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Bulletin:

Citycon Oyj Can Absorb Broader COVID-19-Related Disruption And Announced €150 Million Tap Further Improves Liquidity

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STOCKHOLM (S&P Global Ratings) June 3, 2020--S&P Global Ratings said today that Citycon Oyj can absorb its announced €150 million tap issuance, maturing in 2024, and maintains some ratings headroom despite challenging retail property market conditions in Europe.

We understand the proceeds from the bond issuance will be used to refinance the upcoming debt maturity and hence will not adversely affect leverage. Our 'BBB-' issue rating on the company's senior unsecured debt remains unchanged and in line with our 'BBB-' long-term issuer credit rating on Citycon, since we see limited subordination risk related to the secured debt.

In our view, the impact of COVID-19 on Citycon's business model and credit metrics should be more moderate than for some of its retail peers in Europe. The negative outlook is unchanged, reflecting Citycon's relatively high leverage and challenging conditions in the retail sector in the Nordics amplified by COVID-19.

We believe Citycon remains solid from a liquidity and funding perspective over the next 12-24 months. The company's debt repayments for 2020 total €342 million and are mainly related to commercial paper and a term loan in conjunction with the Norwegian portfolio acquired in the first quarter. We understand the company intends to roll over existing maturities and refinance the bank debt but, should challenging market conditions persist, it has an adequate €122 million of cash and cash equivalents and €350 million available under its committed undrawn back up facility as of first-quarter 2020. In addition, Citycon does not face any significant maturity in 2021 other than €150 million of bank debt. Therefore, we see limited rating pressure stemming from the company's current liquidity position.

At this stage, Citycon's credit metrics have some headroom within the range commensurate with the current rating. However, we acknowledge the challenging market conditions related to COVID-19, as well as increasing e-commerce usage and changes in consumer behavior. Our adjusted ratio of debt to debt plus equity in first-quarter 2020 was 51.6%, and the adjusted loan-to-value (LTV) ratio of 45.7% is just above Citycon's publically stated target of 40%-45%. Debt increased as of March 2020, compared with December 2019 (48.7%), as a result of the Norwegian assets acquisition and the leverage metric remains below our target threshold of 55% for the current rating. Our negative outlook still reflects that the financial risk profile may weaken toward the low end of significant over the next 12-24 months on the back of ongoing soft trading conditions, increasing yields in the Nordic retail sector, and uncertainties regarding planned asset disposals because transaction volumes have decreased considerably in the Nordics this year.

Therefore, we view positively Citycon's efforts to strengthen its balance sheet and preserve cash with its recent announcement of a dividend cut. The cut corresponds to dividend decreases of 17% and 23% in 2020 and 2021 and we believe it has created some additional credit metrics headroom.

Currently all of Citycon's shopping centers remain open and 92% of tenants are operating their businesses without any restrictions. We recognize that the COVID-19 pandemic has had a less severe effect on the Nordic region's retail property sector compared with the rest of Europe, given less strict social-distancing measures and very supportive government initiatives. Rent collection in particular has been maintained at a higher level compared with European peers. In April, Citycon's rent collection stood at 75%--65% in cash and an additional 10% expected from a government program, under which rent reductions can be partially refunded. Footfall levels have also now recovered to 82% of 2019 figures.

This report does not constitute a rating action.