

Rating Action: Moody's affirms Baa3 issuer rating of Citycon OYJ; outlook stable

25 May 2021

Stockholm, May 25, 2021 -- 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 senior unsecured MTN program rated (P)Baa3 and the Baa3 rated senior unsecured bond of Citycon Treasury B.V., one of the largest retail property companies in the Nordics. The outlook has been changed to stable from negative. Additionally, Moody's assigned a Ba2 rating to the proposed perpetual approximately EUR 300 million junior subordinated ("hybrid") notes to be issued by Citycon OYJ.

A full list of affected ratings is provided towards the end of this press release.

"Today's affirmation and change to stable outlook reflects resilience in Citycon's operating metrics even though these have weakened during the pandemic but to a lesser extent than peers. The hybrid bond issuance demonstrates Citycon's willingness to adhere to its financial policy to protect its balance sheet which is credit positive," says Maria Gillholm, Moody's Vice President -- Senior Credit Officer and lead analyst on Citycon.

RATINGS RATIONALE

Moody's affirmed the Baa3 long-term issuer rating and changed the outlook to stable because of Citycon's exposure to Nordic countries that have been less affected by severe lockdown measures compared to many other countries in Europe. In general, shopping centers have remained open with adjusted opening hours. The Swedish and Norwegian governments have put in place relief programs, partially covering fixed costs of tenants that have experienced lower sales in harder hit sectors such as hotels, restaurants and retail. Additionally, we estimate that Citycon has been able to collect an average of close to 95% of rent for each quarter during the pandemic. One key factor supporting outperformance against peers is that Citycon has benefitted from grocery store anchor tenants but also other necessity shopping such as health care, dentists, pharmacies and cosmetics -- accounting for about 35% of net rental income, which has proven to support footfall and tenant sales in its centres. For Q1 2021, tenant sales were resilient, total tenant sales declined modestly -4.7% and footfall declined by -20% but was still significantly stronger than in 2020 when the pandemic hit. On a positive note, valuations slightly increased, supported by strong leasing activity with rental growth and successful divestment of non-core assets with a pricing close to book value.

Citycon OYJ's (Citycon) Baa3 long-term issuer rating primarily reflects: 1) the company's focus on necessity-driven retail, services and entertainment; 2) the larger part (54% of sales) is retail properties in strong and growing suburban metropolitan areas with attractive multiple forms of public transportation; 3) the geographic diversification of its property portfolio across highly rated countries including Finland, Norway and Sweden; 4) top three market positions and franchise value in the Nordics shopping centre market; 5) high unencumbered asset base and a diverse funding mix and consistently high occupancy above 95% and 6) the dominant shareholder that has participated in several equity injections.

The rating is mainly constrained by: 1) weaker than expected like-for like rental income, growth in tenant sales and footfall due to the pandemic; 2) a notable share (30% of sales) of the portfolio displayed decreasing sales over the last years; 3) structural risks, including a high density of shopping centres and high competition; 4) currently high leverage of 50.7% in terms of gross debt/assets (goodwill deducted from total assets) and net debt to EBITDA at 12.6x. These ratios will improve because of approximately €300 million hybrid issuance to around 47% (proportionally consolidating the 50% stake in the Kista Galleria shopping center this ratio will be 48.6%) for the full year 2021. and 5) The hybrid will contribute to lower EBITDA interest coverage of 2.6x from 2.9x from LTM March 2021. The notes have equity-like features to allow them to receive basket "C" treatment, i.e. 50% equity and 50% debt for financial leverage purposes.

RATING OUTLOOK

The stable outlook is driven by our expectation that Citycon will continue to improve its operating performance in like-for-like rental growth, tenant sales, footfall and maintain occupancy. This, in combination with further expected asset disposal proceeds and the planned issuance of the hybrid notes will enable Citycon to maintain

an effective leverage below 50% and create a buffer against future potential negative fair value changes. Still, the high density of shopping centres, especially in Norway but also in Sweden and Finland, increased competition and e-commerce penetration represent structural risks for Citycon.

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

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

Negative rating pressure could develop if there is another widespread business disruption, 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 sustained above 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

LIST OF AFFECTED RATINGS

Assignments:

..Issuer: Citycon OYJ

....Junior Subordinated, Assigned Ba2

Affirmations:

..Issuer: Citycon OYJ

....LT Issuer Rating, Affirmed Baa3

....Junior Subordinate, Affirmed Ba2

..Issuer: Citycon Treasury B.V.

....BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa3

....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

Outlook Actions:

..Issuer: Citycon OYJ

....Outlook, changed to Stable from Negative

..Issuer: Citycon Treasury B.V.

....Outlook, changed to Stable from Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1095505. Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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