Tear Sheet:

Aedifica SA

July 20, 2023

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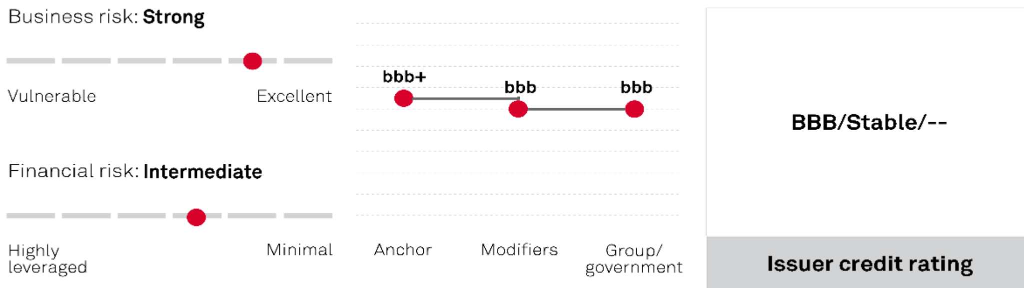
Aedifica's recent capital raise will provide it with a liquidity buffer and limit its leverage as it supports its committed development pipeline. The company raised €380 million via a rights issue at a 16% discount in June 2023. We expect Aedifica will use the proceeds from this transaction to reduce its leverage, by repaying its short-term debt facilities, but also partially fund its €630 million committed development pipeline (out of which €450 million was still to be invested as of end-March 2023) and potential external growth opportunities. We view this transaction as credit positive because it provides the company with a liquidity buffer to address its short-term needs and improves its credit ratios. We anticipate it will reduce its S&P Global Ratings-adjusted debt to debt plus equity to about 40% as of the end of 2023 (from 43.4% as of year-end 2022) and expect it will remain below 45% for the following two years, with good headroom relative to our 50% downside threshold. We also anticipate the company's S&P Global Ratings-adjusted debt to EBITDA will remain in the 9.0x-10.0x range over the forecast period.

Despite the potential that inflation will negatively affect its tenant's profitability, especially care home operations, Aedifica's performance remains solid. Although we see potential for negative rent reversions or increased tenant credit risk, we anticipate their impact on the company's operating performance will be limited at this stage. We forecast a like-for-like performance an expect Aedifica will increase its revenue by about 3%-4% in 2023 and 2% in 2024 supported by lease indexation. For example, Orpea, which completed a debt restructuring in February 2023 and is reshuffling its operations, only accounted for 4.6% of the company's rental income as of the end of March 2023.

Aedifica's liquidity and funding remain sound and its maturities over the next few years, while elevated, are well staggered. The company had access to revolving credit facilities totaling €1.8 billion as of the end of June 2023, of which €700 million was undrawn and maturing after June 2024, in addition to about €15 million of cash, €190 million of funds from operations, €35 million to €55 million of disposal proceeds, and €374 million of share issuance proceeds. We anticipate this level of liquidity will be sufficient to cover its uses over the next 12 months, including committed capital expenditure (capex) of €246 million, cash dividend payments of €133 million, and €439 million of debt maturities (of which €242 million Is outstanding commercial paper). Although Aedifica benefits from a relatively sound weighted average debt maturity of 4.5 years, it faces annual maturities of €400 million-€550 million on top of its elevated committed capex and dividend requirements.

Ratings Score Snapshot



Recent Research

- European REITs: The Great Repricing Continues, Jul. 18, 2023
- Industry Top Trends Update Europe: Real Estate (REITs) - Refinancing risks increase, asset corrections materialize, Jul. 18, 2023

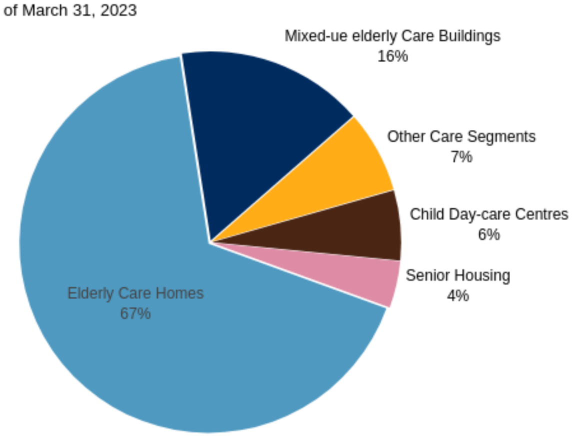
Company Description

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.

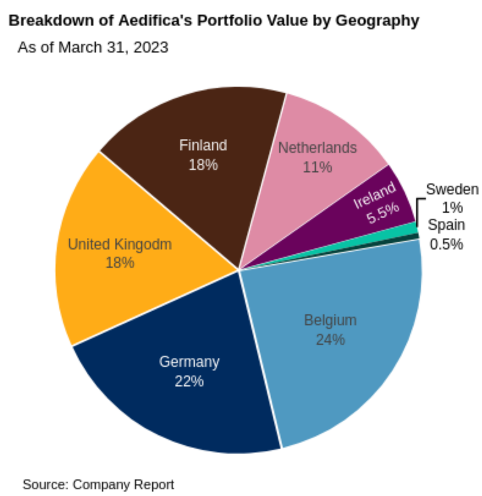
The company had a portfolio value of about €5.7 billion as of March 31, 2023, comprising 624 properties. Its portfolio generates annual contractual rent of €311 million with a gross yield of 5.7%. Aedifica operates under the REIT regime. The company's largest shareholder is BlackRock with 5.4% as of December 2022. The free float is 94.6%.

Breakdown of Aedifica's Portfolio Value by Segment

As of March 31, 2023



Source: Company Report



Outlook

The stable outlook reflects our expectation that Aedifica's predictable rental income, supported by its resilient health care assets and long overall leases (20 years), will likely enable it to continue generating stable cash flow over the next 24 months. We also expect the company will maintain S&P Global Ratings-adjusted debt to debt plus equity of 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 our rating on Aedifica if:

- Its S&P Global Ratings-adjusted debt to debt plus equity surpasses 50%, which could occur if it funds its external growth purely with debt or experiences a material portfolio devaluation;
- Its annualized debt to EBITDA materially exceeds 13x;
- Its rental income declines markedly due to lower occupancy, for example, causing its S&P Global Ratings-adjusted EBITDA interest coverage to fall below 2.4x; or
- Its liquidity deteriorates due to a high committed investment pipeline that it doesn't sufficiently back with available undrawn credit lines or it substantially increases its usage of short-term debt, such as commercial paper.

Upside scenario

We could raise our rating on Aedifica if:

- It improves its S&P Global Ratings-adjusted debt to debt plus equity toward 40% or less on a sustainable basis supported by a change in its financial policy;
- The company's debt to EBITDA declines toward 9.5x;

- Its EBITDA interest coverage remains at current levels; or
- It significantly expands the scale and scope of its portfolio such that it becomes more aligned with those of its peers we rate in a higher category.

Key Metrics

Aedifica NV/SA--Forecast summary

Period ending	June-30-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. EUR)	2019a	2020a	2021a	2022a	2023e	2024f	2025f
Revenue	118	185	231	272	302	324	342
EBITDA	98	153	195	232	259	277	293
Interest expense	21	30	34	43	59	67	73
Capital expenditure (capex)	111	386	310	306	252	317	150
Dividends	28	130	48	119	120	120	120
Debt	846	1,702	2,131	2,520	2,312	2,658	2,838
Equity	1,430	2,173	2,785	3,289	3,534	3,551	3,620
Adjusted ratios							
Debt/EBITDA (x)	8.6	11.1	10.9	10.9	8.9	9.6	9.7
EBITDA interest coverage (x)	4.7	5.1	5.7	5.4	4.4	4.1	4.0
EBITDA margin (%)	82.8	82.8	84.3	85.3	85.6	85.6	85.6
Debt/debt and equity (%)	37.2	43.9	43.3	43.4	39.5	42.8	43.9

EFinancial Summary

Aedifica NV/SA--Financial Summary

Period ending	June-30-2017	June-30-2018	June-30-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	79	92	118	185	231	272
EBITDA	66	76	98	153	195	232
Interest expense	17	16	21	30	34	43
Capital expenditure	43	59	111	386	310	306
Dividends paid	22	34	28	130	48	119
Debt	610	734	846	1,702	2,131	2,520
Common equity	888	942	1,430	2,173	2,785	3,289
Valuation of investment property	1,540	1,736	2,316	3,809	4,861	5,620

Aedifica NV/SA--Financial Summary

Adjusted ratios

EBITDA margin (%)	84.2	83.1	82.8	82.8	84.3	85.3
EBITDA interest coverage (x)	3.9	4.7	4.7	5.1	5.7	5.4
Debt/EBITDA (x)	9.2	9.6	8.6	11.1	10.9	10.9
Debt/debt and equity (%)	40.7	43.8	37.2	43.9	43.3	43.4

Peer Comparison

Aedifica NV/SA--Peer Comparisons

	Aedifica N.V./S.A.	Cofinimmo S.A./N.V.	Icade Sante S.A.	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	BB-/Watch Neg/B
Local currency issuer credit rating	BBB/Stable/--	BBB/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2	BB-/Watch Neg/B
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Revenue	272	318	325	368	668
EBITDA	232	244	289	259	417
Interest expense	43.3	35.8	32.1	54.0	174.6
Capital expenditure	306	143	177	342	424
Dividends paid	119.1	134.4	211.7	96.2	233.6
Debt	2,520	2,872	2,085	4,486	8,528
Equity	3,289	3,667	4,151	2,695	4,940
Valuation of investment property	5,619.7	6,082.5	6,180.4	7,619.0	12,173.3
Adjusted Ratios					
EBITDA margin (%)	85.3	76.9	88.9	70.5	62.3
EBITDA interest coverage (x)	5.4	6.8	9.0	4.8	2.4
Debt/EBITDA (x)	10.9	11.8	7.2	17.3	20.5
Debt/debt and equity (%)	43.4	43.9	33.4	62.5	63.3

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 Aedifica. The company's focus on health care assets addresses the need for care, with aging populations in Aedifica's countries of operation. However, we do not 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 to 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 with industry standards.

Aedifica issued its first sustainability bond for a total €500 million in 2021, with the group's sustainable financing standing at 34% as of March 31, 2023.

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