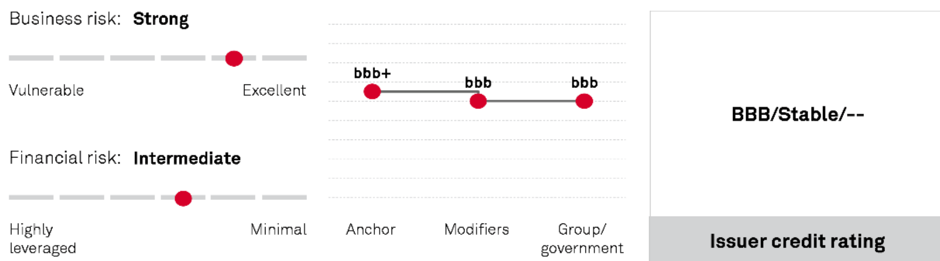
Aedifica SA

August 30, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths

Robust property portfolio of €5.3 billion at June 30, 2022, comprising mainly elderly care homes (66% of the portfolio's gross asset value), mixed-use elderly care buildings (17%), and senior housing (4%), benefiting from growing and aging populations, among other demographic trends.

Geographically well diversified across eight European countries, with top five markets--Belgium, Germany, Finland, the U.K., and the Netherlands--accounting for 95% of the portfolio.

Cash flow visibility and stability thanks to long-term lease structure with WAULT of 20 years and consistently high occupancy of 100%.

Prudent financial policy with target of maintaining loan-to-value (LTV) below 50%, translating into similar S&P Global Ratings-adjusted debt-to-debt-plus-equity ratios and solid debt servicing capability with adjusted interest coverage ratio of 5.7x at Dec. 31,2021.

Key risks

Increasing regulation and reputational risks that could weigh on health care operators' margins, eroding rent servicing capacity and its ability to pay rising rents in the medium term

Pure health care player with a somewhat high tenant concentration: Korian is the largest (11% of Aedifica's rental income), followed by Colisee (7%) and Azurit Rohr (6%).

Moderate portfolio size compared with higher-rated European peers with similar capital structure and credit metrics.

Debt-to-EBITDA ratio increasing moderately to 11x-12x over the next 24-36 months due to expansion plans, but still in line with that of similarly rated peers, and higher-than-anticipated cost increases might prompt modifications to pipeline.

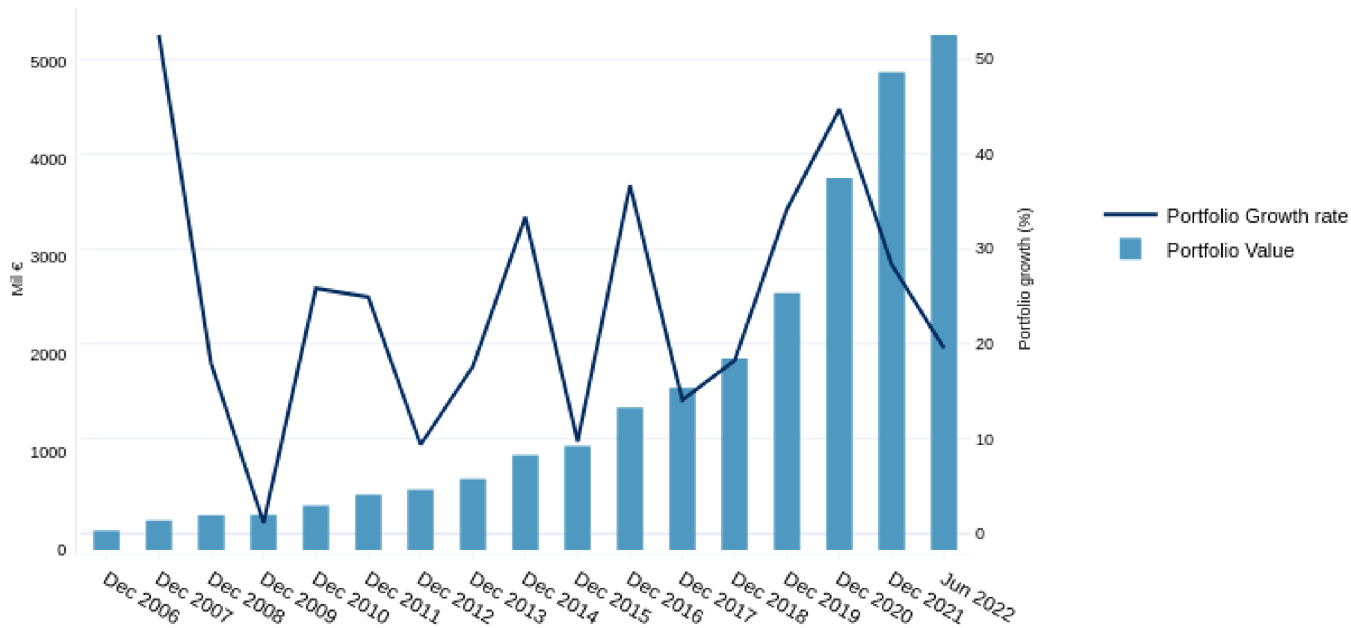
Favorable dynamics across the elderly health care sector will continue to underpin Aedifica's strong operating performance. Aedifica's elderly care homes and senior housing operations represent 87% of its portfolio as of second-quarter 2022, and this segment has long-term growth prospects underpinned by Europe's rapidly ageing population. We also note that the public sector's funding constraints have limited the supply of good quality health care assets. This pushes up high occupancy rates for health care operators that continuously expand their operations in order to meet demand.

Aedifica, alongside other elderly health care groups, are less susceptible to adverse economic factors. Amid COVID-19 economic fallout, for instance, Aedifica's operations were resilient. Its portfolio reported positive like-for-like rental growth of 1.9% in 2021 while retaining rent collection at pre-pandemic levels. Asset values also remained broadly stable throughout the pandemic. Additionally, we anticipate that Aedifica would manage to pass on a significant share of the currently high inflation to its tenants, given that the majority of its leases are triple net or double net contracts with indexed inflation. We expect that, over the next 12-24 months, Aedifica will demonstrate strong operating performance supported by relatively higher like-for-like growth (4%-5% in 2022 and 2%-3% in 2023) in rental income and near 100% occupancy.

We expect Aedifica to continue expanding its portfolio while sustaining leverage at current levels, in line with its financial policy. Aedifica's portfolio has grown from €3.8 billion at Dec. 31, 2020, to €5.3 billion at June 30, 2022, mostly through acquisitions. Also, the company has a committed development pipeline of €820 million, majorly in Germany. Aedifica has a good track record of issuing equity to support acquisitions over recent years, and we believe the company will keep using a balanced mix of debt and equity to fund growth. As such, leverage should remain at current levels, as indicated by debt-to-debt plus equity of 43%-44%.

Aedifica is unlikely to be affected in the short to medium term by the news of abuse and neglect at private nursing homes. Allegations of poor treatment of residents and the misuse of public funds such as the Orpea and Korian scandals in France (which together represent 16% of Aedifica's total rental income) have recently created a clamor across the health care market. We expect the impact on nursing home landlords to remain limited. In the short term, the structural undersupply of nursing homes across Europe and the lack of plausible alternatives, coupled with the increasing demand for these services on the back of increasing life expectancy and aging population, should keep occupancy rates high, despite the reputational damage from the news. Resulting tighter regulation, however, could put pressure on operators' margins. This would aggravate the inflationary pressure on energy and input cost, which, in the medium to longer term, could challenge operators' capacity to pay rent.

Aedifica's Portfolio Growth Over The Years



Source: Aedifica reports and S&P Global Ratings

Outlook

The stable outlook reflects our view that Aedifica's predictable rental income, particularly supported by resilient health care assets and overall long leases (20 years), should enable the company to continue generating stable cash flow over the next 24 months. We also expect the company to maintain S&P Global Ratings-adjusted debt to debt plus equity below 50% by funding its investments with a balanced mix of debt and equity, in line with its financial policy.

Downside scenario

We could lower the rating on Aedifica if:

- Adjusted debt to debt plus equity surpasses 50%, which could occur if Aedifica funds its external growth purely with debt, or in case of a material portfolio devaluation;
- Annualized debt to EBITDA materially exceeds 13x;
- Rental income declines markedly due to lower occupancy, for example, leading to adjusted EBITDA interest coverage falling below 2.4x; or

- Liquidity deteriorates, for example, due to a high committed investment pipeline not sufficiently backed by available undrawn credit lines or a substantially higher usage of short-term debt, such as commercial paper.

Upside scenario

We could raise the rating on Aedifica if:

- Adjusted debt to debt plus equity improves toward 40% or less on a sustainable basis, on the back of a change in Aedifica's financial policy;
- The company's debt to EBITDA declines toward 9.5x;
- EBITDA interest coverage remains at current levels; or
- Aedifica were to significantly expand its portfolio scale and scope so that it becomes more aligned with that of peers in a higher rating category.

Our Base-Case Scenario

Assumptions

- Indexation to be positive on the back of CPI for Europe as Aedifica has primarily CPI-indexed contracts. We assume like-for-like growth in rental income to remain lower at 3.5%-4.5% due to some delay in pass-through of rate over the next 12-24 months compared to inflation expectations of S&P Global Ratings' forecast of eurozone CPI growth in average of 5.0%-6.0%.
- High and stable occupancy of close to 100% in the next 24 months, thanks to Aedifica's long lease contracts.
- Overall stable EBITDA margin at 83%-85%, given most of the leases are triple- and double-net leases.
- Annual capital expenditure of €325 million-€350 million in 2022 and €190 million-€200 million in 2023 and in 2024.
- Asset revaluation of 1.2%-1.3% at the start of 2022 and nil going ahead given the pressure on the prices amid increasing interest rates.
- Acquisitions of €450 million in 2022 and €150 million-€160 million in 2023.
- Asset disposals of €100 million in 2022.
- Equity issuance of €300 million in 2022.
- Annual dividend of €125 million-€150 million, in line with the company policy.

Key metrics

Aedifica SA --Key Metrics*

Mil. €	2020a	2021a	2022e	2023f	2024f
EBITDA	153	195	225-250	250-275	250-275

Debt to EBITDA (x)	11.1	10.9	11.0-11.5	11.0-11.5	11.5-12.0
EBITDA interest coverage (x)	5.1	5.7	5.0-5.5	4.0-4.5	3.5-4.0
Debt/debt + equity (%)	43.9	43.3	40-45	45-50	45-50

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

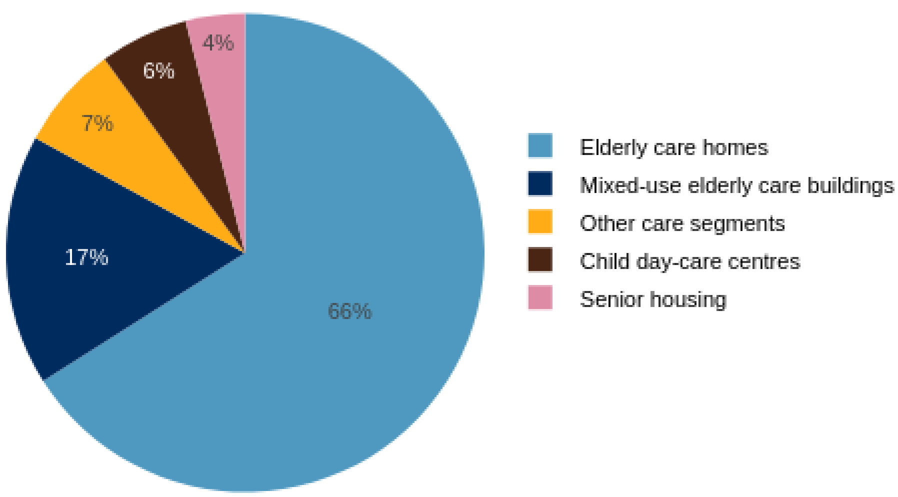
Company Description

Established in 2005, **Aedifica** is a listed Belgian company that specializes in health care properties, particularly housing for elderly people with care needs. Aedifica is headquartered in Belgium and has been listed on Euronext Brussels since 2006.

The company has a portfolio value of about €5.3 billion, as of June 30, 2022, comprising 593 properties. Its portfolio generates annual contractual rent of €231 million with a gross yield of 5.5%.

Aedifica operates under the REIT regime. The company's largest shareholder is BlackRock with 5.0% as of December 2021. The free float is 95%.

Breakdown Of Aedifica's Portfolio Value By Segment
Data as of June 30, 2022



Source: Aedifica report.

Peer Comparison

Aedifica NV/SA--Peer Comparisons

	Aedifica N.V./S.A.	Cofinimmo S.A./N.V.	Icade Sante SAS	Hemso Fastighets AB	Samhallsbyggnadsbolaget i Norden AB (publ)
Foreign currency issuer credit rating	BBB/Stable/--	BBB/Stable/A-2	BBB+/Stable/A-2	A-/Stable/A-2	BBB-/Negative/A-3
Local currency issuer credit rating	BBB/Stable/--	BBB/Stable/A-2	BBB+/Stable/A-2	A-/Stable/A-2	BBB-/Negative/A-3
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2020-12-31	2021-12-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	231	292	285	354	577
EBITDA	195	207	264	255	370
Funds from operations (FFO)	139	179	209	193	204
Interest	34	31	52	45	124
Cash interest paid	41	28	35	43	143
Operating cash flow (OCF)	157	188	176	244	378
Capital expenditure	310	102	153	402	383
Free operating cash flow (FOCF)	(153)	86	22	(157)	(5)
Discretionary cash flow (DCF)	(200)	(21)	(230)	(245)	(167)
Cash and short-term investments	15	20	471	67	957
Gross available cash	15	20	471	67	957
Debt	2,131	2,586	1,814	4,140	8,506
Equity	2,785	3,250	3,302	2,757	7,309
EBITDA margin (%)	84.3	70.7	92.6	72.0	64.2
Return on capital (%)	4.6	4.1	2.8	4.3	5.3
EBITDA interest coverage (x)	5.7	6.8	5.1	5.6	3.0
FFO cash interest coverage (x)	4.4	7.4	7.0	5.5	2.4
Debt/EBITDA (x)	10.9	12.5	6.9	16.3	23.0
FFO/debt (%)	6.5	6.9	11.5	4.7	2.4
OCF/debt (%)	7.4	7.3	9.7	5.9	4.4
FOCF/debt (%)	(7.2)	3.3	1.2	(3.8)	(0.1)
DCF/debt (%)	(9.4)	(0.8)	(12.7)	(5.9)	(2.0)

Business Risk

Aedifica's business risk profile is underpinned by resilient and a geographically well diversified property portfolio within elderly care homes (66% of property value as of June 30, 2022). We also note the mix of elderly care buildings (17%) and senior housing (4%). The latter contains less health care services inhouse, supported by underlying structural market fundamentals and where new supply should moderate in the next few years. The portfolio, worth about €5.3 billion as of June 30, 2022, comprises 599 properties that are well diversified across eight European countries: Belgium (25% of portfolio value), Germany (22%), U.K. (18%), Finland (17%), Netherlands (13%), Ireland (3%), Sweden (2%), and Spain (0%).

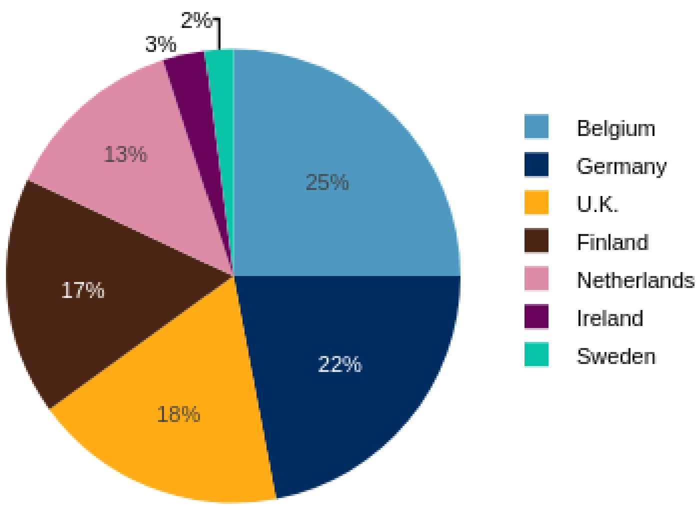
The business risk profile is also supported by strong operating parameters, such as occupancy rate close to 100% and very long lease tenure averaging 20 years. We understand Aedifica fully leases out its premises to operators on a long-term basis, which provides high cash flow visibility and predictability. The company has a relatively modern asset base and more than 60% of its assets are less than 15 years old, so we think maintenance costs should remain limited. We expect these operating parameters continue to remain strong leading to stable and predictable cash flows.

The company managed to accelerate its rental income during the first half of the year, with 4.2% like-for like growth in overall gross rental income on the back of positive indexation and renegotiated contracts primarily in the UK ; this compares well to competitors in the same segment. Aedifica also booked a 2.5% like for like positive portfolio revaluation over the same time period on the back of positive indexation and cash flow growth. As most of the lease agreements are linked to inflation, we forecast the like for like rental income growth to remain relatively high over the coming 12-24 months. Furthermore, Aedifica benefits from high barriers to entry in the elderly care homes sector, underpinned by its solid relationship with municipal governments. We recognize that privatization in some of Aedifica's regions of operation, like the Nordics, may result in increased supply and that municipal governments are increasingly opting to outsource. This dynamic provides Aedifica growth opportunities. Moreover, Aedifica has limited exposure to the development risk (5%-6% of portfolio each year) and with near 100% pre-letting, there is no significant risk toward increasing vacancy.

The tenants base comprises predominately private operators (91% of contractual rent) In Sweden and Finland, operators are mainly funded via public health care spending whereas elsewhere in Europe funding is mainly supplied by government health care insurance and fees from end users, this ultimately reduces earnings volatility related to a back drop in the business cycles. We note the potential political risks related to reimbursement and changes in the regulatory environment even though we do not expect any political or regulatory risk to harm Aedifica's operational performance in the short to medium term. We anticipate demand for Aedifica's assets will remain solid in the regions where the company operates, underpinned by demographic changes, such as a rapidly growing elderly population and the subsequent increasing needs for nursing homes and health care assets.

Breakdown Of Aedifica's Portfolio Value By Geography

Data as of June 30, 2022



Source: Aedifica report.

Aedifica's smaller and therefore more concentrated asset base, compared with higher-rated peers, detracts from the company's creditworthiness, in our view. This is particularly true when compared with higher rated peers with similar capital structures and credit metrics, such as German residential real estate landlord Grand City Properties or French retail landlord Klepierre S.A. We also note the difference in the company's overall limited absolute cash flow. In addition, we note the company's intensive investment pipeline--including development projects and acquisitions--of about €820 million majority of which is targeted until the end of 2022, which will continue to constrain the company's debt to EBITDA, as adjusted by S&P Global Ratings, over the forecast horizon. We factor this into the rating by deducting one notch for our comparable rating analysis.

Financial Risk

In our assessment of Aedifica's financial risk profile we consider its moderate leverage and conservative financial policy to maintain loan-to-value under 50%. Accordingly, the company's debt-to-debt plus equity has amounted to about 43%-44% (40.4% as of end-June 2022) in past couple of years and we forecast the company's ratio will remain at similar levels for the next 12-18 months amid the company's growth plans.

We also take into account Aedifica's solid track record of raising additional equity financing to fund its growth plans. Aedifica raised a total of €309 million in additional equity in the first half of 2022, similar to the amount raised in 2021, increasing capital both in cash and by contribution in kind, enabling deleveraging despite the large investments over the past 12-18 months. We understand that the company aims to continue to expand its portfolio base while remaining committed to its financial policy target expected to remain at current level, and we expect further growth of the company to be funded with similar mix of debt and equity.

The financial risk profile is further characterized by its strong interest coverage (5.7x for 2021) resulting from low cost (1.3% as of second-quarter 2022), and a relatively high net initial yield of 4.9%. We expect that the interest coverage to deteriorate slightly in the current rising interest rate environment but remaining comfortable around 4x-5x in upcoming 24-36 months. Furthermore, we view positively that impact of the rise of interest rate is to some extent mitigated by the company's use of mainly fixed-rate debt and hedged floating rate debt at 90.3% of its borrowings as of June 30, 2022.

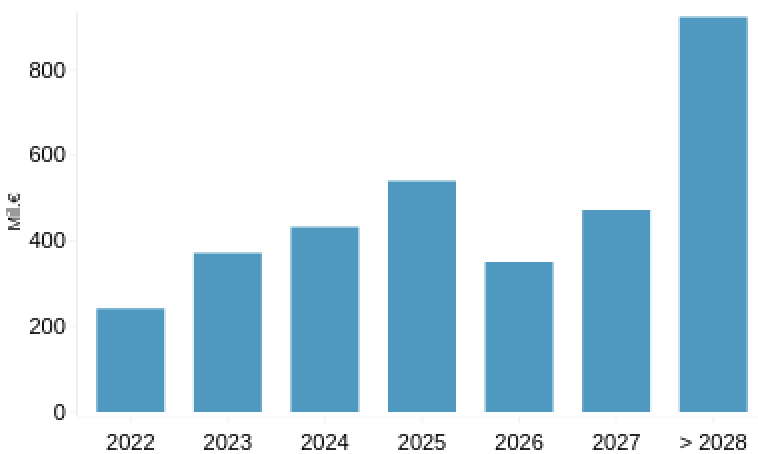
We expect the company's debt to EBITDA to slightly increase to 11x-12x (10.7x as of Q2 2022) given the intensive investments plans to grow the company.

Debt maturities

Aedifica's weighted-average debt maturity (excluding commercial paper) as of June 30, 2022, is 5.2 years.

Aedifica's Debt Maturity Profile Is Well Spread Out Over The Coming Years

As of June 30, 2022



Source: Aedifica report.

Aedifica NV/SA--Financial Summary

Period ending	June-30-2016	June-30-2017	June-30-2018	June-30-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	60	79	92	118	185	231

Aedifica NV/SA--Financial Summary

EBITDA	48	66	76	98	153	195
Funds from operations (FFO)	34	48	58	78	98	139
Interest expense	13	17	16	21	30	34
Cash interest paid	14	18	17	20	42	41
Operating cash flow (OCF)	36	51	68	69	139	157
Capital expenditure	21	43	59	111	386	310
Free operating cash flow (FOCF)	15	8	10	(42)	(246)	(153)
Discretionary cash flow (DCF)	(7)	(14)	(25)	(70)	(377)	(200)
Cash and short-term investments	5	8	11	15	24	15
Gross available cash	5	8	11	15	24	15
Debt	475	610	734	846	1,702	2,131
Common equity	621	888	942	1,430	2,173	2,785
Adjusted ratios						
EBITDA margin (%)	80.8	84.2	83.1	82.8	82.8	84.3
Return on capital (%)	4.4	5.1	4.8	5.0	5.0	4.6
EBITDA interest coverage (x)	3.6	3.9	4.7	4.7	5.1	5.7
FFO cash interest coverage (x)	3.4	3.7	4.5	5.0	3.4	4.4
Debt/EBITDA (x)	9.8	9.2	9.6	8.6	11.1	10.9
FFO/debt (%)	7.1	7.9	8.0	9.2	5.8	6.5
OCF/debt (%)	7.6	8.4	9.3	8.2	8.2	7.4
FOCF/debt (%)	3.2	1.4	1.3	(4.9)	(14.5)	(7.2)
DCF/debt (%)	(1.4)	(2.3)	(3.4)	(8.2)	(22.1)	(9.4)

Reconciliation Of Aedifica NV/SA Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	2,081	2,781	231	196	351	31	195	198	48	313
Cash taxes paid	-	-	-	-	-	-	(16)	-	-	-
Cash interest paid	-	-	-	-	-	-	(38)	-	-	-
Lease liabilities	60	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(15)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	3	(3)	(3)	-	(3)

Reconciliation Of Aedifica NV/SA Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Nonoperating income (expense)	-	-	-	-	7	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(38)	-	-
Noncontrolling/ minority interest	-	4	-	-	-	-	-	-	-	-
Debt: Put options on minority stakes	6	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(1)	(1)	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	(160)	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	4	-	-	-	-	-
Total adjustments	50	4	-	(0)	(150)	3	(56)	(41)	-	(3)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	2,131	2,785	231	195	201	34	139	157	48	310

Liquidity

We assess Aedifica's liquidity as adequate. We estimate the ratio of liquidity sources to uses to be more than 1.2x in next 12 months as of June 30, 2022.

Principal liquidity sources

- Unrestricted cash balances of about €17.6 million
- Undrawn revolving credit facility of €1,171 million, not coming due within the coming 12 months.
- Cash FFO of about €150-155 million for next 12 months.

Principal liquidity uses

- About €425 million of debt maturities in next 12 months whereof € 235 million refers to commercial paper
- Capital expenditure of approximately €304 million
- Dividends of €150 million over next 12 months.

Covenant Analysis

Requirements

- Debt to assets below 60% (41% as of June 30, 2022).
- Interest coverage ratio above 2.0x (5.7x as of December 31, 2021).

Compliance expectations

Aedifica has covenants under its outstanding bank debt and credit lines. We understand that the headroom under these covenants is adequate, at more than 10%. We expect Aedifica to maintain sufficient headroom under all outstanding and future financial covenants.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG factors are an overall neutral consideration in our credit rating analysis of . The company's focus on health care assets addresses a need for care, with aging populations in Aedifica's countries of operation. We do not, however, view the ownership of and rental income collection from these health care assets as having a materially positive influence on our credit rating analysis from a social perspective. In addition, despite its environmental objective achieve net zero greenhouse gas emissions by 2050, we do not view environmental factors as having a material influence on our rating on Aedifica. Finally, we view the company's governance as comparable to the industry's standards.

Aedifica issued its first Sustainability Bond for a total €500 million, bringing the group's sustainable financing to 27% as of June 30, 2022%.

Issue Ratings--Subordination Risk Analysis

Capital structure

Aedifica's capital structure is well diversified with bank borrowings accounting for 46% of its financing as on June 30, 2022, while remaining 52% borrowings coming from debt capital markets.

Analytical conclusions

We align our issue rating on the unsecured bonds with our issuer credit rating on Aedifica as we see limited subordination risk related to the company's secured debt. We estimate Aedifica's ratio of secured debt to total assets (5% as of Dec. 31, 2021) to remain well below our threshold of 40% for the rating.

Rating Component Scores

Foreign currency issuer credit rating	**BBB/Stable/--**
Local currency issuer credit rating	**BBB/Stable/--**
Business risk	**Strong**
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bbb**

Related Criteria

- 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: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, 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: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

– When Rates Rise: European REITs' Funding Costs And Cap Rates Climb, So Does Revenue, June 16, 2022

Ratings Detail (as of August 30, 2022)*

Aedifica N.V./S.A.

Ratings Detail (as of August 30, 2022)*

Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB
Issuer Credit Ratings History	
30-Aug-2021	BBB/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.