

Research Update:

# Czech Republic-Based Logistics Real Estate Company CTP B.V. Assigned 'BBB-' Rating; Outlook Stable

September 30, 2020

## Rating Action Overview

- CTP B.V. is the fifth-largest logistics property company in Europe and the largest in Central and Eastern Europe (CEE), based on gross leasable area of 5.8 million square meters (sq m) as of June 30, 2020. Its operations are focused on the top-five CEE countries (Czech Republic, Romania, Poland, Hungary, and Slovakia), where it enjoys strong market share.
- We expect demand for CTP's properties to remain high, supported by the company's good asset quality and increasing e-commerce tailwinds.
- The company intends to move gradually toward an unsecured capital structure, and issued its inaugural €650 million 2.125% unsecured bond on Sept. 24, 2020. Part of the proceeds will be used to refinance existing secured debt.
- We are assigning our 'BBB-' long-term issuer credit rating to CTP B.V. and our 'BBB-' issue rating to its senior unsecured bond.
- The stable outlook indicates that CTP's portfolio should continue to generate stable rental income over the next 12-24 months, thanks to robust demand for industrial and logistics assets. We forecast that CTP's S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio should improve below 55%, debt to EBITDA close to 12.0x, and EBITDA interest coverage will stay above 3.0x in the next 12-24 months.

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## Rating Action Rationale

**CTP B.V. is the fifth-largest logistics property company in Europe based on gross leasable area, with a strong market share in Central and Eastern Europe (CEE), and operations are based mainly in Czech Republic and Romania.** The rating reflects CTP's leading market position in five CEE countries, with a market share of about 35%-40% in most of those countries (based on last-12-months take-up, according to CBRE data). CTP's portfolio, worth €5.5 billion as of June 30, 2020, mainly comprises 96 business parks (approximately 320 assets). The company's strategy is

to continue developing modern logistics assets in CEE markets with a focus on key gateway cities, to expand its portfolio to about €7.0 billion over the next two years.

In our view, CTP has a good-quality portfolio. It largely consists of modern grade A logistics assets with an average age of less than 10 years, and a relatively large asset size (averaging about 20,000 sq m). This compares well with other rated players in Europe, such as Prologis European Logistics Fund (PELF; A-/Stable/A-2) and Goodman European Partnership (GEP; BBB+/Negative/--), which have an average asset age of about eight and 12 years respectively; and, in the case of PELF, a similar average asset size. The majority of CTP's assets are located in capital cities, close to motorways or major transport hubs, ensuring easy accessibility and to some extent supporting last-mile deliveries. About 75% of assets are green certified (BREEAM certified at very good or excellent), with a target of 100% by the end of 2020. The company also aims to become carbon neutral by 2023, demonstrating a high commitment toward sustainability. We note that certification levels of CTP's portfolio currently compare better to other European logistics peers, although we understand most of the peers have also started incorporating sustainability into their portfolios.

On the other hand, our assessment of CTP takes into account the lack of pan-European diversification and the smaller size of the company's portfolio when compared with higher-rated logistics players, such as Logisor (BBB/Stable/A-2) and PELF. CTP has high exposure to CEE countries (Czech Republic 66%, Romania 16%, Hungary 9%, Slovakia 7%, Poland, and Serbia, based on gross rental income [GRI]), which we believe are somewhat more volatile than Western European countries such as France or Germany. We believe supply can increase quickly in Poland and Romania due to low barriers to entry and easy building permits; however, CTP is more concentrated on the Czech market, which in our view is less volatile than other CEE markets, due to better economic and market fundamentals and a complex building permit process that, to some extent, restricts the real estate assets supply.

**We expect demand for CTP's properties to remain high, supported by the company's good asset quality and increasing e-commerce tailwinds.** CTP's portfolio mainly comprises logistics assets (about 90% of GRI), a smaller office portfolio (9%), and hotels (1%), primarily located in Czech Republic. While this means it is concentrated on one segment, which has proved more volatile than other real estate segments in the past (it suffered from a sharp fall in values in 2009-2010), we believe demand for logistics assets will continue to be supported by strong structural fundamentals such as urbanization, the rise of e-commerce across CEE, the continuous shift in consumer demand for rapid delivery of goods, and the ongoing reconfiguration of global supply chains. The company enjoys a large and well-diversified tenant base with mostly multinational blue-chip corporates or large third-party logistics (3PL) providers, and no single tenant contributes more than 3% of GRI (the largest tenants contribute about 2.9% of GRI), while the top 10 account for 18% of rent roll. CTP has a high tenant retention rate of about 80%-82%, good average lease duration (about 5.4 years of weighted-average lease terms), and 84% of expansions coming from existing clients, which highlights the company's strong competitive advantage and good relationships with its existing tenants. We believe this compares well with other rated logistics players, in particular those with limited tenant concentration and high loyalty. The company has also managed to collect 97% of rent as of June 2020, with very low default and deferral requests from its tenants, which demonstrates its resilience to the COVID-19 pandemic.

**CTP has a long operational track record with stable operating performance; however, it lacks a formal board structure.** The company has seen stable occupancy of about 95% over the past five years, in line with other rated peers, with an average occupancy of about 94%-96% as of June 2020. We believe that CTP will maintain stable occupancy levels despite its large development

growth focus (it owns an adjacent land bank of 8.5 million sq m), because most of the developments are customer-led development activities, which represent less than 5% of the total gross asset value as of June 2020, and are usually adjacent to existing assets. The properties are rented on market level, with an average monthly rent of €4.9 per sq m, and most of the lease contracts are linked to indexation, in line with the industry standard.

CTP also has a long operational track record, since the company has been operating in the industry for more than 20 years, and the management team has substantial experience of handling logistics assets. We understand that the company does not have a formal board structure in place; therefore, major decisions at the management level are taken mostly by the CEO and CFO. The CEO is CTP's majority shareholder, so the company relies heavily on one single person; however, we understand that CTP is planning to formalize its board structure over the next few years.

**CTP exhibits higher leverage compared with other logistics players, but we expect credit metrics to improve in the next 12-24 months.** Our assessment of CTP's financial risk profile is supported by the sizable and stable recurring cash flow base, thanks to the good operating stability of the property portfolio with relatively long contracts, and stable occupancy. We understand that the company aims to achieve a more prudent financial policy with a net loan-to-value (LTV) of 40%-50% by the end-2021 (versus 51.1% reported LTV as of June 2020, which translates to S&P Global Ratings-adjusted debt to debt plus equity of 57.8% as of June, 30, 2020). However, at this stage, CTP exhibits higher leverage compared with other logistics players. We expect CTP's adjusted debt to debt plus equity to moderately improve from 57.8% as of June 2020, toward about 55% in the next 12-24 months, and adjusted debt to EBITDA to below 12.0x from about 13.5x as of June 2020.

The company's leverage increased recently due to the acquisition of a 50% stake from a former shareholder, who exited the company in 2018. This was partly funded through dividend payment from CTP. We include in our analysis of CTP a €270 million vendor loan (€232.5 million outstanding as of July 2020), which sits at holding level (Multinvest B.V.), because the repayment of loan obligations relies fully on €65 million dividend distributions annually until 2024; and about €40 million of related party loan, which qualifies more like a debt under our credit assessment for the entire group and the treatment of noncommon equity financing in nonfinancial corporate entities.

CTP benefits from a low cost of debt linked to the secured nature of its debt funding, which averages about 2.3% as of June 2020. The company has announced its intention to move toward an unsecured capital structure overtime and issued its inaugural €650 million unsecured bond with a coupon of 2.125% under its €4.0 billion euro medium-term note program. We expect CTP will maintain good coverage ratios, with EBITDA interest coverage of about 3.0x in the next 12-24 months, and that the refinancing will also build a staggered maturity profile, minimizing refinancing risk.

## Outlook

The stable outlook reflects our opinion that CTP's portfolio should continue to generate stable rental income over the next 12-24 months, thanks to robust demand from industrial and logistical assets in most of the company's asset locations. Under our base-case scenario, we forecast a positive like-for-like rental income growth of 1% to 1.5%, and a stable occupancy level of about 95%.

We forecast that CTP's adjusted debt-to-debt-plus-equity ratio should improve below 55%, debt

to EBITDA close to 12.0x, and EBITDA interest coverage will stay above 3.0x in the next 12-24 months.

### **Downside scenario**

We could lower the rating if:

- The company fails to improve its debt-to-debt-plus-equity ratio toward 55%;
- EBITDA interest coverage declines to below 2.4x; or
- Debt to EBITDA remains sustainably above 13x in the next 12-24 months.

This could happen if CTP takes on large debt-financed acquisitions, increases debt at holding level, or if its occupancy levels drop as a result of higher development deliveries, where the company would take longer to lease the properties. We would also take a negative rating action if CTP fails to maintain sufficient liquidity to cover its funding needs in the next 12-24 months.

### **Upside scenario**

We could take a positive rating action if:

- CTP reduces debt to debt plus equity well below 50% over a sustained period; and
- Debt to EBITDA remains below 9.5x, while maintaining good operational performance, such as positive like-for-like rental income, stable occupancy, and positive portfolio value.

## **Company Description**

Established in 1998, CTP is the leading logistics real estate player in CEE. The company mainly develops and leases industrial and logistics assets, with some small exposure to office and hotel assets. The portfolio comprises 96 premium business industrial parks in key logistics hubs of CEE, valued at €5.5 billion as of June 2020, spread across six countries (Czech Republic, Romania, Hungary, Slovakia, Poland, and Serbia). The company is 100% owned by Mr. Remon L. Vos, who is also the CEO.

## **Our Base-Case Scenario**

- Significant GDP decline in CEE of 5.9% in 2020 in light of the COVID-19 pandemic, before rebounding to growth of 4.9% in 2021, with unemployment rising to about 6%-8% over the next two years.
- Slight decline in consumer price index (CPI) growth in CEE of 2.1% in 2020, before rebounding to 2.4% in 2021.
- Like-for-like net rental income growth of about 1% to 1.5% in 2020, mainly because most of the leases are indexed, and there will be low lease maturities in the coming years.
- Occupancy levels to remain about 95% in the coming 12 to 18 months.
- Positive like-for-like increase in the overall portfolio's market valuation of about 3.5% in 2020 and about 3% per year in 2021-2022, mainly on the back of assumed additional cash flow generation and improvement in occupancy from the development portfolio. We do not expect

yield compression for the standing portfolio.

- We understand that the company managed to increase its portfolio historically by about 10%-15% annually. However, we forecast capital expenditure (capex) on new developments of about 5% per year. We also expect the company to realize about €200 million-€220 million of acquisitions in 2020, and €30 million-€40 million in acquisitions per year to secure land banks.
- Steady EBITDA margins of about 75% in the next few years.
- Stable dividends of €65 million each year for next four years.

## **Key metrics**

- A debt-to-debt-plus-equity ratio about 55% over the next 24 months. The company's financial policy is to maintain a loan-to-value ratio of 40%-50% on a long-term basis, which supports our forecast.
- Adjusted debt to EBITDA at 11x-12x over the next two years.
- Adjusted EBITDA interest coverage of about 3x in 2020 and 2021.

## **Liquidity**

We assess liquidity as adequate for CTP, as we expect liquidity sources to uses to exceed 1.2x over the 12 months as of June 30, 2020.

### **Principal liquidity sources:**

- Cash balance of €93.2 million;
- Undrawn development-linked revolving credit facilities (RCFs) of about €190 million;
- Our estimate of cash funds from operations of about €155 million-€165 million; and
- Issuance of unsecured bonds of about €650 million.

### **Principal liquidity uses:**

- Short-term debt repayment of about €475 million-€500 million (including bond issuance debt refinancing);
- Committed capex investment of about €190 million;
- Acquisition of €35 million-€40 million, mainly to acquire land bank for future growth; and
- Dividend payment of about €65 million-€70 million.

The company has extra availability under a development RCF, but this is dedicated to a development pipeline and not available for general corporate purposes. Therefore, we only consider the amount equal to development capex in our liquidity analysis.

## Covenants

The company's borrowings have loan-to-value and debt service coverage ratio covenants, among others. At June 30, 2020, there was no breach of covenant conditions. Bank loans are secured by pledges of shares, real estate, receivables, and cash at bank accounts.

The bond has financial covenants related to a maximum net debt-to-total assets ratio of 60%, secured debt-to-total assets ratio of 40%, a minimum fixed charge coverage ratio of 1.5x, and unencumbered assets to unsecured debt greater than 125%.

We forecast that the company will keep sufficient headroom (greater than 10%) under all of its covenants of the capital structure.

## Issue Ratings - Subordination Risk Analysis

### Capital structure

The group's capital structure comprised about 100% secured debt (mostly bank debt) as of June 30, 2020, and based on the recent transaction, it decreased to about 81% and increased the assets' encumbered status.

### Analytical conclusions

We expect that CTP's exposure to secured debt will decline below 40% of total assets in next 12-24 months (about 40%-42% based on recent bond issuance). As a result, although unsecured debt issuance is structurally subordinated to other debt obligations, the subordination does not affect the rating on the unsecured debt. Therefore, our issue rating is the same level as the issuer credit rating.

## Ratings Score Snapshot

Issuer Credit Rating: BBB-/Stable/--

Business risk: Satisfactory

- Country risk: Intermediate
- Industry risk: Low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)

- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable ratings analysis: Neutral (no impact)

## Related Criteria

- 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: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

## Ratings List

### New Rating

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#### CTP B.V.

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Issuer Credit Rating BBB-/Stable/--

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Senior Unsecured BBB-

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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