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Research Update:

Branicks Group AG Downgraded To 'CCC' On Remaining Near-Term Refinancing Risk; Outlook Negative

March 12, 2024

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Rating Action Overview

- On March 5, 2024, German landlord Branicks Group AG (Branicks) announced its plan to proceed with the StaRUG (Stabilisation and Restructuring Framework for Companies) process, to implement the maturity extensions of its €225 million promissory notes (Schuldscheindarlehen [SSD]) due this year.
- We view the transaction, if successful, as not tantamount to a default under our criteria. This reflects the expected compensation related to the bilateral nature of the instrument, which is tailored to a domestic market with a track record of pricing lower than capital market instruments.
- That said, we believe the extended maturities buy Branicks only limited additional time. To avoid another liquidity crunch, the company will rely heavily on net cash inflows from disposals of an estimated €300 million-€400 million within the next 12 to 15 months
- We therefore lowered our long-term issuer credit rating on Branicks and its senior unsecured debt to 'CCC' from 'CCC+'. Our recovery rating on the senior unsecured debt remains unchanged at '3'.
- The negative outlook reflects our view that Branicks might not secure sufficient liquidity--for example through asset disposals--to address its new debt maturities related to the renegotiated bridge loan and promissory notes. The company might also pursue a debt restructuring that we could view as tantamount to a default over the next 12 months. The negative outlook also reflects the risk that the anticipated StaRUG process will not be successful or closed in time.

Rating Action Rationale

On March 5, 2024, Branicks announced that negotiations for a maturity extension of the €225 million SSD due in 2024, will proceed under the StaRUG application, subject to approval by the Frankfurt court. The restructuring process aims to extend the maturities of the SSD due in 2024 under the StaRUG framework. The latter allows the company to implement a bulk single extension of maturities for the SSD instruments, with at least 75% acceptance threshold from holders. We understand that Branicks intends to secure the transaction with this process, and that a court decision will be reached by the end of March, just ahead of the first SSD maturity of around €73.5 million, due March 28, 2024. We currently anticipate the procedure to conclude positively for the company just before this date, while we understand that a potential extension of the bridge loan maturity is subject to a successful negotiation with the promissory note holders and approval by the Frankfurt court. We also note that the company has postponed the publication of its consolidated financial statements for fiscal year 2023 to April 30, and we expect it will ensure timely publication in compliance with any regulatory or documentary requirements.

While we see the maturity extension of the promissory notes as less than the original inputted promise, we do not view it as a default under our criteria. This reflects our view of an expected adequate compensation for lenders, particularly considering the SSDs' bilateral and unlisted financial contracts, historically yielding lower than other financing notes traded in capital markets, and the restructuring taking place at par value. While our base case assumes a successful extension of the bridge loan and SSDs, we believe Branicks will have only limited additional time to solve future debt maturities and still depends heavily on the execution of its disposal program this year. While not our base case, an unsuccessful outcome of the StaRUG process--for example due to the acceptance of promissory noteholders below 75% or an administrative delay by the court—would increase the likelihood of a conventional default.

Branicks remains highly dependent on asset disposals in the short term, with tight covenant headroom. We estimate that Branicks will need to raise net cash inflows of €300 million-€400 million over the next 12-15 months to serve short-to-near-term debt maturities and increase its headroom under its interest coverage ratio maintenance covenant (minimum 1.8x). Ongoing renegotiations will also increase funding costs, putting additional pressure on this maintenance covenant, which we estimate at around 2.0x as of December 2023. While we expect very tight headroom to continue this year, we do not anticipate a covenant breach. A covenant breach would lead to an event of default under the company's bond documentation, leaving bondholders with an acceleration right in such a scenario that could eventually exacerbate liquidity risks.

We lowered to 'CCC' our issue ratings on Branicks' senior unsecured debt. The issue rating on the senior unsecured debt remains in line with the issuer credit rating. Our recovery rating on Branicks' debt remains unchanged at '3', indicating our expectation of a 50%-70% recovery (rounded estimate: 55%) in the event of a hypothetical payment default (see "Branicks Group AG Downgraded To 'B+' On Reducing Liquidity Headroom; Placed On CreditWatch Negative," published Nov. 15, 2023).

Outlook

The negative outlook reflects our view that Branicks might not secure sufficient liquidity--for example through asset disposals--to address its new debt maturities related to the renegotiated bridge loan and promissory notes. The company might also pursue a debt restructuring that we could view as tantamount to a default over the next 12 months. The negative outlook also reflects the risk that the anticipated StaRUG process will not succeed or close on time, or that Branicks

might fail to publish its consolidated 2023 financial statements on time, risking noncompliance with regulatory or documentary requirements.

Downside scenario

We could lower the rating if:

- The company failed to address its successfully negotiated new debt maturities on the bridge loan, or the promissory notes, with disposal proceeds as planned; or
- We believe that a breach of financial covenants is unavoidable; or
- The StaRUG process is not successful, with a conventional default becoming more likely.

Upside scenario

We could take a positive action if the company successfully proceeds with its disposal plan to pay down any upcoming debt maturities, including the bridge loan and promissory notes, and improves its liquidity position such that immediate near-term ratings pressure is alleviated. Rating upside would also hinge on increased headroom under the financial covenants.

Company Description

Branicks is a listed company that specializes in the management of commercial real estate properties in Germany. As of Sept. 30, 2023, it managed a portfolio of €13.9 billion, split into two segments:

- Commercial portfolio: Comprising about 172 properties with a market value of €4.0 billion and generating about 88% of annualized EBITDA; and
- Institutional business: Comprising 183 properties with a value of €9.9 billion and generating about 12% of annualized EBITDA.

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Branicks Group AG Downgraded To 'CCC+' On Weak Liquidity And Tight Covenant Headroom; Outlook Negative, Jan. 24, 2024
- Branicks Group AG Downgraded To 'B+' On Reducing Liquidity Headroom; Placed On CreditWatch Negative," Nov. 15, 2023

Ratings List

Downgraded

	To	From
Branicks Group AG		
Issuer Credit Rating	CCC/Negative/--	CCC+/Negative/--
Senior Unsecured	CCC	CCC+
Recovery Rating	3(55%)	3(55%)

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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