

Tear Sheet:

NEPI Rockcastle N.V.

July 20, 2023

Editor Note

(Editor's note: This article was updated on Aug. 7, 2023, to correct figures in the forecast summary table.)

We expect NEPI's sound operating performance to continue over the next 24 months, underpinned by high indexation and robust occupancy rates. In 2022, NEPI reported like-for-like rental growth of 8.7% and portfolio occupancy of 97.3%, and we expect this positive trend to continue with leases capturing most of inflation and its diversified tenant base reporting strong turnover growth (25% like-for-like growth in first-quarter 2023 versus first-quarter 2022 and 11.7% like-for-like growth in 2022 as compared to 2019). Additionally, NEPI's exposure to several Central European markets helps alleviate exposure to potential single-country risks, providing further rental growth stability.

In our view, NEPI's asset values will be less affected by rising interest rates than the overall real estate industry, given their existing high yields and strong cash flow generation. We conservatively assume cumulative asset declines of around 4% over the next 24 months. This is because we believe the high yield (6.8% EPRA net initial yield end of 2022) and robust rental income growth should moderate the impact of rising yields on valuations. Moreover, the absence of material planned acquisitions and the use of scrip dividend should limit any effect of asset devaluations on S&P Global Ratings-adjusted debt to debt plus equity, which we expect to remain below the 40% downside threshold over 2023-2025 (38% as of Dec. 31, 2022).

Despite rising cost of debt, we forecast NEPI's S&P Global Ratings-adjusted EBITDA-interest-coverage to remain consistent with current rating level. We expect this ratio to deteriorate to 5.5x-6.0x over the next 24 months, from 6.3x at the end of 2022, but remaining well above our 3.8x downside threshold. The company's hedged capital structure and strong EBITDA generation, supported by recent acquisitions, completed development projects, and passed-on inflation, should moderate the impact from the rise in interest rates on EBITDA-Interest-coverage ratio.

Liquidity remains adequate for the next 12 months, supported by strong cash flow generation, existing credit lines, lower dividend payout, and a lack of significant short-term debt maturities. However, we understand that within the next 24 months, part of the existing undrawn credit lines will expire (€200 million in December 2024 and €150 million in January 2025), while its €500 million bonds will become due in November 2024, tightening the existing liquidity headroom. We will therefore closely monitor the company's efforts to secure timely refinancing options and renew expiring credit facilities, over the coming months.

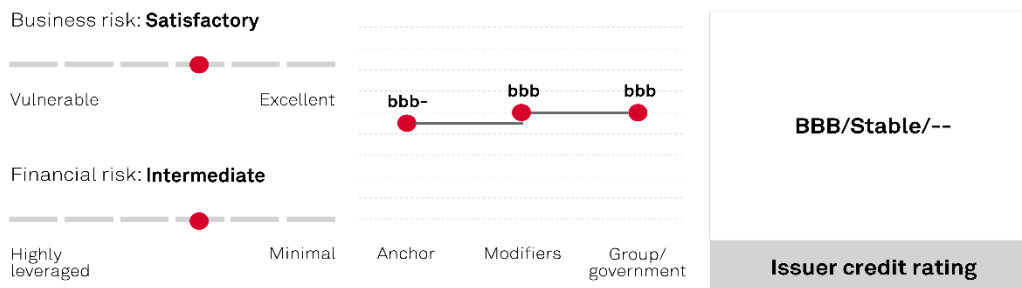
Primary contact

Kathleen Allard
Paris
33-14-420-6657
kathleen.allard
@spglobal.com

Secondary contact

Marie-Aude Vialle
Paris
33-6-15-66-90-56
marie-aude.vialle
@spglobal.com

Ratings Score Snapshot



Company Description

NEPI Rockcastle N.V. is a property 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 was valued at €6.6 billion at the end of December 2022, with a strong focus on retail (95% of the portfolio) and some minor exposure to developments projects (4% of portfolio value) and office and industrial assets (1% combined). It operates in nine countries in CEE, particularly the Romanian and Polish markets (respectively, 36% and 28% of portfolio value), in addition to Hungary (9%), Slovakia (8%), Bulgaria (8%), Croatia (4%), Czech Republic (3%), Serbia (2%), Lithuania (2%).

Outlook

The stable outlook on NEPI reflects our view that the company's operating performance should remain solid over the next 24 months, supported by high indexation. We expect the company to maintain an S&P Global Ratings-adjusted debt to debt plus equity below 40%, with debt to EBITDA and EBITDA interest coverage remaining respectively below 7.5x above 3.8x.

Downside scenario

We could consider taking a negative rating action if:

- NEPI fails to maintain its S&P Global Ratings-adjusted debt to debt plus equity below 40% on a sustained basis, for instance as a result of unexpected asset devaluations;
- Debt to EBITDA rises significantly 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 experiences economic slowdown and its monetary policy flexibility weakens, leading S&P Global Ratings to downgrade the sovereign.

Upside scenario

An upgrade would hinge on NEPI materially improving its portfolio in terms of size and geographic and segment diversification, rendering it more comparable with that of peers with stronger business risk profiles. An upgrade would depend on NEPI's 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 Romania's credit quality remaining robust or a significant dilution of the company's exposure to Romania--to less than 25% of its portfolio--and improving its debt to debt plus equity below 35%.

Key Metrics

NEPI Rockcastle N.V.— S&P Global Ratings Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. EUR)	2019a	2020a	2021a	2022a	2023f	2024f	2025f
Revenue	407	333	352	424	491	520	541
EBITDA (reported)	401	303	287	400	439	465	483
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--
Plus/(less): Other	(27)	0	41	(23)	--	--	--
EBITDA	374	304	328	377	439	465	483
Less: Cash interest paid	(53)	(54)	(60)	(76)	(72)	(78)	(87)
Less: Cash taxes paid	(12)	(7)	(6)	(9)	(17)	(17)	(17)
Plus/(less): Other	--	--	--	--	--	--	--
Funds from operations (FFO)	309	243	262	292	350	371	379
Debt (reported)	2,281	2,463	2,293	2,601	2,590	2,449	2,517
Plus: Lease liabilities debt	32	34	34	37	37	37	37
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--
Less: Accessible cash and liquid investments	(204)	(640)	(499)	(246)	(336)	(100)	(100)
Plus/(less): Other	--	--	9	--	--	--	--
Debt	2,109	1,857	1,837	2,392	2,291	2,386	2,454
Cash and short-term investments (reported)	209	643	499	251	336	100	100
Adjusted ratios							
EBITDA margin (%)	91.9	91.2	93.3	88.9	89.4	89.4	89.4
EBITDA interest coverage (x)	6.5	5.0	5.0	6.3	6.1	6.0	5.5
Debt/EBITDA (x)	5.6	6.1	5.6	6.3	5.2	5.1	5.1
Debt/debt and equity (%)	34.0	33.5	33.1	38.0	36.5	37.6	38.3

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Financial Summary

NEPI Rockcastle N.V.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	234	350	407	333	352	424
EBITDA	206	318	374	304	328	377
Funds from operations (FFO)	175	265	309	243	262	292
Interest expense	30	48	58	61	66	60
Capital expenditure	153	254	278	122	68	139
Cash and short-term investments	196	90	204	640	499	246
Gross available cash	196	90	204	640	499	246
Debt	1,450	2,008	2,109	1,857	1,837	2,392
Common equity	3,915	3,846	4,097	3,692	3,720	3,899
Adjusted ratios						
EBITDA margin (%)	88.2	90.9	91.9	91.2	93.3	88.9
EBITDA interest coverage (x)	6.9	6.6	6.5	5.0	5.0	6.3
Debt/EBITDA (x)	7.0	6.3	5.6	6.1	5.6	6.3

Peer Comparison

NEPI Rockcastle N.V.--Peer Comparisons

	NEPI Rockcastle N.V.	Carmila S.A.	Mercialys	CPI Property Group S.A.	Citycon Oyj
Foreign currency issuer credit rating	BBB/Stable/--	BBB/Stable/A-2	BBB/Stable/A-2	BBB-/Stable/--	BBB-/Stable/A-3
Local currency issuer credit rating	BBB/Stable/--	BBB/Stable/A-2	BBB/Stable/A-2	BBB-/Stable/--	BBB-/Stable/A-3
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2021-12-31	2022-12-31	2022-12-31
Revenue	424	357	163	947	204
EBITDA	377	291	145	525	181
Funds from operations (FFO)	292	230	99	256	101
Interest expense	60.3	66.5	31.8	248.3	67.0
Capital expenditure	139	114	16	340	165
Dividends paid	241.2	143.9	31.5	65.5	96.5

NEPI Rockcastle N.V.--Peer Comparisons

Cash and short-term investments	246	357	257	1,022	63
Debt	2,392	2,250	1,139	11,421	2,132
Equity	3,899	3,507	1,921	8,436	1,924
Valuation of investment property	6,596.1	5,784.9	2,945.1	20,056.1	4,040.1
Adjusted Ratios					
EBITDA margin (%)	88.9	81.5	89.2	55.5	88.7
EBITDA interest coverage (x)	6.3	4.4	4.6	2.1	2.7
Debt/EBITDA (x)	6.3	7.7	7.8	21.7	11.8
Debt/debt and equity (%)	38.0	39.1	37.2	57.5	52.6

Environmental, Social, And Governance

We view NEPI's exposure to environmental, social, and governance (ESG) factors as broadly in line with peers in the industry. As of Dec. 31, 2022, the company's entire portfolio is BREEAM certified as "very good" or "excellent" (excluding strip centers and industrial properties, for which the group does not currently pursue such certifications). 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. NEPI has issued €500 million of unsecured green bonds in January 2022 and all the revolving credit facilities are now linked to ESG performance. NEPI has completed installation of photovoltaic panels in 10 locations across Romanian properties (and other 20 to be installed by the end of 2023), minimizing the carbon footprint, further showing its dedication to increasing its sustainability framework.

Rating Component Scores

Foreign currency issuer credit rating	BBB/Stable/--
Local currency issuer credit rating	BBB/Stable/--
Business risk	Satisfactory
Country risk	Moderately High
Industry risk	Low
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb-
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	Positive (+1 notch)
Stand-alone credit profile	bbb

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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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