RATING ACTION COMMENTARY

Fitch Affirms NEPI Rockcastle at 'BBB+', Outlook Stable

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Fitch Ratings - Warsaw - 18 Oct 2024: Fitch Ratings has affirmed NEPI Rockcastle N.V.'s (NEPI) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB+'. The Outlook on the IDR is Stable. Fitch has also affirmed the senior unsecured rating of the bonds issued by NE Property B.V., which are guaranteed by NEPI, at 'BBB+'.

The affirmation reflects the continued solid operating performance of NEPI's retail assets, which benefit from consumers' spending growth and skillful internal asset management. The portfolio has high occupancy, growing tenants' sales and a stable occupancy cost ratio.

The ratings also reflect NEPI's net debt/EBITDA leverage, which we expect to remain well below our negative rating sensitivity of 7.0x, despite completed and Fitch-forecast sizable acquisitions. We forecast net interest coverage to remain above 4.5x until end-2027, despite an increase in the group's cost of debt. NEPI procured significant liquidity to fund the 2024 Magnolia Park acquisition and to cover the repayment of the EUR499 million bonds maturing in November 2024.

KEY RATING DRIVERS

Magnolia Acquisition in Poland: In October 2024, NEPI acquired Magnolia Park in Wrocław, a shopping centre with 100,300 sqm of gross leasable area (GLA) valued at EUR373 million and 2024 net operating income (NOI) estimated at EUR25 million. The cash consideration after typical adjustments was EUR353 million. The asset has occupancy of 99%, and the representative tenant line-up including Carrefour, Primark, Zara, H&M, Reserved and a Helios cinema. Magnolia is certified BREEAM 'Excellent'.

Wrocław with a population of over 670,000 people is the third-largest city in Poland. Its unemployment rate is below 2% and its purchasing power exceeds the national average by almost 40%. There is a meaningful competition between shopping centres within the city, but NEPI has experience in asset management and in optimising the performance of its assets. NEPI expects to help Magnolia's NOI to grow to EUR26.9 million in the short term.

Focus on 'Destination' Malls: Magnolia is the biggest asset by GLA and the second-largest by value, after Bonarka City Centre in Kraków (valued at EUR408 million) in NEPI's portfolio. The acquisition is part of NEPI's strategy to focus on dominant, destination shopping centres. The management views this as an important factor to remain attractive to top retail brands, which often concentrate on a lower number of larger retail units located in the most successful shopping centres in their respective catchment areas.

Acquisitions Pipeline: NEPI's management communicated a EUR800 million acquisitions pipeline. Excluding the already-completed Magnolia, over EUR400 million acquisitions spend remains. We include the remaining amount in our forecast for 2025, even though potential transactions are at an initial stage. These will be financed by a mix of new equity and debt, thus maintain moderate leverage.

Exit from Serbia: In October 2024, NEPI completed the disposal of its only asset in Serbia - Promenada Novi Sad with 49,200 sqm GLA. The sales price was EUR177 million compared with the end-2023 valuation of EUR146 million. Promenada (2% of total NEPI's portfolio value) was NEPI's only asset located in a non-EU country, also with a sub-investment-grade sovereign rating.

Stable Leasing Activity: NEPI signed 559 leases in 1H24 (1H23: 534) covering 127,950 sqm or 6% of total GLA (1H23: 123,600 sqm; 6%). The average rental uplift on renewals and re-letting was 3.6% (1H23: 7.5%) on top of indexed passing rents. Given typical lease terms of three-to-five years, the weighted average lease term to earliest-break remained at about three years. The retail vacancies were at low 2.3% (by rent).

Continued NOI Growth: NEPI's reported yoy NOI growth of 13.5% in 1H24 to EUR274 million (1H23: EUR241 million). On a like-for-like basis, excluding the effect of the Promenada Craiova opening and income from photovoltaic plants, NOI growth was 10%. This was helped by 15% growth in Poland (26% of portfolio, by value) and 9% in Romania (38%). The only country where NOI decreased (-1%) was Hungary (9%) where one of NEPI's two properties, Arena Mall is being refurbished and re-tenanted.

Growing Tenants' Sales: In 1H24, the increase in tenants' sales in NEPI's like-for-like portfolio was 8.7% yoy (1H23: 16% yoy). This was due to a growth in average shopping basket value (8.2%), which exceeded inflation. The footfall was almost flat (+1%). The most dynamic sales growth (16.2%) recorded was from tenants in the health & beauty segment

(12% of the portfolio's total tenants' share by sales). Fashion tenants' (41%) recorded a 7.4% increase. Higher tenants' sales helped to maintain the occupancy cost ratio at 12.9%.

Moderate Leverage: Fitch forecasts NEPI's end-2024 net debt/EBITDA at 4.1x (2023: 4.9x) pro-forma for a full-year net rent contribution from the asset rotation and EUR300 million equity increase announced on 18 October. Fitch forecasts net leverage to increase to 5.2x in 2025 due to an assumed net debt-financed acquisition. During 2026-2027, Fitch expects leverage to remain below 5.5x, helped by the rent from the completed Promenada Bucharest extension.

We expect net interest cover to reduce to 4.7x in 2027 from 6.7x in 2023 as existing fixed-rate or hedged debt is refinanced in the current interest-rate environment. The Fitch-calculated end-1H24 loan-to-value ratio was 33%, close to the NEPI-calculated strategic threshold of 35%.

Modest Development Activity: NEPI's key project under construction, scheduled for completion in 4Q26, is the mixed-use extension of Promenada Mall (about 55,000 sqm of new space, of which 66% is pre-leased; total capex of EUR282 million) in Bucharest. NEPI will also spend EUR115 million on photovoltaic projects, mainly in ready-to-build greenfield farms, which, when completed, will provide 80% of the Romanian portfolio's energy consumption.

DERIVATION SUMMARY

NEPI's peers include Globe Trade Centre S.A. (GTC, BB+/Stable) with its EUR2.0 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 EUR2.5 billion. NEPI's country risk exposure is the most similar to GTC's with a presence in eight countries predominantly rated 'BBB+' or below (57% of NEPI's assets' market value).

Globalworth's portfolio is almost equally split between Poland (A-/Stable) and Romania (BBB-/Stable). The smaller (EUR1.0 billion), all-retail portfolio of AKROPOLIS GROUP, UAB (BB+/Stable) is 60% in Lithuania (A/Stable), the rest in Latvia (A-/Positive).

We expect NEPI's net debt/EBITDA to be below 5.5x during 2024-2027. We forecast Globalworth's net leverage to be higher at about 8.5x. GTC's leverage financial profile is weaker than NEPI's and Globalworth's.

NEPI has a net initial yield (NIY; annualised net rents to investment property asset values) of 7.0% (end-1H24). Globalworth's lower NIY of 5.7% at end-2023 reflects 12% vacancy and would otherwise be higher closer to 6.7%. The remaining CEE peers do not disclose directly comparable NIY data. Fitch believes the quality of Globalworth's and GTC's portfolios is broadly similar to that of NEPI.

Akropolis and Serbia-focused Balkans Real Estate B.V. (BB(EXP)/Stable), which has a portfolio spread across retail and office, have conservative financial profiles with net debt/EBITDA forecast at below 4.5x and about 6x, respectively. However, their ratings are constrained by a concentration on a limited number of assets, restricting asset, tenant and geographical diversification.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Rent changes arising from acquisitions, disposals or developments coming on stream are annualised rather than accounted on a part-year basis

- Like-for-like gross rent increase of 1% in 2H24 and over 2% annually during 2025-2027, due to indexation and rental uplifts on renewed leases

- About EUR620 million of net acquisitions in 2024-2025. Acquisition yield at 7%

- Over EUR1.0 billion of development capex between 2024 and 2027, including EUR50 million a year spent on non-income-yielding reinvestments

- EUR300 million equity increase in 2024

- EUR278 million cash dividend in 2024 (after scrip). Cash dividends at 90% of funds from operations during 2025-2027

- New debt at an all-in cost of 4.25%

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

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

- Net interest cover below 2.5x

- A liquidity score below 1.25x on a sustained basis

LIQUIDITY AND DEBT STRUCTURE

Ample Liquidity: At end-1H24, NEPI had EUR660 million of readily available cash (excluding restricted EUR11 million held on the secured loans' related reserve accounts) and access to EUR620 million of available revolving credit facilities (RCFs) and the undrawn portion of the International Finance Corporation loan (EUR58 million). In September 2024, NEPI's liquidity was increased by proceeds from the new EUR500 million 4.25%-coupon unsecured bonds maturing in 2032, the EUR50 million RCF increase and, in October 2024, by about EUR177 million from the Promenada Novi Sad disposal. On 18 October NEPI announced EUR300 million equity increase.

These total cash resources are ample to cover EUR499 million of bonds, which mature in November 2024 and EUR353 million of the Magnolia consideration. The next meaningful debt repayment is scheduled for October 2026 when EUR500 million of bonds mature.

NEPI's debt is predominantly unsecured. At end-1H24, NEPI's unencumbered investment property pool was valued at EUR5.8 billion (84% of total income-producing assets, by value). The group's unencumbered income-producing investment properties/unsecured debt ratio was 2.3x at end-June 2024. We expect that the ratio will remain at a similar level at end-2024.

ISSUER PROFILE

NEPI is a retail-focused property company with an income-producing portfolio of regionally dominant shopping centres spread over nine CEE countries, valued at EUR6.9 billion at end-June 2024.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
NEPI Rockcastle N.V.	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Stable
senior unsecured	LT	BBB+	Affirmed	BBB+

NE Property B.V.

senior unsecured	LT	BBB+	Affirmed	BBB+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 03 Aug 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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NEPI Rockcastle N.V.	EU Issued, UK Endorsed

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