Maalot

S&P Global Ratings

Brack Capital Properties N.V.

March 30, 2020

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Rating ratification

Brack Capital Properties N.V.

The issuer's rating ratification	ilAA-/Stable

Summary

Key strengths	Key risks
• Activity in the German income generating real estate market – a stable market over time. • Geographical distribution across a large number of cities in Germany and large number of residential units for rental. • Stable operating performance of the asset portfolio with high and stable occupancy rates of 95% on average and rental fee growth over time.	• The fact that all of the Company's assets are pledged, in our opinion, adversely affects financial flexibility. • Exposure to residential development activities, which in our view, embodies higher sectoral and operational risks than the risks of income generating real estate activity.

In 2019, the Company sold commercial assets as part of its strategic plan to focus on residential real estate.

As a result, the Company's income generating portfolio is reduced from € 1.4 billion to € 1.1 billion (excluding income generating assets designated for sale totaling approximately € 55 million) and there has been a decline in exposure to material tenants and assets. We estimate that due to the focus on residential real estate in Germany and because the Company has adequate liquidity, the direct impact of the Corona epidemic on the Company's operations is limited at this time.

A moderate decrease in leverage has taken place and stability in interest coverage ratio was recorded. The decrease in leverage was achieved mainly due to the cash flow from the realization of commercial assets, cash flows from operating activities and annual profit, which was offset to certain extent by the acquisition of non-controlling interests in the Company's assets. We hereby indicate that the completion of sale of the land reserve in the Gerresheim project and the completion of sale of commercial assets may further reduce leverage, in accordance with the Group's financial policy. The EBITDA to financing expenses ratio remained stable and was mainly affected by a decrease in profits from development activity and the discontinuance of rental fees from assets that were sold during the year. The coverage ratio is positively affected by the low interest rate environment in Germany, since most of the Company's debt originates from the German banking system.

Rating outlook: stable

The stable rating outlook reflects our estimate that the Company will maintain stable operating performance and its income generating asset portfolio will keep supplying stable cash flows. In addition, the stable forecast reflects our estimate that given the current scope and activity mix the Company will present debt to debt and equity ratio of 50% and EBITDA to financing expenses ratio of x 2.5 in the next 12 months and will maintain adequate liquidity. Due to the fact that the Company operates residential sector in Germany, we estimate that the direct effect of the Corona epidemic on the Company's activities is limited at this stage. Long term effects will be examined over time.

A change in the rating of the parent company, Adler Real Estate AG (BB/Positive) may have an effect of the Company's rating.

The negative scenario

Negative rating activity is feasible if the Company deviates over time from the ratios that were defined as appropriate for the current rating, or if the Company increases significantly the weight of the development activity beyond our base scenario. In our opinion, such a scenario may occur, inter alia, if a material change occurs in the Company's business and/or financial strategy or if the effects of the Corona epidemic over the current activity of the Company intensify.

The positive scenario

Positive rating activity is feasible if the Company materially increases the volume of its income-generating asset portfolio presenting a permanent improvement in the financial profile such that the ratio of debt to debt and equity will be below 50% and the EBITDA to financing expenses ratio will be about x 4 over time as part of financial policy.

There is a great deal of uncertainty about the pace of the Corona virus outbreak and the time it will start to fade. Some government agencies estimate that the outbreak will reach its climax around mid-year and we use this assumption as we assess its economic implications and its impact on the quality of credit of entities and companies. We believe that the measures taken to curb the spread of the virus have put the global economy into recession (see current economic updates at www.spglobal.com/ratings). We will update our assumptions and assessments accordingly.

The base scenario

Key assumptions

- Shrinkage of 0.5% - 1% of the Eurozone economy in 2020. The Corona epidemic will have a relatively moderate effect on the data of the first quarter (expected shrinkage) however we believe that a more considerable effect is expected in the second quarter with only subsequent partial recovery.

- Annual rental income of € 60 million – € 70 million in 2020 – 2021 based on high occupancy rates in the asset portfolio over time and strong presence of the Company in cities with relatively high population growth rate.

- Completion of commercial asset realization (part B) and land reserves in the Gerresheim project in 2020–2021, as part of focusing the Company's strategy.

- Revenue recognition from the Grafental development project totaling approximately € 65 – 75 million in 2020-2021, in line with the projected pace of construction and project marketing rate and according to expected completion dates.

- Non distribution of dividend in respect of the results for 2019 and non-performance of material purchase transactions in 2020.

Key ratios

Financial ratio	2019A	2020E	2021E
EBITDA/financing expenses	3.1x	2.5x-2.7x	2.5x-2.7x
Debt/debt and equity	49.3%	45%-47%	43%-46%
Debt/EBITDA	13.1x	13.0x-14.0x	12.0x-13.0x

A – actual
E –expected

Base scenario forecasts

Stable rental income from existing assets in 2020 and only moderate growth in 2021.

We believe that due to the Corona epidemic, there will be no increase in rental fees in the residential sector in the next two years, as the company has presented in recent years. Our assessment mainly reflects the effect of the epidemic, which may include an increase in unemployment rate, a lower tenant turnover rate or a stricter regulation on raising rentals. We estimate that occupancy rates will remain high, among others, based on the Company's strong presence in cities with relatively rapid population growth that supports demand.

Decrease in leverage following continued realization of assets and a moderate decline in interest coverage ratio

In our opinion, the Company will continue to show a reduction in leverage, however the extent of the reduction depends on the completion dates of asset realization the Company has signed and receipt of the proceeds. We also expect a moderate decrease in the EBITDA to financing expenses ratio, mainly due to an expected decrease in the recognition of profits in residential development activities and the repayment completion date of financial debt for the assets sold.

Company description

Brack Capital Properties N.V. is an income generating real estate company operating in Germany. On December 31, 2019, the value of the Company's income generating asset portfolio was approximately € 1.1 billion, and included 29 income generating residential assets, comprising approximately 12,000 residential units and 16 income generating commercial assets which include about 181 thousand square meters for rental. The Company also operates in the residential development sector, although on a low scale in relation to the entire activities. Most of the development activity is concentrated in the city of Düsseldorf, and includes the Grafental project (4 stages that include residential units in marketing and performance stages of which 112 units are designated for rental). In addition, the Company has land reserves in the Gerresheim neighborhood in Dusseldorf (most of the holding in which was sold) and in Aachen.

Brack Capital Properties N.V. was incorporated in the Netherlands and is listed for trade on the Tel Aviv Stock Exchange. The principal holder in the Company is the German income generating real estate company Adler Real Estate AG (BB/Stable), which currently holds about 69.8% of the Company's shares.

The Business Profile

The business risk profile of Brack Capital Properties is supported by focusing the real estate residential activity in Gemany, which we value as a stable economy. The real estate market in Germany is well developed sector enjoying steady demand in the areas of activity allowing the Company to present continuous improvement in operating performance. Among others, in the fourth quarter of 2019, the Company showed high growth rate of 3.9% in revenues from identical assets in the income generating residential real estate compared to the corresponding quarter in 2018 and maintained high average occupancy rate of 95%. In addition, the Company's asset portfolio is distributed in 15 cities in Germany characterized by demographic data supporting the demand for apartments and the Company reported that in 2019 rental fees in apartments under new leases in the residential market was 15% higher than the average existing rental fees.

On the other hand, it should be noted that in 2019, the asset portfolio was reduced to € 1.1 billion compared to € 1.4 billion at the end of 2018 however the scope of activity remained adequate for the current rating. The decrease was mainly due to the realization of commercial assets that are not at the core business, as part of the continued implementation of the management's strategic plan. In addition, the Company signed an agreement to realize 75% of its holdings in land reserve in the Gerresheim neighborhood of Dusseldorf, for a consideration reflecting a value of approximately € 375 million. Part of the proceeds was actually received and additional payments are expected to be received subject to obtaining a development plan and building permits. As a result of these realizations, exposure to two commercial assets and material tenants has diminished and the weight of the development activity remained limited. In our estimate, the development activity embodies higher sectoral and operational risks than the risks of the income generating real estate activity. However, the rapid sales rate in recent years and the high current marketing rate of about 85%, in our estimate, reflect the attractive location of the projects and the Company's marketing capabilities. Based on the Company's plans, we estimate that the business profile will continue to reflect primarily income generating real estate company, with a stable EBITDA base that moderates the possible volatility from the development activity.

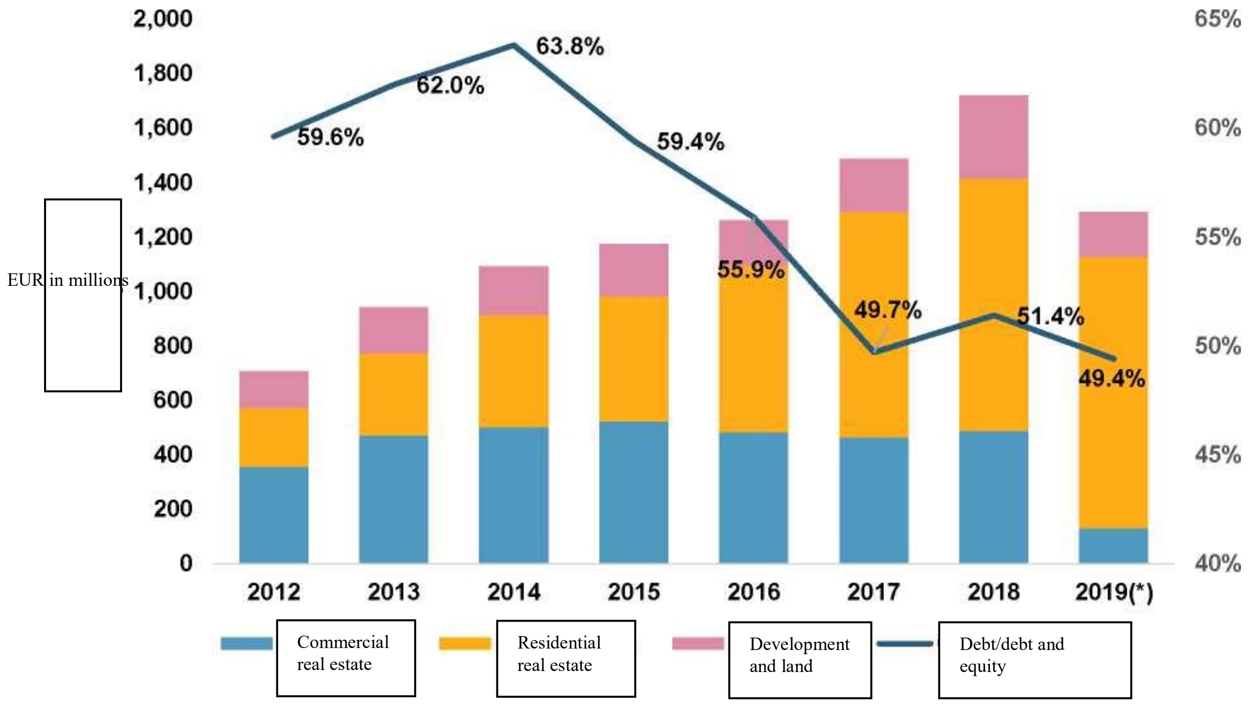
Table 1.

Brack Capital Properties N.V. -- Peer Comparison (Mil. €)				
Industry Sector: Real Estate Investment Trust Or Company				
	Brack Capital Properties N.V.	**The Zarasai Group**	**Melisron Ltd.**	**Isras Investment Company Ltd.**
National Scale Rating	ilAA-/Stable	ilAA-/Negative	ilAA-/Stable	ilAA-/Stable
	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2018--	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2019--
Revenue	169.7	176.6	402.7	116.5
EBITDA	60.1	65.2	282.0	79.2
Funds from operations (FFO)	34.0	21.0	180.6	48.3
Interest expense	19.1	47.7	84.9	25.6
Cash interest paid	17.1	44.2	84.4	24.9
Cash flow from operations	20.4	43.9	189.9	54.1
Cash and short-term investments	44.4	60.4	336.2	163.2
Debt	735.4	1,112.6	2,464.3	636.0
Equity	753.4	865.8	2,028.3	868.3
Valuation of investment property	1,259.3	1,950.0	4,919.8	1,636.6
Adjusted ratios				
EBITDA margin (%)	35.4	36.9	70.0	68.0
Return on capital (%)	3.8	4.8	6.8	14.4
EBITDA interest coverage (x)	3.1	1.4	3.3	3.1
FFO cash interest coverage (x)	3.0	1.5	3.1	2.9
Debt/EBITDA (x)	12.2	17.1	8.7	8.0
FFO/debt (%)	4.6	1.9	7.3	7.6
Debt/debt and equity (%)	49.4	56.2	54.9	42.3

The Financial Profile

The Company's financial risk profile was supported by decrease in leverage in 2019, while maintaining a relatively stable interest coverage ratio. In 2019, adjusted debt was decreased to € 735 million from € 846 million at the end of 2018, mainly due to receipt of € 154 million of cash flow for the realization of assets that are not at the core business of the Company (Part A and Part B - partially) and cash flow from operating activities (after interest payments) totaling approximately € 20 million net of real estate investments and acquiring non-controlling interests totaling approximately € 82 million. Total adjusted equity amount was decreased to approximately € 753 million at the end of 2019 from € 800 million at the end of 2018, mainly due to the acquisition of such non-controlling interests, net of annual profit of €17 million. As a result, at the end of 2019, the adjusted ratio of debt to debt and equity amounted to 49.4% compared to 51.4% at the end of 2018.

Diagram 1: developments in value of asset portfolio and leverage



(*) excluding assets classified as designated for sale

Based on the Company's financial policy, we expect another leverage reduction in 2020 to about 45% -47%, mainly as a result of the completion of commercial asset realization and land reserve reported by the Company during 2019. The projected leverage range reflects the uncertainty regarding the timing of the asset realization and the extent of the contribution to profitability from the residential development sector. In this regard, it should be emphasized that the long-term effects of the Corona epidemic on the Company's financial results will be examined over time.

In 2019, the EBITDA to financing expenses ratio of Brack Capital Properties remained stable, totaling about 3.1x compared to 3.3x in 2018. This ratio is positively affected today by the low interest rate environment in Germany, since approximtaely 80% of the Company's financial debt originates from the German banking system. In 2019, the average interest rate on the Company's bank debt was approximately 1.68% and the duration was 4.8 years, compared to approximtaely 1.61% and 3.5 years, respectively, in 2018, reflecting our assessment of the Company's strong accessibility to the banking system and financial management, which included significant debt refinances in recent years. In the current activity mix, we expect that in the 2020-2021 the EBITDA to financing expenses ratio will be adequate for the current rating, and will be 2.5x-2.7x, given the expected stability of NOI (net operating income) from existing and new assets and a decrease in the recognition of profits from the residential development sector.

Table 2.

Brack Capital Properties N.V - Financial Summary (Mil. €)					
Industry Sector: Real Estate Investment Trust or Company					
	2019	**2018**	**2017**	**2016**	**2015**
Revenue	169.7	168.9	160.1	171.6	161.1
EBITDA	60.1	65.4	63.0	64.2	61.3
Funds from operations (FFO)	34.0	47.7	46.3	45.7	42.0
Interest expense	19.1	19.6	19.5	20.7	21.2
Cash interest paid	17.1	17.7	16.7	18.6	19.3
Cash flow from operations	20.4	(85.5)	58.5	80.7	60.8
Cash and short-term investments	44.4	27.6	114.1	89.3	55.8
Debt	735.4	846.6	690.3	658.9	665.3
Equity	753.4	800.5	698.6	520.1	454.1
Adjusted ratios					
EBITDA margin (%)	35.4	38.7	39.3	37.4	38.1
Return on capital (%)	3.8	4.3	4.9	5.6	5.7
EBITDA interest coverage (x)	3.1	3.3	3.2	3.1	2.9
FFO cash interest coverage (x)	3.0	3.7	3.8	3.5	3.2
Debt/EBITDA (x)	12.2	12.9	11.0	10.3	10.8
FFO/debt (%)	4.6	5.6	6.7	6.9	6.3
Debt/debt and equity (%)	49.4	51.4	49.7	55.9	59.4

Liquidity: adequate

We assess the liquidity of Brack Capital Properties as appropriate based on our assessment that the ratio between the Company's sources and uses will exceed 12.x in the 12 months starting from January 1, 2020. Our assessment of the Company's liquidity level is mainly supported by the Company's ability to generate high and stable cash flows from its income generating asset portfolio. Nevertheless, since all of the Company's assets are pledged, in our estimate, it negatively effects financial flexibility, although the LTV ratio (loan-to-value ratio) against the pledged assets is relatively low (about 50% on average) thereby allowing refinancing.

Below are the main sources and uses of the Company for 12 months from January 1, 2020:

Main sources	Main uses
• Cash in a scope of € 44 million; • FFO (funds from operations) in cash in a scope of € 20 -25 million; • Part of the proceeds from the realization of land in Gerresheim project of € 37 million (received).	• Short term credit and bond payment of € 34 million (of which € 26 million for bond principal payment); • Repayment of loan from controlling shareholder of € 41 million (completed). • Current investments in existing assets (Capex) of € 5-10 million.

Uses do not include one-off payments ("bullet payments") of non-recourse bank loans, primarily against assets in Kaufland and Parkblick, based on our estimate that these assets will be refinanced, since these are assets with a good operating performance financed at a relatively low LTV rate of about 20% -30%.

Debt maturities					
Year	**2020 (*)**	**2021**	**2022**	**2023**	**2024 onwards**
Maturities (€ in millions)	225	140	104	16	240

(*) including € 148 million of liabilities for assets designated for sale.

Covenants' Analysis

Forecast

We expect that the Company maintains an adequate margin (more than 15%) with respect to its financial covenants.

Requirements

Under the terms of the bonds, the Company must maintain a net debt to net debt and equity ratio not exceeding 75%, capital attributed to the majority shareholders of not less than €190 million and the ratio of the Company's equity to net financial debt (on solo basis) which will not be less than 187.5%.

The Group's Impact Analysis

Adler Real Estate AG ("Adler" or "Group" BB/Positive), the controlling shareholder in the Company holding approximately 69.8% of its shares, is an income generating real estate company operating in Germany that owns about 50 thousand residential units valued at € 3.2 billion. In our estimate, Brack Capital Properties is a core company of the Group among others, since it constitutes a material part of the consolidated operations. In addition, both companies operate in Germany in the income-generating real estate sector, with potential for integration of the activities mainly in the residential sector. At this stage, the Group's impact is neutral, among other things given the rating levels of both companies. Moreover, since Brack Capital Properties is a public company with material minority holdings, there is a regulatory framework relating, among others, to restrictions on the controlling shareholders' ability to adversely interfere in a subsidiary.

Rating adjustments

Sectoral distribution: neutral

Capital structure: neutral

Liquidity: neutral

Financial policy: neutral

Management, strategy and corporate governance: neutral

Comparison to reference group: neutral

Debt recovery analysis

Major considerations

- We ratify the rating for Brack Capital Properties NV's unsecured bond series (Series A, B and C) the rating of ilAA- which is identical to the issuer's rating. The debt recovery rating for these series is '3' reflecting our assessment that given hypothetical nonpayment scenario, the debt recovery rate will be at the top of the range 50% -70%.

- Our assessment of the debt recovery rate takes into account the fact that the series are subordinated to the senior bank debt (to which all of the Company's assets are pledged).

Key assumptions for hypothetical nonpayment scenario

- Year of hypothetical nonpayment event: 2025

- A deep recession in German economy will cause a significant reduction in occupancy rates, a decrease in rental fees and substantial erosion in the value of the asset portfolio.

- The Company will continue to operate as a going concern, an estimate which is supported by the key locations of its assets that will allow it to obtain refinancing to repay some of its liabilities.

- The value of the Company's commercial asset portfolio will decrease by 50%, considering the concentration value of a number of large assets.

- The value of the Company's residential asset portfolio will decrease by 30%, considering the distribution of tenants and the relatively high number of assets.

- The value of inventory in construction for sale and land by the Company will decrease by 40% considering the locations, engineering completion rates, marketing rates, planning status and building permits status.

Basic payment waterfall upon nonpayment

- Value as going concern (gross) at asset value: € 875 million.
- Administrative costs: 5%
- Available value to cover secured debt: € 830 million.
- Total secured senior debt: € 758 million.
- Available value to cover unsecured debt: € 71 million.
- Total unsecured debt (Series A, B and C): € 109 million.
- Estimate of the unsecured debt recovery rate: 50% -70% (at the top part of the range).

Debt figures include semi-annual accrued interest

Impact of Debt Recovery Estimate on Debt Rating with respect to Issuer's Rating

Debt recovery estimate in percentage	Description	Score of debt recovery estimate	Rating of series above/under the issuer's rating
100%	Full repayment expected	1 +	3+ notches
100%-90%	Very high debt recovery	1	2+ notches
90%-70%	High debt recovery	2	1+ notch
70%-50%	Significant debt recovery	3	0 notches
50%-30%	Average debt recovery	4	0 notches
30%-10%	Modest debt recovery	5	-1 notches
10% -0%	Negligible debt recovery	6	-2 notches

Debt recovery ratings are limited in some countries to take into account reduced debt recovery prospects in those countries. Debt recovery ratings of unsecured debt issuances are also generally limited (for more information, see Step 6, paragraphs 98-90 of the Methodology for Evaluating Debt Recovery of Non-Financial Corporations, December 7, 2016).

Financial reporting adjustments

In order to bring the financial data to a common base compared to other rated companies, we adjust the reported data in the financial statements used by us in calculating financial ratios. Below are the main adjustments to the consolidated data of Brack Capital Properties NV for 2019:

- Offsetting surplus cash and cash equivalents, as we have defined, from the reported financial debt.
- Neutralization of income from increase in fair value of investment property from operating income.
- Deduction of interest expenses from cash flows from operating activities.
- Use of cash flow interest and tax for calculating FFO.

Table 3.

Reconciliation of Brack Capital Properties N.V. Reported Amounts with S&P Global Ratings Adjusted Amounts (Mil. €) for the Fiscel Year Ended Dec 31, 2019

Brack Capital Properties N.V. reported amounts

	Debt	Shareholders' equity	EBITDA	Operating income	S&P Global Ratings' adjusted EBITDA	Cash flow from operations
Reported	772.3	712.0	56.1	69.3	60.1	37.5
S&P Global Ratings adjustments						
Cash taxes paid	--	—	—	—	(9.0)	—
Cash taxes paid: Other	--	--	--	--	--	—
Cash interest paid	--	—	—	—	(17.1)	—
Reported lease liabilities	3.0	--	--	--	--	—
Accessible cash and liquid investments	(40.0)	--	--	--	--	--
Nonoperating income (expense)	--	--	--	(0.1)	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(17.1)
Noncontrolling interest/minority interest	--	41.4	--	--	--	--
EBITDA: Other	--	—	4.0	4.0	--	—
Depreciation and amortization: Asset valuation gains/(losses)	--	--	--	(13.3)	--	--
Total adjustments	**(36.9)**	**41.4**	**4.0**	**(9.5)**	**(26.1)**	**(17.1)**

S&P Global Ratings adjusted amounts

	Debt	Equity	EBITDA	EBIT	Funds from operations	Cash flow from operations
Adjusted	735.4	753.4	60.1	59.9	34.0	20.4

Methodology and Related Articles

- Methodology: use of rating outlook and CreditWatch, September 14, 2009.
- Methodology: methodology for assessing the management and corporate governance of corporations and insurers, November 13, 2012;
- Methodology- general: timing of payments, grace period, guarantees and using the ratings of D' (Default) and SD (selective Default), October 24, 2013.
- Methodology: general methodology for rating corporations November 19, 2013.
- Methodology: methodology for estimating country's risk, November 19, 2013.
- Methodology: sector risk, 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
- Rating definitions of S&P Global ratings, July 5, 2019.
- Opinions and interpretation: the link between the global rating scale and the Israeli rating scale, June 26, 2018.

List of ratings

General information (as of March 30, 2020)

Brack Capital Properties N.V	
The issuer's rating	
Long term	**ilAA-/stable**
Unsecured senior debt	
Series A,B and C.	**ilAA-**
Issuer's rating history:	
Long term	
March 14, 2016	**ilAA-/stable**
April 2, 2013	**ilA+/stable**
April 1, 2012	**ilA/stable**
Additional details	
The time the event has occurred	March 30, 2020 09:32
The time it was first learned about the event	March 30, 2020 09:32
The party initiating the rating	The rated company

Monitoring credit rating

We are regularly monitoring developments that may affect the credit ratings of issuers or of specific bond series that we rate. The purpose of the monitoring is to ensure that the rating will be updated regularly and identify the parameters that may lead to change in the rating.

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