MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns rating to NEPI Rockcastle Plc, Baa3, positive outlook; withdraws rating on New Europe Property Investments plc; rating on NE Property Cooperatief U.A. unaffected at Baa3, positive outlook

Global Credit Research - 24 Jul 2017

London, 24 July 2017 -- Moody's Investors Service ("Moody's") has assigned a long-term issuer rating of Baa3 to NEPI Rockcastle Plc ("NEPI Rockcastle"), a new entity formed by the merger of New Europe Property Investments plc ("NEPI") and Rockcastle Global Real Estate Company Limited ("Rockcastle"). NEPI Rockcastle is the new Guarantor under the outstanding EUR400 million senior unsecured notes issued by NE Property Cooperatief U.A.. Its backed senior unsecured debt rating is unaffected by the merger at Baa3. The outlook on all ratings is positive.

Concurrently, Moody's has also withdrawn the Baa3 long-term issuer rating on NEPI as upon the merger it became an integral part of NEPI Rockcastle.

RATINGS RATIONALE

NEPI Rockcastle's Baa3 rating is in line with the rating previously assigned to NEPI. The positive outlook reflects Moody's view that the rating of the new entity could be rated a notch higher than that of the Romanian government (Baa3/Stable) because the concentration of properties in Romania, although still high, has decreased significantly to 48% from 71% of total investment property portfolio before the merger. Additionally, Moody's expects the proceeds from the disposal of Rockcastle's large holdings in listed securities to be reinvested in acquisitions of shopping centres in Poland (A2 stable), and other CEE countries.

Based on 31 March 2017 figures, we estimate that NEPI Rockcastle have total assets of around EUR5.3 billion, including physical investment properties worth an estimated EUR3.9 billion and a portfolio of listed securities with a market value of around EUR1.0 billion, and annualised rental income of EUR257.0 million. Around 90% of the direct property portfolio are focused on retail properties (mainly shopping centers), with the remainder represented mainly by office buildings. Assets located in Romania represent around 48% of combined direct property portfolio (excluding listed securities), down from 71% before the merger, Poland (A2 stable) around 30% and Slovakia (A2 positive) 10%. In Moody's view NEPI Rockcastle has become a leading owner of shopping centres in Eastern Europe, strengthening its ability to provide retail space to international retailers.

Counterbalancing these positives, Moody's estimate an increase in combined entity's effective leverage, as measured by gross debt to total assets, to around 32%, compared with NEPI's 26% as of 31 December 2016 (including the implied gross debt related to the gross exposure of Rockcastle to a portfolio of listed stocks representing 20% of combined total assets). We also expect a deterioration in the amount of unencumbered assets to 63% from 87% (Moody's adjusted, excluding joint ventures) because of Rockcastle's debt structure which is mostly made up of mortgages. Although NEPI Rockcastle's leverage is higher than NEPI's and it is likely to be volatile due to a significant component of listed stocks in total assets, it remains appropriate for the rating.

NEPI Rockcastle's Baa3 issuer rating factors in the company's (i) important franchise value as the largest retail property owner in Romania and a leading owner of shopping centres in Eastern Europe, (ii) strong financial metrics for its rating level, (iii) good quality, modern assets with high occupancy rates (96.4% as of end of March 2017), (iv) steady cash flows from contractual rental income with limited tenant concentration risk, and (v) supportive shareholders.

The rating is mainly constrained by the company's (i) reliance on the Romanian economy whose sovereign rating is currently Baa3/Stable (albeit reduced upon the merger), (ii) a declining but still sizeable development pipeline, (iii) the currency risk ensuing from the mismatch between the company's euro-denominated leases and tenants' local currency revenues.

RATIONALE FOR POSITIVE OUTLOOK

The positive outlook reflects Moody's expectation that NEPI Rockcastle will benefit from improved geographical diversification and market position. The outlook also incorporates the expectation of a gradual reduction in the portfolio of listed securities as well as the company's public commitment to maintain its loan-to-value ratio below 35% on a reported basis.

FACTORS THAT COULD LEAD TO AN UPGRADE

• Successful execution of the envisaged strategy, as evidenced by sustained occupancy rates, positive like for like rental growth and a gradual reduction in the portfolio of listed securities, and

• Gross debt to total assets sustained below 35% and

• Fixed charge coverage sustained above 4.0x, and

• Maintaining a conservative approach with regard to the company's development pipeline, and

• Sound liquidity.

FACTORS THAT COULD LEAD TO A DOWNGRADE

• A deterioration in the economic outlook for the Romanian or Polish economy, or

• A deterioration in the operating performance of the company, as evidenced by reduced occupancy rates, negative rental growth or reduced profitability/cash flow generation; or

• Gross debt to total assets sustainably above 40%, or

• Fixed charge coverage below 3.0x, or

• Increasing development risk such that the committed development pipeline rose sustainably above 10% of the property portfolio,

• Failure to maintain an adequate liquidity profile.

Debt is measured as Moody's adjusted gross debt.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

NEPI Rockcastle is an Isle of Man incorporated real estate investment company that acquires, develops and manages retail and office property investments located in Romania, Poland, Slovakia, Croatia, Czech Republic and Serbia. The company was founded in December 2016, following the announcement of the merger between NEPI and Rockcastle. NEPI Rockcastle's total assets stood at around EUR5.3 billion and net rental and related income for the last twelve months is estimated at EUR257 million. The company had a market capitalisation of EUR6.3 billion as of 18 July 2017.

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