Research Update:

Property Company New Immo Holding Downgraded To 'BB' After Same Action On Parent ELO; Outlook Negative

August 5, 2024

Rating Action Overview

- On Aug. 1, 2024, we lowered our ratings on ELO (Auchan Holding), owner of Auchan Retail and New Immo Holding (NIH), on consistently weaker-than-expected results in first-half 2024, the execution risks associated with its transformation plan, and the integration of 98 recently acquired Casino stores in a structurally challenging French retail market.
- That said, we consider the operating performance of real estate subsidiary NIH as integral to ELO's identity and strategy, and this remained solid in the first six months of the year, with positive indexation resulting in a 7.0% increase in rental income and a 4.6% increase in reversion rates despite a tough market for some retailers.
- Additionally, real estate values stabilized with a 0.2% like-for-like increase in asset valuations as of June 30, 2024, which contrasts the -1.5% reported by NIH at year-end 2023. This resulted--together with stable net debt evolution--in a stable lifetime value (LTV) at 39.6% compared to 39.6% at year-end 2023, which corresponds with our S&P Global Ratings-adjusted debt-to-debt-plus-equity of 45.8% and 45.5% respectively.
- We therefore lowered our issuer credit ratings on NIH and our issue ratings on NIH's senior unsecured notes to 'BB' from 'BB+'. We also affirmed the short-term rating on NIH at 'B' and the standalone credit profile (SACP) at 'bbb'.
- The negative outlook reflects the structural deterioration of the group's creditworthiness due to the continuous weakening of retail performance and the increased risks associated with executing the transformational plan. In 2024 we expect NIH's robust operating performance and prudent development strategy to result in an EBITDA interest coverage ratio (ICR) of about 2.8x-3.0x, debt-to-EBITDA of about 8.0x-9.0x, and debt to debt plus equity to revert below our 45% downside SCAP threshold thanks to asset disposals and a more limited portfolio devaluation, although with limited headroom.

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Rating Action Rationale

The rating action on NIH follows that on its parent, ELO. On Aug. 1, 2024, we lowered our long-term rating on ELO to 'BB' from 'BB+'. We continue to view NIH as integral to ELO's identity and future strategy since it is one of the group's three main businesses and contributed about 27% of consolidated EBITDA in 2023 and represented 76% of its €4.6 billion adjusted debt. As a result, we link NIH's creditworthiness to that of its parent, so we also lowered our issuer ratings and issue ratings on NIH to 'BB' from 'BB+', (see "ELO (Auchan Holding) Downgraded To 'BB' On Continued Challenges In Retail; Outlook Negative," published on Aug. 1, 2024, on RatingsDirect). The overall performance of the group, excluding real estate operations, suffered materially in 2023 and in the first half of 2024--especially in France, which represents the group's largest market. Reported EBITDA declined to €339 million--about 37% lower than in the first half of 2023 and more than 50% lower than in 2022 and 2021--marking a continued decline. The group's reported EBITDA margin was 2.1%, compared with 3.5% in first-half 2023, 4.0% in 2022, and 4.7% in 2021. This, together with an increase in net debt, will bring S&P Global Ratings-adjusted leverage (excluding Russia) to 4.6x in 2024 and 4.2x in 2025. Although we forecast leverage could decline below 4.0x by 2026 on the back of the transformation plan, we think the plan's execution risks are elevated given the challenging market conditions and ELO's history of deteriorating market share and profitability.

Robust operating performance, asset valuation stabilization, and prudent capital expenditure (capex) investments and asset disposals anchor NIH's credit metrics and standalone assessment. NIH posted a 7.0% increase in rental income in the first half of 2024 compared to the same period last year, fueled mainly by indexation, higher rental rates on new contracts, and a 4.6% increase in contract renewals. Despite political instability in France and darkening economic growth prospects, Supportive footfall figures increased by 5% compared to the same period last year. This, along with supportive consumption trends, has resulted in a slight improvement in vacancy rates to 5.47% compared to 6.03% at year-end 2023. We remain cautious, however, given that some retailers are struggling, especially in the textile business, which has suffered from changes in consumption trends over the last 12 to 24 months. We expect NIH to generate EBITDA of about €380 million-€400 million in 2024 and 2025. The stable and predictable EBITDA generation supports NIH's capacity to serve its debt interest payments as well partially fund its capex investment program. We therefore expect NIH to maintain an EBITDA interest coverage of about 2.8x-3.0x over the next 12-24 months--above our 2.4x threshold--on the back of resilient EBITDA generation and stabilizing long-term interest rates. Additionally, we understand the company's capex is somewhat flexible and that investments will be funded by internal cash flow generation and asset sales, reducing the recourse to debt funding. The company has signed asset sales of about €300 million in 2024 which should contribute to capex and reduce net debt. Additionally, NIH reported a slightly positive asset revaluation of 0.2% on a like-for-like basis in the first six months of 2024, with cash flow growth more than compensating for the slight increase in capitalization (cap) rates. As a result of visible asset disposal proceeds, internal cash flow generation and expectations of asset valuation stability going forward, we expect debt-to-debt-plus-equity to revert below 45% to about 43%-44% in 2024 from 45.8% as of June 30, 2024, and improving towards 42%-43% in 2025. We also expect debt-to-EBITDA to remain 8.0x-9.0x in 2024, before trending toward 8.0x by 2025.

We remain vigilant of net debt evolution of NIH in the context of severe underperformance of the group's retail evolution. While we understand NIH prioritizes cash flow generation and asset disposals to fund its investments, which results in stable net debt evolution, we also understand that given subdued retail operating performance and negative cash flow generation, the group will increase interaction with NIH with regards to its hypermarket surface restructuring plans. This could result NIH needing to generate more capex since it contributes to restructuring Auchan Retail's perimeter hypermarket surfaces, meaning higher net debt and a potential deviation of credit metrics from our base case.

Outlook

The negative outlook on NIH reflects continuing retail performance weakness, which is resulting in a structural deterioration of the group's creditworthiness. Furthermore, the execution risks relating to the transformational plan pose a downside to our forecasts.

Downside scenario

We could lower the rating of NIH over the next 12 months if ELO continues to underperform our base case due to the continued deterioration of retail operations, higher-than-expected costs from the transformation plan, or the integration of the Casino stores. In particular, we could lower the rating if:

- We see no tangible sign of recovery in France's retail operation performance, such that its EBITDA does not recover from the estimated 2024 level;
- S&P Global Ratings-adjusted leverage approaches 5.0x (excluding Russia); or
- Cash flow deteriorates further, causing unexpected material increases in net debt and hampering the liquidity profile.

Although it would not result in a downgrade, we could lower the 'bbb' SACP on NIH if its ratio of debt to debt plus equity fails to revert below 45%. This could arise due to more substantial capex or additional debt-funded acquisitions, indicating a less prudent financial policy at the subsidiary level and the potential for negative interference from the group. It could also happen with more pronounced devaluations than currently expected, or lower disposals than in our base case. Moreover, we could lower the SACP if the company's EBITDA interest coverage ratio decreases to below 2.4x. This would most likely be because of higher interest rates, higher margins on intragroup financing, or if its debt-to-EBITDA ratio exceeded 11x on a sustained basis.

Upside scenario

We could revise the outlook to stable if there is a tangible improvement in profitability and cash-flow generation of Auchan Retail, such that adjusted leverage (excluding Russia) remains below 4.5x. We think this would be the case if the company successfully turned around its retail operations over the medium term, while shareholder support or disposals keep financing the transformation and maintain a grip on net leverage.

We could revise upward our assessment of NIH's SACP if the company's financial policy becomes more stringent. Such that its debt-to-debt-plus-equity decreases consistently to 35% or lower, while maintaining strong EBITDA interest coverage above 4.0x and debt-to-EBITDA materially below 9.5x. A positive revision would also hinge on NIH outperforming its peers. That said, such a revision of the SACP would not result in an upgrade.

Company Description

New Immo Holding (NIH; formerly named Ceetrus S.A.) is a real estate property owner fully owned by ELO (formerly named Auchan) since 1976. It is one of ELO's three interlocking businesses, alongside Auchan Retail and Oney Bank. NIH operates in 11 countries, owning and managing a portfolio of about €7.2 billion as of June 30, 2024. Out of this, 56% is located in France, 29% in Western Europe, and 15% in Eastern Europe.

Our Base-Case Scenario

Assumptions

- Real GDP growth in the eurozone of 0.7% in 2024, 1.4% in 2025, and 1.4% in 2026. We forecast the consumer price index in the region will continue to slow from 5.4% in 2023 to 2.4% in 2024 and 2.2% in 2025.
- Annual like-for-like rental growth of 2.0%-3.0% in 2024 and 1.0%-2.0% in 2025--driven by inflation since most leases are indexed—partially mitigated by some negative rental reversion. This also includes our assumption of broadly stable occupancy levels of 94%-96%.
- We forecast EBITDA margins will deteriorate slightly in 2024 to 60.0%-61.0% as a result of increasing cost base and increasing client provisioning. We expect the EBITDA margin to remain around 60%-62% in 2025.
- We conservatively assume a drop in portfolio value of up to 2%-3% over the coming 12 to 24 months. Still, we acknowledge that NIH reported the first positive revaluation in fist-half 2024, with a 0.2% like-for-like increase in valuations and small increase in cap rates compensated by cash flow growth. The current high portfolio exit yields of 6.48% in France, 7.41% in Western Europe, and 10.31% in Eastern Europe, as well as stable long-term interest rates should result in a stable cap rate.
- About €300 million of investments in 2024 and a further €300 million per year over 2025-2026 in line with the group's strategy of hypermarket surface restructuring at Auchan Retail and portfolio improvements.
- Disposals of roughly €300 million in 2024 which we understand are close to being realized as of today. We also understand capex amounts would be dependent on the successful disposal of non-core assets.
- No dividend distributions assumed.
- Between 6% and 7% potential refinancing rate.

Key metrics

- Adjusted EBITDA interest coverage ratio deteriorating to 2.8x-3.0x over 2024-2025, because of the persistent high interest rate environment and slightly depressed EBITDA margins.
- Adjusted debt-to-EBITDA ratio of about 8.0x-9.0x in 2024 and trending toward 8.0x by 2025 from 9.1x as of June 30, 2024.

- Adjusted-debt-to-debt-plus-equity ratio of about 43%-44% in 2024, improving to 42%-43% in 2025.

Liquidity

We assess NIH's liquidity as adequate and anticipate liquidity sources will likely cover uses by more than 1.2x over the next 12 months, starting on April 1, 2024. The €700 million committed credit line from its parent entity enhances NIH's ability and capacity to cover its upcoming debt maturities, according to our calculations. Despite a weighted average debt maturity profile of about three years--which compares negatively to peers and just meets our criteria requirement for real estate companies--NIH's core status to ELO group, along with its track record of continuous support through intragroup loans and committed facilities to cover for liquidity needs, supports our assessment.

We also understand the capex amounts will depend on the company's internal cash flow generation and disposals secured to fund the capex investments, reducing the recourse to additional debt funding.

We estimate that NIH's principal liquidity sources over the next 12 months will include:

- Available cash and cash equivalents of €120 million;
- Available committed credit lines of around €788 million (including €700 million committed credit line from ELO); and
- Funds from operations of €180 million-€190 million; and
- About €240 million in asset disposal proceeds, which have been signed.

We calculate the following principal liquidity uses over the same period:

- €239 million of contractual debt maturities, mostly including facilities provided by ELO; and
- Approximately €300 million of capex.

Covenants

NIH's bond and bank financing includes a debt limit (maximum loan-to-value ratio of 50% and maximum senior secured debt ratio of 20%) and a minimum interest coverage ratio of 2x. We expect NIH will maintain sufficient headroom under the covenants.

Issue Ratings - Recovery Analysis

Key analytical factors

- We rate ELO's and NIH's senior unsecured bonds at 'BB' with a recovery rating of '3', indicating our expectation of meaningful (50%-70%; rounded estimated 65%) recovery to creditors in the event of a payment default.
- ELO's consolidated capital structure includes €6.0 billion of debt, of which €0.3 billion is senior secured and the rest--including the rated bonds--is senior unsecured. ELO also has a €1.66 billion revolving credit facility, currently undrawn, which we understand ranks pari passu with

the rest of its senior unsecured debt. Out of ELO's consolidated €6.0 billion of debt, about €0.7 billion is issued by NIH, and the rest by ELO itself.

- The capital structure of NIH--which is fully controlled and consolidated by ELO--includes €3.5 billion of debt, of which €0.7 million of external debt and €2.8 billion is constituted by ELO's intercompany loans. We understand the intercompany loans rank pari passu with NIH's senior unsecured debt, including its €300 million rated notes.
- Our default scenario assumes fierce competition in the French retail market, resulting in additional revenue decline, margin pressure, and negative free operating cash flow generation, putting ELO's liquidity at risk, while pressuring real estate valuation and the ability to execute timely disposals.
- We value Auchan Retail's operations using a multiple of EBITDA at emergence, while we value NIH's real estate assets using a discrete valuation approach based on the third-party appraisal of its portfolio and a discount rate to reflect the uncertainty of that value in 2029 (assumed year of default).
- We assume that NIH's real estate value is available to ELO and its creditors through the reimbursement of intercompany loans and dividends.
- Although the recovery outcome is higher than 65%, we apply an unsecured debt rating cap of '3' due to the unsecured nature of the rated debt, both to ELO's and NIH's bonds. This is because, in line with our criteria, we expect the group may pledge security to raise additional debt or refinance the existing one as its credit quality deteriorates. Additionally, we assume that, on the path to default, NIH would sell its best and most liquid assets to provide liquidity to ELO.
- We understand there are not cross-default or cross-guarantee clauses between ELO and NIH, including in the intercompany loans.

Simulated default assumptions

- Year of default: 2029
- Jurisdiction: France

Simplified waterfall

- Auchan Retail emergence EBITDA: €489 million
- Multiple: 5.0x
- Gross recovery value of Auchan Retail: €2.4 billion
- Discounted value of NIH's real estate assets: €4.4 billion
- Gross recovery value of the group: €6.8 billion
- Net recovery value for waterfall after administration expenses (5%): €6.5 billion
- Estimated NIH's external debt, including the €300 million rated bond: €0.7 billion
- --Recovery range: more than 100% (capped at 65%)
- Estimated ELO's priority and secured debt: €0.3 billion
- Remaining value for ELO's senior unsecured creditors: €5.4 billion

- Estimate ELO's senior unsecured debt at default (excluding NIH): €6.5 billion*
- --Recovery range: 80% (capped at 65%)

*All debt amounts include six months of prepetition interest. We assume that 8% of all RCFs will be drawn at the point of default.

Ratings Score Snapshot

Issuer Credit Rating	BB/Negative/B
Business risk:	Satisfactory
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Moderately negative (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb
Group credit profile	bb
Entity status within group	Core (-3 notches)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- ELO (Auchan Holding) Downgraded To 'BB' On Continued Challenges In Retail; Outlook Negative, Aug. 1, 2024)

Ratings List

Downgraded; Outlook Action

	To	From
New Immo Holding S.A.		
Issuer Credit Rating	BB/Negative/B	BB+/Stable/B
Senior Unsecured	**BB**	**BB+**
Recovery Rating	3(65%)	3(65%)

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.