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Research Update:

Branicks Group AG 'CCC' Ratings Affirmed On Still Tight Liquidity; Outlook Negative

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Rating Action Overview

- Germany-based landlord Branicks Group AG (Branicks)'s debt maturities in 2025 will amount to €448 million, including €293 million of promissory notes (Schuldscheindarlehen [SSD]) maturing between June and July 2025, and about €155 million of bank debt.
- Although the company has been on target with its disposal plans in 2024, its capital structure remains unsustainable and highly dependent on further disposal success.
- Therefore, we affirmed our 'CCC' long-term issuer credit rating on Branicks and our 'CCC' issue rating on the company's senior unsecured bond. The recovery rating remains at '3'.
- The negative outlook reflects the possibility that we could lower our ratings on Branicks if the company does not secure sufficient liquidity to address the debt maturities of 2025 or if the company enters a new debt restructuring framework in the next 9-12 months.

Rating Action Rationale

Despite successfully refinancing debt maturities in 2024, material debt maturities pressure Branicks' liquidity over the next 9-12 months. For 2025, Branicks' debt maturities amount to €448 million, mainly composed of €293 million of SSD maturing between June and July 2025 and about €155 million of secured mortgage debt. With an expected cash position of about €200 million at end-2024, including disposal proceeds completed in the fourth quarter of 2024, its liquidity position remains weak. We understand that the company is actively seeking further asset sale opportunities, continuing its asset disposal program and we estimate it will need about €200 million-€250 million of sales in 2025 to serve the upcoming SSD maturities. In 2024, Branicks completed approximately €558 million of asset sales at a discount, reaching its disposal target for the year. We note an improvement in the transaction market and expect the company to continue selling assets to address its liquidity needs. While we assume bank debt to be rolled over successfully, a failure to raise sufficient liquidity over the upcoming months could likely lead us to take a negative action. We further note that the headroom under its EBITDA interest maintenance covenant of 1.8x is improving but remains tight (2.0x as of Sept. 30, 2024). 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 currently do not anticipate a covenant breach.

We expect stable operating performance for Branicks in 2025, despite our expectations of slightly increasing vacancies for its office properties in Germany. As of Sept. 30, 2024, the company reported like-for-like rental income to decrease by about 0.4% in its €3.6 billion commercial portfolio, of which approximately 46% belong to office assets. We understand that this was mainly driven by tenant move outs, and a decrease of the occupancy rate to 93% from 95% in December 2023. We think the office segment could continue to see some pressure on occupancy rates because of slowing tenant demand and macroeconomic challenges in the German market and downsizing of office space. We forecast occupancy levels to drop slightly further to 92% for 2025 and a like-for-like rental income decrease of about 0.5% to 1% in 2024 remaining broadly flat in 2025. While its absolute EBITDA base will contract by disposal activities, Branicks' interest burden should benefit from an overall reduced gross debt position. We expect Branicks' S&P Global Ratings-adjusted EBITDA interest coverage to remain low at about 1.1x in 2024, increasing to 1.5x in 2025. Our calculation includes noncash amortization refinancing costs of around €20 million in 2024.

Our rating on Branicks' senior unsecured bond remains at 'CCC'. We maintained our recovery rating on the outstanding senior unsecured bond of €400 million at '3', indicating our expectation of 50%-70% recovery (rounded estimate: 60%) in the event of a payment default. Recovery prospects have improved slightly from 55% previously, following the repayment of the bridge loan. Our issue rating remains aligned with our long-term issuer credit rating on Branicks at 'CCC'.

Outlook

The negative outlook reflects the possibility that we could lower our ratings on Branicks if the company does not secure sufficient liquidity--for example through assets disposals or signing new debt transactions--to address the debt maturities of 2025 or if the company enters a debt restructuring framework, to address the maturity of its promissory notes that we could view as tantamount to a default over the next 9-12 months.

Downside scenario

We could lower the rating if:

- The company were unable to address its debt maturities of 2025 with disposal proceeds as planned;
- The company would pursue a distressed debt exchange, or other form of restructuring that could be considered as a default under our criteria; or
- We assess a breach of financial covenants as unavoidable.

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 its 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, 2024, it managed a portfolio of €12.1 billion, split into two segments:

- Commercial portfolio: Comprising about 144 properties with a market value of €3.6 billion and generating about 89% of annualized EBITDA; and
- Institutional business: Comprising 179 properties with a value of €8.8 billion and generating about 11% of annualized EBITDA.

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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 Remaining Near-Term Refinancing Risk; Outlook Negative, March 12, 2024

Ratings List

Ratings list		
Ratings Affirmed		
Branicks Group AG		
Issuer Credit Rating	CCC/Negative/--	
Ratings Affirmed; Recovery Expectations Revised		
	To	**From**
Branicks Group AG		
Senior Unsecured	CCC	CCC
Recovery Rating	3(60%)	3(55%)