S&P Global
Ratings

RatingsDirect®

Tear Sheet:

Citycon Oyj

December 19, 2023

S&P Global Ratings expects Citycon Oyj's sound operating performance to continue over the next 24 months due to positive indexation and robust occupancy rates. The company posted like-for-like rental growth of 6.9% over the first nine months of 2023, and portfolio occupancy of 95.6%. We expect this positive trend to continue with most leases capturing high inflation. Both tenant sales and footfall increased over the same period, recording like-for-life growth of 4.1% and 1.9%, respectively. The occupancy cost ratio remained contained at 9.4% at end-September 2023, from 9.1% at end-2022. This should support Citycon tenants' ability and willingness to bear indexation.

We see Citycon's credit metrics remaining within our rating thresholds, although headroom is limited by a potential portfolio devaluation and increasing cost of debt. We assume a negative portfolio revaluation of 5% for 2023 which, along with capital expenditure (capex), dividend payments, and foreign currency losses of €158.9 million on investment properties in the first half of the year, will likely pressure Citycon's debt-to-debt-plus-equity in the absence of disposals. We therefore anticipate debt-to-debt-plus-equity to stand at 54.3% at end-2023, close to our downside threshold of 55% and up from 52.6% at end-2022. We see it falling toward 50% in 2024-2025 as the company delivers on its disposal plan. We assume about €200 million in asset disposals over 2024, and slightly less than €100 million over 2025, although we understand that the company may potentially exceed its initial disposals plan and sell assets of €500 million-€700 million in 2024. Other expenses will include limited annual capex of €20 million-€30 million and €50 million-€70 million in cash dividends over 2024-2025. We also expect the debt to EBITDA ratio to gradually reduce, peaking at 12.0x at end-2023 from 11.8x at end-2022 and decreasing toward 10.0x by 2025 as a result of disposals. Citycon had a weighted average interest rate of 2.5% over the first nine months of 2023 which we expect to increase to about 3.3% in 2025. This would weigh on Citycon's interest coverage, although lower debt from its asset disposal plan will partly offset that. As such, we forecast an EBITDA interest coverage ratio of 2.4x-2.5x over 2023-2024, from 2.7x in 2022.

Citycon's liquidity and funding position remains solid, and we expect asset disposals to improve its weighted average debt maturity over the coming months. At end-September 2023, Citycon had accessible cash of €22.3 million, and undrawn credit facilities of €400 million maturing beyond 12 months, against €105 million of debt maturities over the next 12 months, €39 million in capex spending, and about €100 million in dividend payments (including 50% of the hybrid coupon treated as a dividend). The weighted average maturity stood at 2.6 years at end-September 2023, but increased to 3.0 years at end-November 2023 following the issuance of a Swedish krona 1,020 million fixed green term loan with a maturity of seven years on Nov. 23, 2023. Citycon's next significant maturity is its €310 million Eurobond maturing in October 2024, which we expect it to repay considering its planned asset disposals. We therefore expect Citycon to restore its weighted average debt maturity to comfortably above three years over the coming months, and we will monitor any sustained deviation from that threshold. We also note

Primary contact

Hugo Casteran
Paris
33140752576
hugo.casteran
@spglobal.com

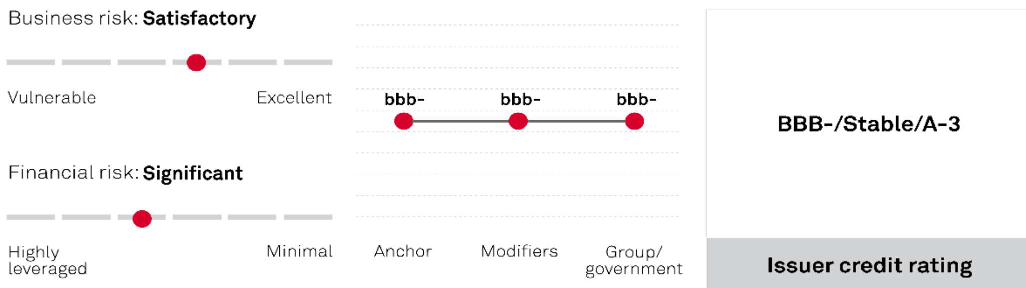
Additional contacts

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

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

that Citycon's €350 million hybrid bond (€299.5 million outstanding following the recent equity replacement) has its first call date in November 2024.

Ratings Score Snapshot

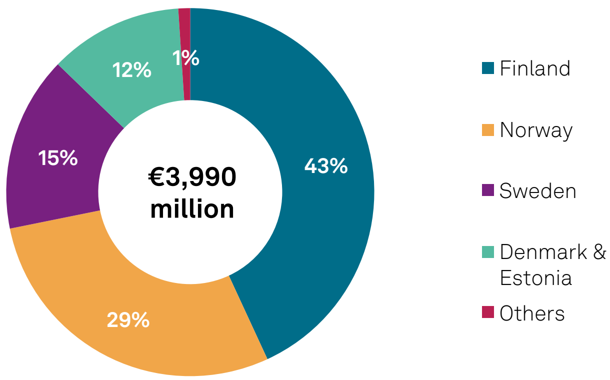


Company Description

Citycon is the owner, developer, and manager of urban grocery store-anchored shopping centers in the Nordic and Baltic regions. It managed assets worth approximately €4.0 billion as of Sept. 30, 2023. Citycon is one of the leading shopping center owners in Finland and among the market leaders in Sweden, Estonia, and Norway. Its shopping centers cater to consumers' daily needs and attract approximately 120 million visitors per year. Citycon is listed on Nasdaq Helsinki. The majority shareholder, G City, and wholly owned subsidiary Gazit Europe Netherlands BV had a 51.3% stake in the company as of Dec. 1, 2023. We still note that the increased stake from G City to above 50% in 2021 was due to the company's share buyback and did not reflect a strategic move from G City to increase its control over Citycon. We do not anticipate an increase in this ownership going forward and we note that it has mechanically slightly decreased by less than 1% through transactions such as the share issue realized by Citycon in November 2023 in relation to its €350 million hybrid bond.

Citycon Oyj--Portfolio value breakdown by geographic location*

As of September 2023



*Excluding KistaGalleria for Sweden. Source: S&P Global Ratings.

Citycon Oyj--Portfolio summary as of September 2023

Total portfolio value (mil. €)	3,990.3
No. of properties	35
Average rent (€ per square meter)	23.8
Rental yield (%)	5.6
Retail occupancy rate (%)	95.6
Weighted average lease term (years)	3.6

Outlook

The stable outlook reflects our view that the company should be able to maintain a debt-to-debt-plus-equity ratio of 50%-55% over the next 12-24 months, after peaking close to 55% in 2023. We also anticipate debt to EBITDA returning to 10x-11x and EBITDA interest coverage to 2.3x-2.4x over that period. Furthermore, we expect Citycon's operating performance to benefit from indexation but to be affected by currency effects and an asset closure in Norway. Consequently, we expect further like-for-like rental growth and sustained occupancy of 95%-96%, despite the more subdued macroeconomic environment. That said, we believe property values could come under pressure and face a devaluation of about 5% in 2023.

Downside scenario

We could lower the rating if the company's credit metrics deteriorate further, with debt-to-debt-plus-equity surpassing 55% or debt to EBITDA increasing beyond 12.5x. This could happen if asset valuations dropped significantly, or the company shifted to a more-aggressive financial leverage policy.

We could also lower the rating if market conditions worsen and Citycon's operating performance is significantly weaker than we expect, or if G City were to actively increase its stake in Citycon and voting rights beyond slightly above 50%.

Upside scenario

We might consider raising the rating if the company's debt-to-debt-plus-equity fell to well below 50%, while our adjusted debt-to-EBITDA ratio reduces sustainably below 9.5x. An upgrade would also hinge on Citycon achieving a sustainable return to positive organic revenue and portfolio value growth, demonstrating stronger-than-anticipated resilience of its business model in the currently challenging retail environment.

Key Metrics

Citycon Oyj--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	2023e	2024f	2025f
Revenue	217	205	202	204	218	224	229
EBITDA	198	185	179	181	191	196	201
Funds from operations (FFO)	132	117	99	101	113	112	95
Interest expense	54	60	67	67	75	82	103
Cash flow from operations (CFO)	131	119	107	80	113	112	97
Capital expenditure (capex)	96	153	209	165	78	46	46
Free operating cash flow (FOCF)	34	(35)	(101)	(85)	35	66	51
Dividends	116	98	97	97	99	97	102
Debt	2,042	2,280	2,207	2,132	2,107	2,038	2,013
Equity	2,150	1,991	2,115	1,924	1,775	1,760	1,758
Adjusted ratios							
Debt/EBITDA (x)	10.3	12.3	12.3	11.8	11.1	10.4	10.0
FFO/debt (%)	6.4	5.1	4.5	4.7	5.3	5.5	4.7
EBITDA interest coverage (x)	3.6	3.1	2.7	2.7	2.5	2.4	2.0
EBITDA margin (%)	90.8	89.9	88.6	88.7	87.5	87.4	87.4
Debt/debt and equity (%)	48.7	53.4	51.1	52.6	54.3	53.7	53.4

Financial Summary

Citycon Oyj--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	229	215	217	205	202	204
EBITDA	214	200	198	185	179	181
Funds from operations (FFO)	141	92	132	117	99	101
Interest expense	63	58	54	60	67	67
Cash interest paid	73	108	65	65	78	74
Operating cash flow (OCF)	151	97	131	119	107	80

Citycon Oyj--Financial Summary

Capital expenditure	150	94	96	153	209	165
Free operating cash flow (FOCF)	2	3	34	(35)	(101)	(85)
Discretionary cash flow (DCF)	(115)	(113)	(82)	(133)	(267)	(184)
Cash and short-term investments	10	4	7	17	27	63
Gross available cash	10	4	7	17	47	63
Debt	2,098	2,177	2,042	2,280	2,207	2,132
Common equity	2,209	2,089	2,150	1,991	2,115	1,924
Adjusted ratios						
EBITDA margin (%)	93.8	93.0	90.8	89.9	88.6	88.7
Return on capital (%)	4.7	4.3	4.3	3.7	4.1	3.8
EBITDA interest coverage (x)	3.4	3.4	3.6	3.1	2.7	2.7
FFO cash interest coverage (x)	2.9	1.9	3.0	2.8	2.3	2.4
Debt/EBITDA (x)	9.8	10.9	10.3	12.3	12.3	11.8
FFO/debt (%)	6.7	4.2	6.4	5.1	4.5	4.7
OCF/debt (%)	7.2	4.5	6.4	5.2	4.9	3.7
FOCF/debt (%)	0.1	0.1	1.7	(1.5)	(4.6)	(4.0)
DCF/debt (%)	(5.5)	(5.2)	(4.0)	(5.8)	(12.1)	(8.6)

Peer Comparison

Citycon Oyj--Peer Comparisons

	Citycon Oyj	Mercialys	NEPI Rockcastle N.V.	Carmila S.A.
Foreign currency issuer credit rating	BBB-/Stable/A-3	BBB/Stable/A-2	BBB/Stable/--	BBB/Stable/A-2
Local currency issuer credit rating	BBB-/Stable/A-3	BBB/Stable/A-2	BBB/Stable/--	BBB/Stable/A-2
Period	RTM	RTM	RTM	RTM
Period ending	2023-09-30	2023-06-30	2023-06-30	2023-06-30
Mil.	EUR	EUR	EUR	EUR
Revenue	196	167	469	363
EBITDA	171	148	424	294
Funds from operations (FFO)	99	120	322	217
Interest	62	16	71	76
Operating cash flow (OCF)	104	97	347	215
Capital expenditure	103	22	165	80
Free operating cash flow (FOCF)	1	75	182	135
Discretionary cash flow (DCF)	(124)	(25)	3	(52)
Cash and short-term investments	22	92	343	692
Debt	2,166	1,111	3,000	2,275
Equity	1,804	1,790	4,130	3,351

Citycon Oyj--Peer Comparisons

EBITDA margin (%)	88.6	88.5	90.5	81.1
Return on capital (%)	3.1	3.8	6.7	5.4
EBITDA interest coverage (x)	2.7	9.3	6.0	3.9
Debt/EBITDA (x)	12.7	7.5	5.4	7.7
FFO/debt (%)	4.6	10.8	14.0	9.6
OCF/debt (%)	4.8	8.8	15.1	9.4
Debt/debt and equity (%)	54.6	38.3	35.8	40.4

Environmental, Social, And Governance

Citycon is positioned in line with peers regarding environmental, social and governance risks. About 67% (as of end of 2022) of Citycon's shopping centers are Building Research Establishment Environmental Assessment Method (BREEAM) certified. This is below its target of 100% with a minimum level of "good" or higher by end-2022 due to the slower-than-expected re-certification process for the Norwegian assets. Going forward, Citycon expects 100% of its assets to be BREEAM in-use certified by year-end 2023 and to achieve "very good" or better by 2026. The company targets carbon neutrality by 2030 by reducing its energy consumption and producing more energy in house. As such, the company aims for all assets to produce renewable or recoverable energy for their own use by 2025, reduce energy consumption per square meter by 10% from 2022 levels by end-2027, and invest approximately 6% of net rental income yearly for value enhancing energy investments. This should help to attract high-quality occupants, since we understand tenants have increased their focus on buildings' sustainability. Citycon continues to develop its shopping centers sustainable aspects, as 100% of new development projects obtain a green building certification with a minimum level of BREEAM "excellent" or equivalent. This compares well with European peers' BREEAM certifications.

In terms of governance, we note that the company's majority shareholder, G City has a 51.3% stake in the company as of Dec. 1, 2023. We consider G City to have a weaker credit profile than Citycon. We continuously monitor the relationship between Citycon and its main shareholder and may view it negatively if G City's ownership of Citycon increases further, particularly if Gazit engages in other measures seeking to increase its control over the company.

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Stable/A-3
Business risk	Satisfactory
Country risk	Very Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
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	Neutral (no impact)
Stand-alone credit profile	bbb-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Bulletin: Equity Replacement of Citycon Oyj's Partial Hybrid Bonds Has No Impact On The Instrument's Equity Content, Dec. 1, 2023

- Industry Top Trends Update | Europe: Real Estate (REITs), July 18, 2023
- Industry Top Trends 2023: Real Estate, Jan. 23, 2023
- Bulletin: Citycon Oyj's Repurchase Of Hybrid Capital Does Not Affect Equity Content Of Remaining Stock, Jan. 10, 2023
- Full Analysis: Citycon Oyj, Dec. 19, 2022