

Research

Research Update:

Spain-Based Inmobiliaria Colonial Upgraded To 'BBB+' On Incrementing Controlling Stake In SFL; Outlook Stable

Primary Credit Analyst:

Carlos Garcia Bayon, CFA, Madrid (34) 91-423-3195; carlos.garcia.bayon@spglobal.com

Secondary Contact:

Franck Delage, Paris (33) 1-4420-6778; franck.delage@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

Research Update:

Spain-Based Inmobiliaria Colonial Upgraded To 'BBB+' On Incrementing Controlling Stake In SFL; Outlook Stable

Overview

- Colonial has announced that it will acquire a 22.2% stake in Societe Fonciere Lyonnaise (SFL) from Qatar Investment Authority (QIA), increasing its controlling stake from 59.0% to 81.0%.
- The majority of the €718 million transaction will be carried out through a capital increase in Colonial and an equity swap in favor of QIA, and Colonial will cover the remaining one-quarter of the investment through a cash payment of €203 million.
- The transaction will have a minimal impact on Colonial's credit ratios, and the company will benefit from a leaner corporate structure and a meaningful controlling stake in SFL, its core subsidiary.
- We are therefore raising our ratings on Colonial and its senior unsecured debt to 'BBB+' from 'BBB'.
- The stable outlook reflects our view that Colonial's prime, well-located assets should continue to generate stable recurring income and enable the maintenance of an EBITDA interest coverage of around 3x and a debt-to-debt-plus-equity ratio of less than 45% in the next two years.

Rating Action

On Oct. 18, 2018, S&P Global Ratings raised its long-term issuer credit rating on Spain-based property investment company Inmobiliaria Colonial SOCIMI, S.A. (Colonial) to 'BBB+' from 'BBB'. The outlook is stable.

We also raised our issue rating on Colonial's senior unsecured debt to 'BBB+' from 'BBB'.

At the same time, we affirmed our 'A-2' short-term issuer credit rating on Colonial.

Rationale

Colonial has announced that it will increase its stake in its French subsidiary SFL from 59% to 81% by acquiring a 22.2% stake from QIA for a total value of €718 million. The transaction will be carried out mainly through a capital increase in Colonial that will be entirely underwritten by QIA, and a

cash payment of €203 million. The deal was approved by Colonial's board of directors, which, in the following days, will call a shareholders' meeting to formally approve the transaction and the capital increase. Even though the transaction has yet to close, we see minimal execution risk on the finalizing steps.

The structuring of the transaction is supportive of Colonial's credit quality, with approximately one-quarter of the investment volume coming from a cash payment made by Colonial. We therefore expect a minimal impact on Colonial's credit ratios (S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio of 44.3% as of June 30, 2018), since the weight of the SFL transaction will be somewhat offset by about €350 million the company recently received from asset disposals. Furthermore, we understand that the transaction will markedly simplify the group's shareholding structure. We also note the reasonable terms for Colonial: the acquisition price implies an average discount of 19% to the last reported net asset value per share of SFL, but an average 18% premium over SFL's recent share price.

Colonial will benefit from a substantial controlling stake in SFL, its core subsidiary, which represents about 60% of the total gross asset value on a consolidated basis. Until now, we had factored into our analysis of Colonial a certain degree of insulation for SFL. In our view, the transaction indicates that SFL's previous insulated status no longer applies. Even if there is no change regarding SFL's listing and independent funding strategy, no single minority shareholder will hold more than 15% of SFL's equity, and Colonial's payment of a substantial premium to share price highlights the eminently strategic nature SFL has for the group.

We therefore rate Colonial at 'BBB+', now in line with our long-term issuer credit rating on SFL. We acknowledge that Colonial has higher leverage than SFL, but we weigh in the benefits of Colonial's Spanish portfolio, composed of high-quality assets, mainly located in the central business district of well-performing markets such as Madrid and Barcelona.

Overall, we do not anticipate any significant deviation from the forecast credit metrics, and the company will maintain strong liquidity, in our view. For more details, see "Spain-Based Inmobiliaria Colonial 'BBB' Ratings Affirmed On Robust Credit Metrics After Axiare Takeover; Outlook Stable," published April 27, 2018, on RatingsDirect.

Outlook

The stable outlook reflects our view that strong market fundamentals, the successful integration of Axiare, and Colonial's high-quality assets should enable the company to maintain adjusted EBITDA interest coverage around 3x and debt-to-debt-plus-equity below 45% over the next two years. Our outlook is supported by the company's prudent financial policy and our belief that Colonial's prime, well-located assets will benefit from low vacancy rates in the central business district of Paris, Madrid, and Barcelona.

Upside scenario

Considering increased ownership of SFL and the company's existing portfolio, ratings upside would hinge on Colonial's willingness and ability to consistently maintain an adjusted debt-to-debt-plus equity ratio of less than 35% and an adjusted EBITDA interest coverage above 3.8x. An upgrade would also be contingent on Colonial ensuring a disciplined financial policy consistent with these stronger credit measures, and a stronger and more diversified cash flow base.

Downside scenario

We could consider a downgrade if, in particular, Colonial's EBITDA interest coverage dropped below 2.4x and its debt to debt plus equity increased meaningfully above 45%. This could stem from more debt-financed acquisitions than we currently anticipate, or a substantial drop in Colonial's portfolio value. Historically volatile business confidence in Spain remains an operating risk that could depress the company's interest coverage, among other debt metrics, in our opinion.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Stable/A-2

Business risk: Strong

- Country risk: Low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable ratings analysis: Neutral (no impact)

Related Criteria

- 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: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Spain-Based Inmobiliaria Colonial 'BBB' Ratings Affirmed On Robust Credit Metrics After Axiare Takeover; Outlook Stable, April 27, 2018

Ratings List

Upgraded; Ratings Affirmed

	To	From
Inmobiliaria Colonial, Socimi, S.A.		
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Stable/A-2
Senior Unsecured	BBB+	BBB

Additional Contact:

Industrial Ratings Europe; Corporate_Admin_London@spglobal.com

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of

RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2018 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.