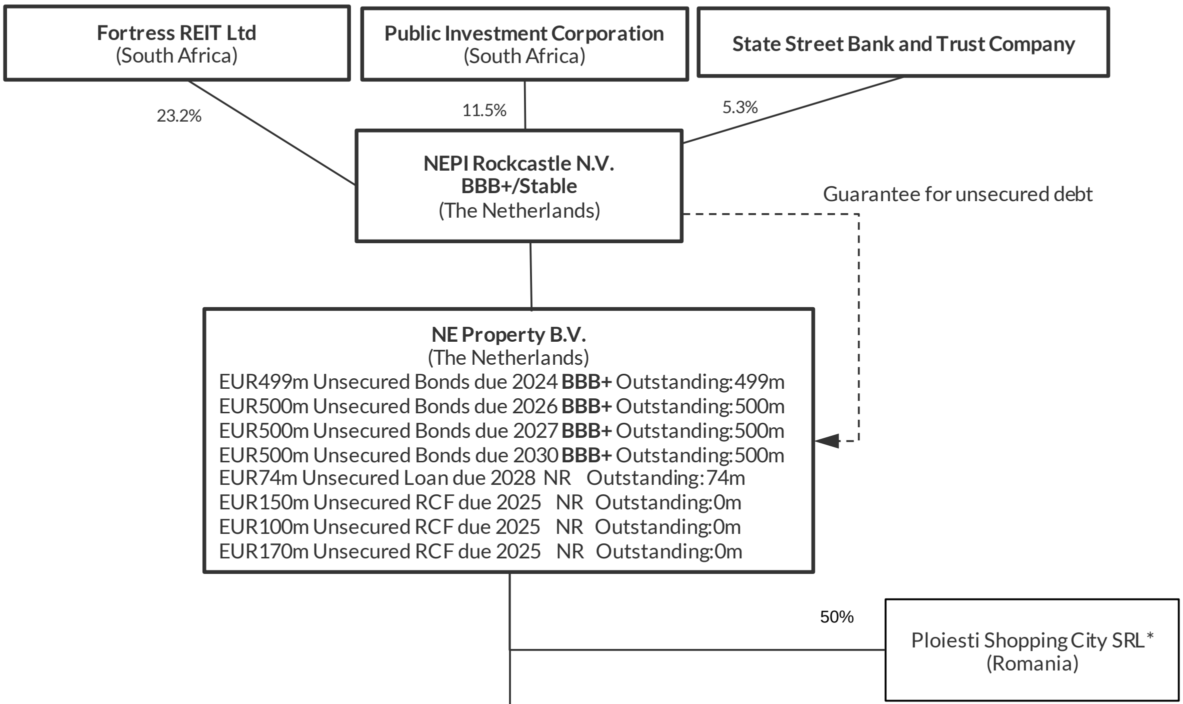
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

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



PropCo's in:

in EUR'm	Romania	Poland	Hungary	Slovakia	Bulgaria	Croatia	Czech Rep.	Lithuania	Serbia	Total:
Income-producing assets:	2,034	1,385	587	517	478	264	176	146	129	5,716
Secured TL (Outstanding):	0	76	0	114	0	0	40	0	0	230

Ownership as at 30 June 2022, 100% unless stated otherwise.
Assets and debt as at 1H22, * At 1H22 JV held a shopping centre valued EUR111 million and an EUR18 million loan secured on the asset (at 100%). In September NEPI acquired remaining 50% of shares in the JV.
Source: Fitch Ratings, company

Peer Financial Summary

Company	Issuer default Rating	Financial statement date	Gross revenue (EURm)	EBITDA margin (%)	EBITDA net leverage (x)	EBITDA interest coverage (x)
NEPI Rockcastle N.V.	BBB+					
	BBB+	2021	369	87.1	5.7	5.7
	BBB	2020	380	79.5	6.1	6.0
	BBB	2019	407	91.6	5.6	7.9
Globalworth Real Estate Investments Limited	BBB-					
	BBB-	2021	150	85.0	9.6	2.9
	BBB-	2020	160	85.7	8.2	3.4
	BBB-	2019	152	83.7	9.0	3.0
Globe Trade Centre S.A.	BBB-					
	BBB-	2021	130	84.7	12.2	3.6
		2020	121	85.5	9.7	3.4
		2019	128	85.4	9.5	3.8
AKROPOLIS GROUP, UAB	BB+					
	BB+	2021	53	96.2	7.1	16.8
		2020	56	97.3	4.4	15.5
		2019	52	97.9	5.0	16.9
MAS PLC	BB					
	BB	2022	42	120.8	5.6	3.3
	BB	2021	52	92.7	2.5	5.9
		2020	62	98.4	6.9	5.0

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

(EUR Millions)	Notes and Formulas	Reported Values	Sum of Adjustments	CORP- Lease Treatment	Other Adjustments	Adjusted Values
31/12/2021						
Income Statement Summary						
Revenue		369				369
EBITDAR		323	-1	-1	-0	322
EBITDAR After Associates and Minorities	(a)	323	-1	-1	-0	322
Lease Expense	(b)	0				0
EBITDA	(c)	323	-1	-1	-0	322
EBITDA After Associates and Minorities	(d) = (a-b)	323	-1	-1	-0	322
EBIT	(e)	322	-1	-1	-0	322
Debt and Cash Summary						
Other Off-Balance-Sheet Debt	(f)	0				0
Debt[b]	(g)	2,302	10		10	2,311
Lease-Equivalent Debt	(h)	0				0
Lease-Adjusted Debt	(i) = (g+h)	2,302	10		10	2,311
Readily Available Cash and Equivalents	(j)	499	-20		-0	479
Not Readily Available Cash and Equivalents		0	20			20
Cash Flow Summary						
EBITDA After Associates and Minorities	(d) = (a-b)	323	-1	-1	-0	322
Preferred Dividends (Paid)	(k)	0				0
Interest Received	(l)	2				2
Interest (Paid)	(m)	-57	1	1	0	-56
Cash Tax (Paid)		-6				-6
Other Items Before FFO		-3				-3
Funds from Operations (FFO)	(n)	259	-0	-0	-0	258
Change in Working Capital (Fitch-Defined)		-1				-1
Cash Flow from Operations (CFO)	(o)	258	-0	-0	-0	258
Non-Operating/Nonrecurring Cash Flow		0				0
Capital (Expenditures)	(p)	-71				-71
Common Dividends (Paid)		-210				-210
Free Cash Flow (FCF)		-24	-0	-0	-0	-24
Gross Leverage (x)						
EBITDAR Leverage[a]	(i/a)	7.1				7.2
FFO Adjusted Leverage	(i/(n-m-l-k+b))	7.3				7.4
FFO Leverage	(i-h)/(n-m-l-k)	7.3				7.4
EBITDA Leverage[a]	(i-h)/d	7.1				7.2
(CFO-Capex)/Debt (%)	(o+p)/(i-h)	8.1%				8.1%
Net Leverage (x)						
EBITDAR Leverage[a]	(i-j)/a	5.6				5.7
FFO Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	5.7				5.9
FFO Net Leverage	(i-h-j)/(n-m-l-k)	5.7				5.9
EBITDA Net Leverage[a]	(i-h-j)/d	5.6				5.7
(CFO-Capex)/Debt (%)	(o+p)/(i-h-j)	10.4%				10.2%
Coverage (x)						
EBITDAR Fixed Charge Coverage[a]	a/(-m+b)	5.7				5.7
EBITDA Interest Coverage[a]	d/(-m)	5.7				5.7
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	5.5				5.6
FFO Interest Coverage	(n-l-m-k)/(-m-k)	5.5				5.6

[a] EBITDA/R after dividends to associates and minorities
[b] Includes Other Off Balance Sheet Debt.
Source: Fitch Ratings, Fitch Solutions, NEPI Rockcastle N.V. nepi.

Covenant Summary

The unsecured bonds include the following financial covenants (aligned with revolving credit facility facilities and unsecured International Finance Corporation term loan):

- Solvency ratio at a maximum of 60% (1H22 actual: 38%)
- Consolidated coverage ratio at a minimum of 2.0x (1H22 actual: 4.8x)
- Unsecured ratio at minimum of 150% (1H22 actual: 265%).

The secured term loan agreements include the following covenants:

- Maximum LTV of 60%-70%
- Minimum debt service coverage ratio of 120%-130%

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.