MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Baa3 issuer rating of Citycon OYJ; outlook changed to negative

13 Jun 2022

Stockholm, June 13, 2022 -- Moody's Investors Service ("Moody's") has today affirmed the Baa3 long-term issuer rating and Ba2 junior subordinated rating of Citycon OYJ ("Citycon") and concurrently the backed senior unsecured MTN programme rated (P)Baa3 and the Baa3 rated backed senior unsecured bonds of Citycon Treasury B.V., one of the largest retail property companies in the Nordics. The outlook has been changed to negative from stable.

RATINGS RATIONALE

RATIONALE FOR OUTLOOK CHANGE

The change in outlook to negative reflects credit metrics that are weak point in time for Citycon's Baa3 issuer rating as we enter a phase of more difficult economic conditions. The company's Moody's defined debt assets stood at around 50% (proportionally consolidating Kista) and its fixed charge cover at around 2.5x as of March 2022, which leave the company no headroom to digest pressure on earnings or asset values. We see debt/assets well below 50% and fixed charge cover above 3x as levels more appropriate for its Baa3 rating. We expect the operating environment for Citycon's tenants to increasingly worsen as inflation bites into consumer's spending power. Also, the recent weakness in the credit markets in combination with faster than expected increasing interest rates can over time lead to pressure on Citycon's credit profile.

RATIONALE FOR RATING AFFIRMATION

The affirmation of its ratings takes into account that Citycon has some time to re-build buffers in its credit profile. Inflation will at least for this year support net rental income as the vast majority of its rents are linked CPI-linked and as its Lippulaiva residential development project starts generating income. Also, higher funding costs will only start to materialize from Q4 2024 onwards when the next bond matures. We also take comfort from actions taken during the coronavirus pandemic aimed at strengthening its credit profile, which has improved through hybrid issuances, asset disposals and better operational performance. We believe however that market conditions will worsen to a degree that will require additional measures, such as further asset disposals and proactive debt maturity management, to safeguard an investment-grade like financial profile.

Moody's affirmed the Baa3 long-term issuer rating also because Citycon's operational performance has been well recovering from the pandemic with tenant sales approaching 2019 levels. A low OCR suggests that rents, even when adjusting for inflation, can sustain some increases while vacancies appear manageable. Citycon's performance has also been stronger than most of its European peers where its significant grocery and necessity shopping share (35%). Additionally, Citycon has been able to divest assets during the pandemic, which also demonstrated appetite for shopping centres.

With regards to Gazit - Globe Ltd. ("Gazit") now holding 52% of Citycon shares compared to 49% by end of Q3 last year, we do not believe that the minimal increase in the shareholding since end of last year results in a higher risk to Citycon's credit risk profile as such. However, Gazit is significantly higher levered following the take private of its subsidiary Atrium European Real Estate Limited and in a more challenging operating and investment environment, risks have increased for Citycon to potentially upstream more cash. However, so far Gazit is supporting Citycon's financial policy and has in the past been a supportive shareholder that participated in several equity injections in Citycon.

RATING OUTLOOK

The negative outlook reflects the building challenges from a weakening operating environment as consumers are faced with high inflation biting into spending power. We also caution that rising interest rates and lower economic growth will contribute to a more challenging environment for Citycon at a point where its financial profile position it weakly in the Baa3 rating category.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade

An upgrade could develop in the case of the following:

» a strong and sustainable recovery in like-for-like rental growth, tenant sales and footfall, combined with stable or higher occupancy

» debt/total assets are well below 45%

» fixed-charge cover is sustained above 4.0x

» liquidity improves further

Factors that could lead to a downgrade

Negative rating pressure could develop if inflation and increasing interest rates are negatively affecting household consumption and weakening GDP causes more challenging operating conditions, or if a high level of retailer distress translates into sustained weakened credit quality and occupancy. Other factors that could lead to a downgrade include:

» Moody's-adjusted leverage not moving well below 50%, net debt/EBITDA is not maintained well below 12x or Moody's-adjusted fixed charge coverage is sustained below 3.0x

» Failure to maintain good liquidity

» A sharp and persistent deterioration in local currencies against the euro, which would force the company to heavily discount rents on a long-term basis

» Evidence of increasing cash and/or asset leakage or debt-funded capital distribution from Citycon to its parent Gazit - Globe Ltd.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms Methodology published in July 2021 and available at https://ratings.moodys.com/api/rmc-documents/74168. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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