Research Update:

NEPI Rockcastle Outlook Revised To Positive On Sustained Credit Metrics And Solid Performance; Affirmed At 'BBB'

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Primary contact

Teresa Stromberg
Stockholm
46-8-440-5922
teresa.stromberg
@spglobal.com

Secondary contact

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

Additional contact

Manish Kejriwal
Dublin
353-0-1-568-0609
manish.kejriwal
@spglobal.com

Rating Action Overview

- A prudent financial policy has allowed NEPI Rockcastle N.V. (NEPI) to post sustained credit metrics over the past two years while expanding its portfolio. We expect NEPI to maintain strong operating performance over the next 12-24 months, underpinned by solid demand for high-quality retail space in Central and Eastern Europe (CEE).
- We forecast higher capital expenditure (capex) and sustained portfolio growth over the next two-to-three years. Nevertheless, we expect NEPI to maintain its debt-to-EBITDA ratio at about 5.0x-5.5x, EBITDA interest coverage close to 4.0x, and debt to debt plus equity at about 35%-37% over the next 12-24 months, supported by its conservative financial policy. The current base-case ratios therefore remain close to our upside threshold for a 'BBB+' rating.
- We therefore revised our outlook on NEPI to positive from stable and affirmed our 'BBB' long-term issuer credit and issue ratings on the company and on its unsecured debt.
- The positive outlook indicates that we could raise the ratings in the next 12-24 months if NEPI maintains a conservative capital structure with adjusted debt to EBITDA staying close to 5.0x, debt-to-debt-plus-equity close to 35%, and EBITDA interest coverage remaining comfortably above 3.8x.

Rating Action Rationale

Despite an ambitious growth strategy, we expect NEPI to sustain its conservative financial discipline such that its reported loan-to-value (LTV) ratio stays below 35%, which translates into S&P Global Ratings-adjusted* debt to *debt plus equity of about 37%. NEPI supported its 2024 acquisitions and development pipeline with an equity raise of €300 million and scrip dividend of €70 million to maintain its long-term target of a net LTV ratio under 35% (31.2% as of March 31, 2025 and 32.1% at year-end 2024). This translates into S&P Global Ratings-adjusted debt to debt plus equity of 34.6% at year-end 2024 (34.7% in 2023). Considering NEPI's publicly stated growth strategy to continue investing, including in the completion of its project pipeline, we forecast a significant increase of annual capex to €270 million-€280 million in 2025 and €340 million-€360 million in 2026 (compared to €141 million in 2024 and €193 million in 2023). Additionally, we assume €390 million-€400 million in dividend distributions over the next 12-24 months and about 1.0% of fair value adjustments over the same period. This leads us to forecast NEPI's S&P Global Ratings-adjusted debt to EBITDA will be about 5.0x-5.5x and debt to debt plus equity at approximately 35%-37%.

While we expect interest rates to stabilize over the next 12 months, historically issued debt at lower rates will still be refinanced at higher costs, such as the €500 million bond maturing in October 2026. We therefore anticipate the average cost of debt will increase to about 3.5%-4.0% over the next 12-24 months, from 3.2% as of first quarter 2025, and we forecast EBITDA interest coverage to remain at approximately 4.0x-4.5x (4.8x in 2024). The positive outlook therefore reflects our view that NEPI's credit metrics could outperform our base-case scenario over the next 12-24 months and may reach our upside thresholds for 'BBB+' rating.

NEPI expects to expand its retail property portfolio to about €8.1 billion-€8.2 billion in 2025 and €8.5 billion-€8.6 billion by 2026 from €7.9 billion as of first-quarter 2025, enhancing portfolio size and geographical diversification while maintaining solid operational performance. NEPI's portfolio widened to a total property value of €7.9 billion at the end of the first quarter of 2025 (versus €6.8 billion on Jan.1, 2024). We expect the company will continue to invest through opportunistic acquisitions, or by executing on its project portfolio of €788 million of which €250 million was already spent, as per March 31, 2025, representing well below 10% of property portfolio. We anticipate continual solid demand for high-quality retail space in CEE over the next 12-24 months despite challenging macro-economic conditions and political instability.

During the first quarter of 2025, NEPI reported 5.0% like-for-like growth in net operating income (9.2% in 2024) due to indexation as well as asset management initiatives that led to rental uplifts above indexation on new leases and renewals. At the same time, the average standing vacancy rate for the company’s retail portfolio, which represents 99% of its total property holdings, remains very low at 1.7%, in line with the end-2024 figure.

NEPI’s operating performance has stayed robust in recent years, bolstered by a positive portfolio like-for-like fair value adjustment of 2.7% in 2023 and 2.3% in 2024 during a period when the European sector faced yield expansion as well as a challenging investment market, causing most of NEPI's real estate peers to report negative portfolio revaluations. This, in our view, shows the quality of the assets and the company's strong position in the CEE market; we therefore assess NEPI's competitive position as similar to those of other retail landlords such as Carmila and Mercialys, or diversified real estate players, such as Merlin Properties.

We believe NEPI's geographic diversification and the predominance of the euro as the functional currency for revenue generation supports the weighted-average assessment for rating-above-the-sovereign analysis. In 2024, NEPI acquired two Polish assets, increasing its exposure to Poland to 34% from 26% as of Dec. 31, 2024, in terms of gross asset value (GAV). At the same time, we estimate that its Romania exposure will remain at about 35% of the GAV, and about 38% of NEPI's adjusted EBITDA will continue to be generated from operations in Romania. We have therefore reassessed the relevant sovereign rating as the blended weighted average of the main countries that NEPI is exposed to, with an outcome of 'BBB+'. This is two notches above the sovereign rating on Romania (BBB-/Negative/A-3) and one notch above our current rating on NEPI.

Furthermore, NEPI has demonstrated that it can maintain sizable cash reserves in holding company accounts and benefits from a significant share of revenue in hard currency (about

75%, including revenue indexed or pegged to the euro). This is an important credit consideration, since NEPI's consolidated debt is denominated in hard currency. We continue to assess that there can be a maximum two-notch differential between the blended average sovereign (BBB+) and our rating on NEPI, however, our current credit rating (BBB/Positive/--) is one notch below the blended average sovereign credit rating (BBB+). This encompasses our view that the real estate sector is, by nature, significantly exposed to the economies of countries of operations, particularly through reliance on economic growth, employment, and inflation.

NEPI's liquidity remains solid, mainly supported by its large cash balance and undrawn credit lines over the next 12-24 months, despite some material medium-term debt maturities. NEPI has a robust liquidity position, including €670 million of available credit lines maturing beyond 12 months as per the first quarter of 2025, versus about €18 million of debt maturing over the same period. Furthermore, as of June, the company has extended additional lines bringing the total amount to €690 Million. NEPI has an average debt tenor of 3.8 years, indicating some medium-term maturities, including the €500 million senior unsecured bond (coupon: 1.875%) due in October 2026 and the €500 million senior unsecured bond (coupon: 3.375%) due in July 2027. We understand the company plans to address these debt maturities in a timely manner as demonstrated by its late autumn issuances of €500 million in the bond market. Combined with liquidity of close to €1.2 billion in cash and undrawn committed revolving credit facilities (RCFs) maturing beyond 12 months as of March 31, 2025, we recognize that NEPI could fully cover its near-term upcoming maturities; fund its project pipeline, totaling €788 million; and pay dividends in line with management expectations.

Outlook

The positive outlook indicates that we could raise the rating within the next 12 months if NEPI's operating performance remains resilient to external events and the company executes its growth plans, while sustaining its credit metrics in line with a higher rating.

Downside scenario

We could revise our outlook to stable if NEPI fails to achieve and maintain the following ratios:

- S&P Global Ratings-adjusted debt to debt plus equity close to 35%, for instance, as a result of unexpected asset devaluations or a larger debt-funded acquisition than we anticipate in our base case;
- Debt to annualized EBITDA of about 5x, for instance due to debt-financed acquisitions or investments, or materially weaker operating performance than our forecast; or
- S&P Global Ratings-adjusted EBITDA interest coverage below 3.8x.

Upside scenario

We could raise the ratings within the next 12-24 months if NEPI maintains the following ratios:

- S&P Global Ratings-adjusted debt to debt plus equity close to 35%;
- Adjusted debt to EBITDA of about 5.0x; and
- EBITDA interest coverage above 3.8x.

A positive rating action would also depend on NEPI maintaining robust operating performance, the EBITDA margin, its low vacancy rate, and a balanced exposure to several CEE countries.

Company Description

NEPI Rockcastle N.V. is a property company owning shopping centers in the CEE region. The company's property portfolio was valued at €7.9 billion at the end of March 2025, with a strong focus on retail (99% of the portfolio value) and office and industrial assets (1% combined). It operates in eight countries in CEE, particularly the Romanian and Polish markets (35% and 34% of portfolio value, respectively), in addition to Bulgaria (8%), Hungary (7%), Slovakia (7%), Croatia (4%), Czech Republic (3%), and Lithuania (2%).

The company's major shareholders are Public Investment Corporation (16.3%), Fortress Real Estate Investment Limited (15.2%), State Street Bank and Trust Company (7.51%) and JP Morgan (6.02%). It is listed on the Main Board of the Johannesburg Stock Exchange Limited (JSE), Euronext Amsterdam, and A2X.

Our Base-Case Scenario

Assumptions

Assumptions

- We expect real GDP growth in Romania of 1.8% in 2025 and 2.6% in 2026, and in Poland of about 3.1% in 2025 and 2.9% in 2026. We expect consumer price inflation growth of about 4.9% in 2025 and 4.1% in 2026 in Romania and 3.9% in 2024 and 3.3% in 2025 in Poland.
- Like-for-like net rental income growth of 2%-3% in 2025 to benefit from the indexed fixed leases as well as further asset management initiatives, falling to 1%-2% in 2026 because we expect the level of inflation to remain low over our forecast period.
- A sustained high occupancy rate of 97%-98% over the forecast horizon given the company's

ability to maintain low vacancies, with NEPI being a dominant player in the CEE region.

- S&P Global Ratings-adjusted EBITDA margins to remain broadly stable in forthcoming years at

about 90%, in line with average historical levels, as also expected by the company.

- As the yields begin to ease, we assume slight positive revaluations of 1% in the retail portfolio through 2025-2027 amid stable yields (6.98% as per year end 2024) and mostly generated from cash flow growth.
- Development capex of about €190 million-€200 million in 2025, €270 million-€280 million in 2026 and about €100 million-€120 million thereafter, in line with management guidance and the company’s development pipeline, including maintenance capex of about €80 million-€85 million annually.
- We anticipate limited asset rotation over the period of our forecast period.
- Dividends in line with management's guidance. The company is not registered as a real estate investment trust and continues to pay dividends on a higher side of about 90% as its payout ratio. We project dividends on about €390 million for FY2025 and about €400 million for FY2026.
- We have taken into consideration share buyback of about €10 million in 2025 in our base case, in line with management’s plans.

- Average cost of debt to gradually rise to 3.5%-4.0% in 2025 from 3.0% in 2024, considering the upcoming maturities to be refinanced at about 5.0%-6.0% in 2025 and 4.5%-5.0% thereafter.

Key metrics

- S&P Global Ratings-adjusted debt to EBITDA of 5.0x-5.5x over the next two years.
- S&P Global Ratings-adjusted EBITDA interest coverage of about 4.0x-4.5x in 2024.
- S&P Global Ratings-adjusted debt to debt plus equity increasing to 36%-37% in 2025 and 2026 from 34.7% at year-end 2023.

Key metrics

Liquidity

We assess NEPI's liquidity as adequate. We anticipate that liquidity sources will likely cover uses by more than 1.2x in the 12 months started April 1, 2025.

Principal liquidity sources

- Available unrestricted cash and cash equivalent of €513 million;
- An RCF of €670 million maturing beyond 12 months; and
- Expected cash funds from operations of about €420 million-€430 million.

Principal liquidity uses

- Contractual debt amortization payments of €18 million and the repayment of outstanding credit lines;
- Expected committed maintenance and committed capex of €230 million-€250 million for the next 12 months including the project development and maintenance capex; and
- A dividend payout in line with management's expectations.

Covenants

Compliance expectations

We understand that NEPI has some covenants for its existing unsecured bond. We estimate that the headroom under these covenants should be adequate at about 15%-30% over the next 12 months.

Requirements

NEPI's main bond covenants are as follows:

- The solvency ratio should not exceed 60% (38% as of March 31, 2025).
- Consolidated coverage ratio (adjusted EBITDA interest coverage) of at least 2.0x (4.9x as of March 31, 2025).
- Unencumbered consolidated total assets to unsecured consolidated total debt of minimum 150% (266% as of March 31, 2025).

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, 2024, 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 RCFs are now linked to ESG performance. NEPI has completed the installation of photovoltaic panels in 27 locations across Romanian properties and one in Lithuania in 2024 (with another 23 to be installed in the remaining countries of operations by the end of 2025). In addition, the company is developing greenfield photovoltaic plants in Romania with significantly more capacity, minimizing the carbon footprint, further showing its dedication to increasing its sustainability framework.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2024, NEPI's capital structure comprised interest-bearing debt of €2.96 billion including a €2.0 billion senior unsecured bond and €974.2 million of secured and unsecured bank loans.

Analytical conclusions

We rate the company's senior unsecured bond 'BBB', in line with the issuer credit rating. This is because we do not see significant subordination risk in the company's capital structure, with secured debt representing less than 5% of total assets, well below our 40% threshold for which we would typically notch the debt rating down from the issuer credit rating.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB/POSITIVE/--
Local currency issuer credit rating	BBB/POSITIVE/--
Business risk	Satisfactory
Country risk	Moderately High Risk
Industry risk	Low Risk
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Retail Landlord NEPI Rockcastle 'BBB' Ratings Affirmed On Robust Operating Performance; Outlook Stable, July 10, 2024

Ratings List

Ratings list		
Ratings Affirmed; Outlook Action		
	To	**From**
NEPI Rockcastle N.V.		
Issuer Credit Rating	BBB/Positive/--	BBB/Stable/--
Ratings Affirmed		
NE Property B.V.		
Senior Unsecured	BBB	