

Maalot

S&P Global Ratings

Brack Capital Properties N.V.

October 14, 2021

Rating update

Including the Company's ratings in the credit watch with negative consequences following the weakening of the Group's credit quality and adding the ratings of the parent company and the controlling shareholder to the credit watch with negative consequences.

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Rating update

Including the Company's ratings in the credit watch with negative consequences following the weakening of the Group's credit quality and adding the ratings of the parent company and the controlling shareholder to the credit watch with negative consequences.

Rating activity summary

- On October 11, 2021, S&P Global Ratings lowered the ratings of the parent company of Brack Capital Properties N.V. ("Brack Capital" or "the Company"), Adler Real Estate AG (the parent company) and the Company's controlling shareholder, Adler Group SA (the controlling shareholder) to B+ and placed them on the watch list with negative consequences.
- At this stage, we estimate that there is some isolation between the Company's rating and the credit quality of the other Group companies, among other things, in view of the existing protections under Israeli law for minority shareholders and because, as we understand the management's words, there will be no change in business and financial strategy.
- Nevertheless, given that the ratings of the parent company and the controlling shareholder were included in the watch list with negative consequences, there may be a further weakening in the credit quality of the Group, which in our opinion may have an adverse effect on the Company and may harm its credit quality.
- Therefore, we include the issuer's rating of Brack Capital Properties NV, '-ilAA,' and its bond series ratings (Series B and C), 'ilAA,' in the credit watch (CreditWatch) with negative consequences.
- Including the Company's ratings in the credit watch with negative consequences reflects the weakening of the controlling shareholder's credit quality and including its ratings in the credit watch with negative consequences and the possible negative impact on the credit quality of Brack Capital.

Major considerations for the rating activity

We believe that the Company's credit quality may be harmed following the weakening of the parent company's credit quality, Adler Real Estate AG (B+/Watch Neg.), holding 70% of the Company's shares and of the controlling shareholder (Adler Group SA (B+/Watch Neg/B), holding 97% of the parent company. Lowering the ratings of the parent company and the controlling shareholder and adding them to the credit watch are, among others, based on the Group's announcement to examine a strategy that may lead to a significant sale of income producing assets (and therefore increase in development activity), the Group's results in the first half of 2021 suggesting that its development division may find it difficult to implement its plans which may bring about a pressure on its financial ratios and weakening its liquidity profile.

We believe that at this stage there is a certain separation between the credit quality of Brack Capital and the credit quality of the Group. Our estimate reflects, among others, the fact that Brack Capital operates as a separate and independent entity; the scope of non-controlling interests in the Company which is about 30% and includes material holdings of institutions; and existing restrictions applicable to the bonds. In this regard, as we understand, Israeli regulation incorporates corporate governance rules and strict approval procedures, particularly with respect to related party transactions. In our opinion, several provisions of the Companies' Law support proper corporate governance rules of groups and reinforce the ability of non-controlling interests to prevent related party transactions that are not in the best interest of the Company. Therefore, we estimate that the law limits the ability of controlling shareholders to interfere in public subsidiaries (or bond companies) in a manner that may harm the best interest of the Company.

In the upcoming months we will examine whether a further deterioration has occurred in the ratings of the parent company and the controlling shareholder and whether there is a material effect on Brack Capital's operations.

Brack's Capital financial and operating performance remained relatively stable and as of June 30, 2021, there were no material changes in its rating characteristics, liabilities and operations' value. The value of the Company's income producing asset portfolio amounted to EUR 1.3 billion as of this date and the average occupancy rate is 94%. The Company presented significantly lower leverage compared to a leverage that is suitable for the current rating, as reflected in the adjusted debt to equity ratio of 34%, which may increase slightly, in our opinion, due to the cancellation of the Gerresheim sale transaction and debt re-consolidation. Nevertheless, a material margin from the ratios that are suitable for the rating may still be remaining.

Credit watch

Including Brack Capital's ratings in the credit watch with negative consequences reflects the possible effect on the Company's credit quality following the weakening of the credit quality of the controlling shareholder and adding its ratings to the credit watch with negative consequences. We intend to remove the Company's ratings from the credit watch in the upcoming months when credit quality of the Group and the possible effect of changes in the Group on Brack Capital's operations become clear.

We may lower the Company's rating by one Notch or more if a further deterioration occurs in the Group's credit quality or if we estimate that the changes in the Group adversely effected the rating characteristics of Brack Capital.

Methodology and Related Articles

- Methodology: methodology for assessing the management and corporate governance of corporations and insurers, November 13, 2012;
- Methodology: sector risk, November 19, 2013.
- Methodology: methodology for estimating country's risk, November 19, 2013.
- Methodology: general methodology for rating corporations November 19, 2013.
- Methodology: methodology for assessing the liquidity profile of corporations, December 16, 2014.
- Methodology: methodology for assessing debt recovery of non-financial corporations, December 7, 2016.
- Methodology: key factors for rating real estate companies, February 26, 2018.
- Methodology – General: credit rating in local scales, June 25, 2018.
- Methodology: methodology for calculating financial ratios and adjustments, April 1, 2019.
- Methodology – general: rating companies in a group, July 1, 2019
- Methodology – general: credit risks from environmental factors, company and corporate governance (ESG), October 10, 2021.
- Rating definitions of S&P Global ratings, January 5, 2021.
- Opinions and interpretation: the link between the global rating scale and the Israeli rating scale, June 26, 2018.

List of ratings

Brack Capital Properties N.V	Rating	The date in which rating was issued for the first time	The last date on which rating was updated
The issuer's rating			
Long term	ilAA-/Watch Neg	April 1, 2012	March 25, 2021
Unsecured senior debt			
Series B	ilAA/ Watch Neg	April 3, 2013	March 25, 2021
Series C	ilAA/ Watch Neg	June 23, 2014	March 25, 2021
Issuer's rating history:			
Long term			
October 14, 2021	ilAA-/Watch Neg		
March 15, 2016	ilAA-/stable		
April 3, 2013	ilA+/stable		
April 1, 2012	ilA/stable		
Additional details			
The time the event has occurred	October 14, 2021 19:28		
The time it was first learned about the event	October 14, 2021 19:28		
The party initiating the rating	The rated company		

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