

Maalot

S&P Global Ratings

Brack Capital Properties N.V.

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Rating update

Including the Company's ratings in the credit watch with negative consequences following the weakening of Adler Group credit quality and including its ratings in 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 Adler Group credit quality and including its ratings in the credit watch with negative consequences.

Rating activity summary

- In December 2021, the Adler Group completed the sale of approximately 7% of the holdings in the Company to a subsidiary of LEG, SE Immobilien "(LEG,)" and undertook to participate in any tender offer initiated by LEG in respect of the balance of the shares it holds (63%). In January 2022, LEG acquired an additional 24% of the share capital from non-controlling interests and approximately 1% in the market and reached a total holding of about 32% in Brack Capital.
- On February 11, 2022, S&P Global Ratings lowered the rating 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 B – from B + and included them in the credit watch with negative consequences.
- Due to the current ownership structure, we estimate that the erosion in the credit quality of the Adler Group may adversely affect the credit quality of Brack Capital. However, given the recent changes in Adler Group's holdings in the Company and the option given to LEG to acquire control, at this stage there is an uncertainty regarding the structure of the group in the short term, the strategic importance of Brack Capital in the group and the impact on its rating.
- On February 14, 2022, we included the issuer's rating of Brack Capital Properties NV, 'ilAA,' and the series of its bonds (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 Adler Group credit quality and including its ratings in the credit watch with negative consequences and the possible negative impact on the rating characteristics of Brack Capital. We intend to remove the Company's ratings from the credit watch when we are more certain about the 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.

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 63% 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 derive, among others, from the weakening of the business profile of Adler group due to the increased dependency on its development activity while there is high uncertainty regarding the revenue recognition from such activity. In addition, the financial risk of Adler group has increased mainly from increased volatility in cash flows due to the increased dependency on the development activity the performance of which continue to be weak due to delays in sales and handovers. Furthermore, Adler group announced that it may defer the publication of its financial statements for 2021 due to investigation carried out by its auditor KPMG. In case the publication of the financial statements exceeds the date specified in the terms of the bonds of Adler group, the bondholders may demand the repayment of the bonds.

We believe that at this stage there is uncertainty as to the ownership structure of Brack Capital and its importance to the group, among others, due to the increased holding of LEG to 32% and the commitment of the Adler group to participate in any tender offer to be published by LEG until September 30, 2022.

However, 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 37% and includes material holdings in LEG, real estate corporation with vast operations in residential real estate in Germany holding asset portfolio valued at EUR 16.2 billion with LTV of approximately 38% as of September 30, 2021; 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 this regard, the appointment of an additional external director at the end of January of this year and the current composition of the board of directors which includes six directors of whom three independent and external directors supports our estimate. Nevertheless, in the coming months we will examine whether further deterioration occurs in the ratings of the parent company and the controlling shareholder and whether it has material effect on the operations of Brack Capital. We will examine, among others, the effect on Brack Capital's accessibility to financing sources in view of the material maturities of the bank debt in the coming period.

Brack's Capital financial and operating performance remained relatively stable and we estimate that in 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 September 30, 2021 and the average occupancy rate is 95%. As we expected, the Company's leverage slightly increased to 41% compared to 36% at the end of 2020, mainly due to the cancellation of the Gerresheim sale transaction and debt re-consolidation, loss from financial investment (German development company), net of real estate revaluation and realization of commercial assets that are not in the core activity. Nevertheless, a material margin is expected from the ratios that are suitable for the rating.

Credit watch

Including Brack Capital's ratings in the credit watch with negative consequences reflects the weakening of Adler group credit quality and including its ratings in the credit watch with negative consequences and the possible negative effect on the rating characteristics of Brack Capital.

We intend to remove the Company's ratings from the credit watch when we are more certain about the 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 accessibility to financing sources was harmed.

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, 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	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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