

Maalot

S&P Global Ratings

Brack Capital Properties N.V.

May 16, 2022

Rating update

Lowering the issuer's rating to 'ilA-' following the weakening of Adler Group credit quality and our estimate that the Company's liquidity is less than adequate; the ratings remained in the credit watch with negative consequences.

Chief Credit Analyst:

Evgeni Silishtian evgeni.silishtian@spglobal.com 972-3-7539733

Secondary Contact:

Gil Avrahami gil.avrahami@spglobal.com 972-3-7539712

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Rating activity summary

- On May 5, 2022, S&P Global Ratings lowered the ratings of the parent company of Brack Capital Properties NV ("Brack Capital" or "the Company"), Adler Real Estate AG and the controlling shareholder of the Company, Adler Group SA (collectively - "Adler Group") to CCC from B-, negative rating outlook.
- In the current ownership structure, we believe that the weakening of Adler Group credit quality has an adverse impact on the Company's rating. At this stage there is an uncertainty regarding the structure of the group, the strategic importance of Brack Capital for the group and the impact on its rating.
- We estimate that the Company's access to the banking system in Germany has been harmed, mainly due to the adverse changes in the credit quality of the controlling shareholder and the uncertainty regarding the group's structure. As a result, and given the Company's high refinancing needs in the coming year, we estimate that the Company's liquidity is less than adequate. However, in our opinion, the Company has some financial flexibility, particularly in view of the fact that the leverage ratio in its assets remains relatively low, in view of obtaining a credit facility to finance a tax liability from an international banking corporation after lowering the rating of the Adler Group and in view of indications regarding the Company's access to the local capital market.
- On May 16, 2022, we lowered the issuer's rating of Brack Capital Properties NV to ilA- from ilAA- and its bond series ratings (Series B and C) to ilA from ilAA
- We leave the Company's issuer rating and its bond series ratings in credit watch with negative consequences in view of the weakening of Adler Group credit quality and the possible effect on the rating characteristics of Brack Capital. We intend to remove the Company's ratings from credit watch in the coming months, when we have a greater certainty about the Company's liquidity and access to funding sources given its current needs in the short to medium term, holding structure, group composition, credit quality of the group and the possible impact of the changes in the group on the rating characteristics of Brack Capital.

Major considerations for the rating activity

We believe that the credit quality of the Company is negatively affected by the weakening of the credit quality of the parent company, Adler Real Estate AG (CCC/Negative), which holds approximately 63% of the Company's shares and of the controlling shareholder, Adler Group SA (CCC/Negative) which holds approximately 97% of the parent company. On May 5, 2022, S&P Global Ratings lowered the ratings of these two companies, in view of rising concerns about its ability to refinance its debts, among other things, due to non-renewal of a facility for funding its working capital needs that expired in March 2022 (at a scope of approximately EUR 15 million) and we understand that the credit facility held by the Adler Group (at a scope of EUR 300 million) was canceled which reduced its liquidity margin. In addition, Adler Group reported non-compliance with the financial covenants related to its unpledged assets which limits its ability to raise additional funding. As a result, S&P Global Ratings has expressed concern about Adler Group's ability to meet its upcoming bond maturities in April 2023 and a number of additional secured debt maturities, through organic cash flow generation and expected that Adler would need to significantly rely on asset realization. The Adler Group's annual financial statements included a qualification by its auditor, KPMG, that it was unable to express an audit opinion on the consolidated financial statements, which may indicate that Adler's ability to meet its short-term financial obligations was further reduced. The negative outlook on the ratings of Adler Group reflects S & P Global Ratings' assessment that there may be an additional negative rating activity on Adler Group, if the Group fails to resolve the auditor's qualification as soon as possible, accumulate cash and find financing solutions in the next 12 months.

We believe that the weakening of Adler Group credit quality has a negative effect on the Company's rating, however at this stage we estimate that there is some separation between the Company's ratings and Adler Group's ratings. This assessment reflects, among other things, the fact that Brack Capital operates as a separate and independent entity and we do not anticipate any unusual negative intervention on the part of the Group in the short to medium term. This assessment is supported by the appointment of two directors during the year, one is an external director and the other is an independent director, and the current composition of the board of directors includes seven directors, of which four are independent and external directors. We also take into account the current holding structure in the Company, which includes a substantial holding of non-controlling interest by LEG Immobilien SE ("LEG") of approximately 34.5% which has invested cumulatively approximately € 320 million in the Company's shares and the Adler Group's commitment to participate in any tender offer published by LEG until September 30, 2022. LEG is a real estate corporation with extensive activity in the field of rental residential real estate in Germany, holding a portfolio of assets valued approximately at € 19.5 billion at an LTV rate (loan to value) of approximately 43.1%, as of the end of the first quarter of 2022. However, given the volatility in the markets, there is currently a greater uncertainty regarding LEG's decision to make a tender offer for the Company's shares, and as a result regarding the group's final structure.

In the coming months, we will examine whether there has been a further deterioration in the ratings of the parent company and the controlling shareholder and whether it has a material effect on Brack Capital's operations. Among other things, we will also examine the impact on Brack Capital's access to financing sources, in view of the significant bank debt maturities in the coming months.

To our understanding, and based on information received from the Company, Brack Capital's operating and financial performance in the first quarter of 2022 remained relatively stable and in line with our current base scenario. We estimate that there were no significant changes in the status of its liabilities and in the value of its activity compared to the figures of the end of 2021. Among other things, the value of the asset portfolio remained unchanged (approximately NIS 1.3 billion occupancy rate remained high and stable (96%) and the leverage rate remained similar (about 43%) and with a significant margin from the leverage that is suitable for the rating. Nevertheless, we estimate that the Company's access to the German banking system was harmed due to the adverse changes in the credit quality of the controlling shareholder and the uncertainty regarding the group's structure. As a result, and given the Company's high refinancing needs in the coming year, we estimate that the Company's liquidity is less than adequate. Among others, in our estimate the ratio between its sources and uses in the 12 months beginning April 1, 2022 is lower than 1x. Our estimate mainly reflects the Company's relatively high debt maturities which include three Bullet payments on non-recourse loans, two for a portfolio of income-producing residential properties (in August and September this year at a total of about € 88 million and one for the Gerresheim project (in June this year at a total of about €147 million) and bond maturity Series B (at the end of the year and amounting to about € 64 million). On the other hand, the Company completed bond issuance with a net consideration of about €162 million and it has a balance of available cash in the amount of about € 20-15 million. In addition, a few days ago and after lowering the rating of Adler Group, the Company reported receiving a credit facility from an international banking corporation amounting to about € 30 million intended to finance tax liability that may arise as a result of selling holdings in the Company to LEG. We believe that the Company has some financial flexibility, particularly in view of the fact that the LTV rate in its assets remains low and amounts to an average of 37%, given indications of the Company's access to the local capital market, as reflected in its completed bond issuance and current yields and given its unpledged assets of approximately €107 million (excluding the Gerresheim project which costs in the books is at approximately €147.5 million which the Company intends to repay the debt in its respect on June 1, 2022 and release it from a lien).

Credit watch

Leaving Brack Capital's ratings in the credit watch with negative consequences reflects the weakening of Adler Group credit quality, the negative outlook on its ratings and the possible negative effect on the rating characteristics of Brack Capital, among others, the unclear situation regarding the ability of Brack Capital to refinance its liabilities in the current holding structure.

We intend to remove the Company's ratings from the credit watch in the next months when we are more certain about the Company's access to financing sources, holding structure, the composition of the Group, the Group's credit quality and the possible impact of the changes in the Group on the rating characteristics of Brack Capital.

We may lower the Company's rating by one Notch or more if we estimate that the group composition, the ownership structure of the Company and its strategic importance to its owners have a negative impact on the rating characteristics of Brack Capital or if we estimate that the Company's access to financing sources was significantly harmed and its liquidity status has deteriorated.

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, October 10, 2021.](#)
- [Rating definitions of S&P Global ratings, November 10, 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	ilA-/Watch Neg	April 1, 2012	April 5, 2022
Unsecured senior debt			
Series B	ilA/ Watch Neg	April 3, 2013	April 5, 2022
Series C	ilA/ Watch Neg	June 23, 2014	April 5, 2022
Issuer's rating history:			
Long term			
May 16, 2022	ilA-/Watch Neg		
February 15, 2022	ilAA-/Watch Neg		
December 9, 2021	ilAA-/Negative		
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	May 16, 2022 17:22		
The time it was first learned about the event	May 16, 2022 17:22		
The party initiating the rating	The rated company		

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