Atrium receives Fitch credit rating upgrade to 'BBB', Outlook Stable

Jersey, 18 December 2018. Atrium European Real Estate Limited (VSE/ Euronext: ATRS) (“Atrium” or the “Company” and together with its subsidiaries, the “Group”), a leading owner, operator and redeveloper of shopping centres and retail real estate in Central Europe, is pleased to announce that Fitch Ratings (‘Fitch’) has upgraded the Company’s Long Term Issuer Default Rating (‘IDR’) from 'BBB-' to ‘BBB'. At the same time Fitch also upgraded the Short Term IDR from ‘F3’ to ‘F2’. The new rating is with a “stable” outlook.

The upgrade is based on Fitch's view that the quality of Atrium’s property portfolio has significantly improved over the past couple of years and particularly on the back of strong asset-rotation in 2018, following the company's exit from Hungary and Romania and the acquisition of further prime assets. This is paired with continued positive operating momentum across the company's geographies, including a stabilisation in Russia.

The “stable outlook” reflects Fitch’s expectations that Atrium will continue to benefit from a benign operating environment across its geographies, which will sustain operational and financial metrics at current levels.

Liad Barzilai, CEO of Atrium Group, commenting on the upgrade, said:

"This upgrade is a very positive and important step for the Group, highlighting the tangible benefits of our strategy of repositioning the portfolio into dominant urban centres in prime locations, the successful programme to dispose of non-core assets as well as the proactive management of our debt profile and increase of the Group's credit lines. The Company now stands in a robust position with a stronger balance sheet, whilst being well placed for further growth and it's with great satisfaction to see the execution of the strategy reflected in today's decision by Fitch Ratings."

The press release issued by Fitch Ratings is partially included below (also available in full on Fitch Ratings' website):

Fitch Upgrades Atrium European Real Estate Limited to 'BBB', Outlook Stable

18 DEC 2018 08:00 AM ET

Fitch Ratings - Frankfurt,London - 18 December 2018: Fitch Ratings has upgraded Atrium European Real Estate Limited's (Atrium) Long- and Short-Term Issuer Default Ratings (IDR) to 'BBB' and 'F2', from 'BBB-' and 'F3', respectively. The Outlook is Stable.

The upgrade reflects Fitch's view that the quality of Atrium's property portfolio has significantly improved over the past couple of years and particularly on the back of strong asset-rotation in 2018, following the company's exit from Hungary and Romania and the acquisition of further prime assets. This is paired with continued positive operating momentum across the company's geographies, including a stabilization in Russia.

The Stable Outlook reflects our expectations that Atrium will continue to benefit from a benign operating environment across its geographies, which will sustain operational and financial metrics at current levels.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
HIDE RATING ACTIONS				
Atrium European Real Estate Limited	LT IDR	BBB	Upgrade	BBB-
	ST IDR	F2	Upgrade	F3
senior unsecured	LT	BBB	Upgrade	BBB-
VIEW ADDITIONAL RATING DETAILS				

KEY RATING DRIVERS

Improved Portfolio: Fitch believes Atrium has significantly improved the overall quality of its portfolio over the past couple of years, through acquiring and developing several large shopping centres in Poland and the Czech Republic. The company has also disposed a large part of its smaller assets. Since December 2017, the company has sold 13 assets for EUR176 million, including its Hungarian portfolio and its single Romanian asset. As a result, the portfolio's net yields have dropped to around 6% (excluding Russia) in 2018 from 8.3% in 2012.

Selective M&A: The company's acquisition strategy is now focused on higher quality assets, including Palac Pardubice (Czech Republic) and Focus Mall in Bydgoszcz (Poland), as well as a 75% stake in Arkady Pankrac (Czech Republic). On 28 August 2018, Atrium acquired Wars Sawa Junior, a 37,000 square metre retail asset in a prime shopping area of central Warsaw, for EUR301.5 million. The acquisition of fully operating shopping centres lowers development risk as it eliminates the need for pre-lets and provides opportunities for future developments to increase dominance. Fitch believes Atrium will conservatively pursue acquisitions on an opportunistic basis, strengthening its position in its core markets.

Higher Asset Concentration: The strategic move towards larger, higher-quality assets has led to a rise in portfolio concentration, with the 10 largest properties representing around 67% of total investment properties and contributing 55% of the company's passing rent at end-November 2018. Nevertheless, Atrium has increased exposure to more stable countries, with all assets now located in investment-grade countries with healthy GDP and disposable income growth prospects. Although this is a characteristic shared by many peers, a lower asset concentration (top 10 assets below 60%) would be viewed positively.

Refinancing Improved Liquidity and Maturities: Recent refinancing by Atrium has extended its maturity profile and reduced its average interest costs, due to the coupon of its new EUR300 million notes being in line with the low-yield environment in the EMEA corporate bond market. In May 2018, Atrium increased its revolving credit facility by EUR75 million to EUR300 million and extended the maturity by three years to 2023. The resulting liquidity headroom and moderation of refinancing risks support the rating upgrade.

Strong Operational Metrics: The shopping centres in Atrium's portfolio have a wide variety of offerings, with nearly all having a major food anchor, such as Carrefour or Auchan, a diversity of stores with a bias toward fashion, as well as food and entertainment outlets. Operational metrics are strong, with occupancies of around 97% and group like-for-like (lfl) net rental income growth of around 1% in 9M18. Tenant concentration is low, with the top 10 tenants representing 21% of rents. The weighted average remaining lease term is five years, which is comparable with peers'.

E-commerce penetration is still low across CEE at less than 5%. While this will inevitably grow over the next few years, the company's portfolio of dominant, destination shopping centres will help manage the effects.

Prudent Development Pipeline: Fitch views Atrium's development pipeline as prudent, as activities are focused on lower-risk brownfield extensions, staged investment commitments and pre-leasing hurdle rates of 50% before construction. The company's capex and development pipeline from 2019 to 2021 is around EUR310 million (mostly uncommitted in nature), which is around 10% of the company's investment properties.

Commensurate Leverage: The Fitch-calculated loan-to-value (LTV; excluding the land bank and developments) remains comfortable for the ratings at 42% at end-November 2018, which is modestly higher than 2017's, owing to the recent acquisition and developments. Nonetheless, we forecast LTV to remain stable around 40% by end-2021, which is commensurate with the ratings. Cash flow leverage, as measured by net debt-to-EBITDA, will remain comparatively low at 7.0x to 8.0x, while interest cover should be comfortable at around 4.0x.

High Share of Unencumbered Assets: Atrium's capital structure remains mostly unsecured, with around 25% of income-generating assets encumbered, pro forma for the December 2018 refinancing of Warsaw-based shopping mall 'Wars Sawa Junior'. We forecast an unencumbered asset cover of 2.6x at end-2018, implying ample contingent liquidity for unsecured creditors.

DERIVATION SUMMARY

Atrium's improved property portfolio, focusing on dominant assets in CEE , underpins the ratings. All of Atrium's assets are in investment-grade countries, most of which are rated 'BBB' or higher. This geographical spread compares well with CEE peers', NEPI Rockcastle plc (BBB/Stable) and GlobalWorth Real Estate Investments Limited (BBB-/Stable), which both exhibit a higher country risk, owing to a strong focus to jurisdictions rated 'BBB-' and lower *with around 40% and 57% of assets, respectively, located in Romania (BBB-/Stable).*

At the same time, about 10% of Atrium's portfolio is exposed to the historically volatile, albeit recently improving, Russian market and at EUR2.8 billion around half the size of NEPI Rockcastle's portfolio. NEPI Rockcastle also benefits from a somewhat more conservative financial profile. Atrium is also significantly smaller and more concentrated than western European peers such as The British Land Company plc (A-/Stable), Unibail-Rodamco SE (A-/Stable) and Hammerson plc (BBB+/Stable). While Hammerson's benefits from sizeable scale and exposure to strong economies such as the UK, France and Ireland, a significant development pipeline and increasing secured debt has weakened its financial position compared to most EMEA peers.

Atrium's solid and nearly fully unencumbered balance sheet and strong financial profile largely offset the company's moderately weaker business profile. Its leverage is on a par with NEPI Rockcastle's, with LTV slightly higher (around 40%), similar net debt-to-EBITDA (7.0x-8.0x), but a longer track-record of conservative leverage.

Fitch rates Atrium as a standalone entity, despite 60% ownership by listed real estate company Gazit Globe Ltd (Gazit). This reflects sufficient limitations on control of Atrium by Gazit, including independent financing and a majority of independent Directors on the Board of Directors. Any change to the current structure may trigger parent-subsidiary-linkage considerations.

KEY ASSUMPTIONS

-Continued positive operating environment across all of Atrium's geographies
-Further asset rotation towards core geographies and monetisation of non-core land bank
-Total capex and re-development pipeline of EUR310 million spread over 2019-2021
-Dividend payments of EUR102 million in 2019 and long-term pay-out of 90% of reported funds from operations (FFO)
-No equity event assumed

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action
-Fitch defined LTV below 35% and net debt-to-EBITDA below 7.0x, on a sustained basis
-Maintaining occupancy rate firmly above 95%, and solid like-for-like rental growth
-Reduced concentration, with the top 10 assets comprising less than 60% of net rental income or value on a sustained basis

Developments That May, Individually or Collectively, Lead to Negative Rating Action
-LTV (as defined by Fitch) trending above 45% or net debt-to-EBITDA surpassing 8.0x, on a sustained basis
-Deterioration of operating metrics on a sustained basis, such as an occupancy rate sustainably below 90%
-A liquidity score below 1.25x on a sustained basis

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity, No Immediate Repayments: Atrium's liquidity profile has further improved through 2018, following a EUR75 million increase of the company's revolving credit facility (RCF) and a proactive refinancing exercise of outstanding senior unsecured notes. At end-November 2018, pro forma for the refinancing of WSJ, the company had around EUR30 million of cash on balance sheet and access to its committed EUR300 million RCF, of which EUR240 million are undrawn, providing ample liquidity headroom.

The liquidity profile is supported by the absence of short-term maturities and by the first sizeable debt maturity not until 2020, when the remaining EUR133 million of the partially refinanced 2020 notes will fall due. Furthermore, planned capex and re-development spend remains moderate at EUR67 million and EUR113 million in 2019 and 2020, respectively.

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 23 Mar 2018)
Sector Navigators (pub. 23 Mar 2018)
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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About Atrium European Real Estate

Atrium is a leading owner, operator and redeveloper of shopping centres and retail real estate in Central Europe. Atrium specializes in locally dominant food, fashion and entertainment shopping centres in the best urban locations. Atrium owns 34 properties with a total gross leasable area of over 970,000 sqm and with a total market value of approximately €2.8 billion. These properties are located in Poland, the Czech Republic, Slovakia and Russia, and with the exception of two, are all managed by Atrium's internal team of retail real estate professionals.

The Company is established as a closed-end investment company incorporated and domiciled in Jersey and regulated by the Jersey Financial Services Commission as a certified Jersey listed fund, and is listed on both the Vienna Stock Exchange and the Euronext Amsterdam Stock Exchange. Appropriate professional advice should be sought in the case of any uncertainty as to the scope of the regulatory requirements that apply by reason of the above regulation and listings. All investments are subject to risk. Past performance is no guarantee of future returns. The value of investments may fluctuate. Results achieved in the past are no guarantee of future results.