

## CREDIT OPINION

17 January 2023

### Update



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### RATINGS

#### Peach Property Group AG

Domicile Switzerland

Long Term Rating Ba2

Type LT Corporate Family Ratings

Outlook Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Peach Property Group AG

Update following change of outlook to negative from stable

### Summary

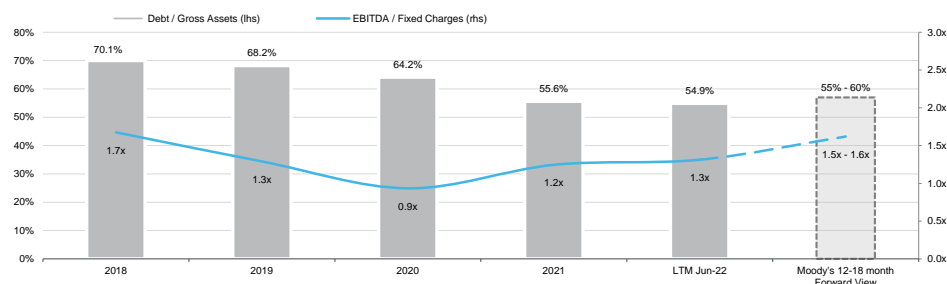
On 15 December 2022 we affirmed [Peach Property Group AG's](#) (PPG) Ba2 corporate family rating (CFR) and changed the outlook to negative from stable. We changed the outlook to negative because we expect the more challenging operating environment including expected property value declines, inflationary cost pressures, and constrained funding markets alongside higher refinancing costs will lead to weaker credit metrics.

The company's Ba2 CFR is supported by (1) stable rental cash flow from its around 27,500 residential units with a granular tenant base and a ten-year average tenancy length and (2) a good track record of integrating acquisitions while maintaining strong operating metrics. Credit challenges include (1) the company's presence in secondary cities that nonetheless exhibit strong fundamentals; (2) the still relatively small but rapidly growing scale of the company's operations. We do not expect major changes to the rental housing regulatory framework, however more stringent rental regulations are a potential long-term risk for the sector.

### Exhibit 1

We expect interest coverage metrics to improve and leverage to deteriorate in the next 12-18 months

Moody's-adjusted gross debt/total assets and fixed-charge coverage



[1] All quantitative credit metrics incorporate Moody's standard adjustments to the financial statements for non-financial corporations.

[2] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures. Forward View is pro forma for the acquisitions.

Source: Moody's Financial Metrics™ and Moody's Investors Service estimates

## Credit strengths

- » Focus on regulated rental housing activities in Germany, generating stable cash flow in medium-sized cities with mostly positive demographic trends
- » Recent large scale acquisitions will improve scale and diversification, and help profitability
- » Customer-centric approach that will help sustain occupancy

## Credit challenges

- » Relatively small scale and limited track record of operating with a scalable platform
- » Elevated leverage when measured on a net debt/EBITDA basis, and weak fixed charge coverage

## Rating outlook

The negative outlook reflects the changed business environment for PPG, with rising interest rates weakening the outlook for property values and increasing the marginal cost of debt, which will result in higher leverage. The negative outlook also reflects the risk the company may not reach all the credit metrics expected for the current rating level.

## Factors that could lead to an upgrade

- » Continued growth in scale and diversification and a consistent track record of strong operating performance, along with a balanced growth strategy and strong access to debt and equity capital
- » Moody's-adjusted gross debt/total assets below 55% and a corresponding improvement in Moody's-adjusted net debt/EBITDA, along with financial policies that support lower leverage
- » Moody's-adjusted fixed charge coverage above 2.25x on a sustained basis
- » strong liquidity with a long-dated and well staggered debt maturity profile

## Factors that could lead to a downgrade

- » Moody's-adjusted gross debt/total assets is above 60% on a sustained basis and Moody's-adjusted net debt/EBITDA does not improve below the 20x
- » Moody's-adjusted fixed charge coverage below 1.75x on a sustained basis
- » Failure to maintain adequate liquidity or addressing upcoming debt maturities well in advance
- » Weak operating performance and a vacancy rate that is persistently and materially above market levels

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Key Indicators for Peach Property Group AG[1][2][3]

	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	LTM (Jun-22)	Moody's 12-18 Months Fwd View
Gross Assets (USD billions)	0.6	0.8	1.2	2.5	3.1	3.0	2.9 - 3.0
Unencumbered Assets/Gross Assets	28.8%	13.3%	37.8%	47.7%	35.2%	23.7%	15% - 19%
Debt / Real Estate Gross Assets	67%	70%	68%	64%	56%	55%	55%-60%
Net Debt / EBITDA	36.1x	32.3x	46.9x	58.7x	27.9x	26.8x	24x - 26x
Secured Debt / Gross Assets	41.3%	47.4%	31.2%	21.0%	28.6%	30.7%	30%-35%
EBITDA / Fixed Charges	1.7x	1.7x	1.3x	0.9x	1.2x	1.3x	1.5x-1.6x

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments.

[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

[3] Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.

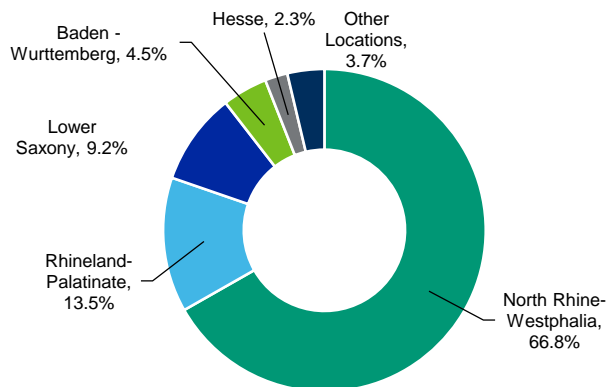
Source: Moody's Investors Service

## Profile

PPG is a real estate company focused on residential investments in Germany. The company is headquartered in Zurich and has been listed on the SIX Swiss Exchange since 2010 (market capitalisation of CHF288 million as of 11 January 2023), with its German group headquarters in Cologne. As of 30 June 2022, the company owned 27,398 residential units, with a total lettable area of around 1.7 million square metres and a total market value of CHF2.7 billion.

Exhibit 3

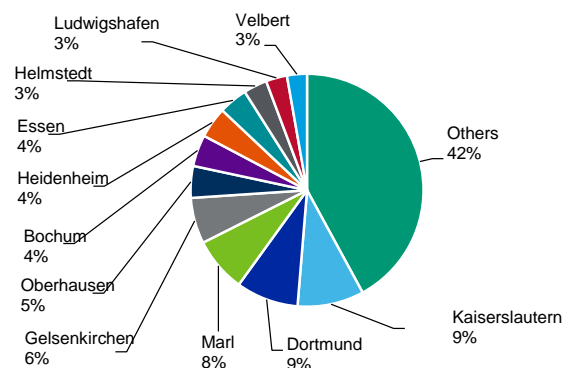
### 67% of properties are located in North Rhine-Westphalia Portfolio value as of 30 June 2022



Source: Company reporting

Exhibit 4

### 37% of the properties are located across the top five cities Portfolio value as of 30 June 2022



Source: Company reporting

## Detailed credit considerations

### Focus on regulated rental housing activities in Germany, generating stable cash flow in medium-sized cities with mostly positive demographic trends

PPG's residential portfolio is mainly focused on medium-sized cities, with around 67% of the company's portfolio by value located in [North Rhine-Westphalia](#) (Aa1 stable), Germany's largest regional economy and most populous state. The company is also present in Rhineland-Palatinate, where 13.5% of its assets are located, and Lower Saxony, where it has a 9.2% asset exposure. Most of the company's locations show positive population trends.

However, some assets — especially in smaller cities — lack critical mass and are more dispersed within the regions, even though many properties are within the catchment area of larger urban clusters. The company mostly sources its assets off-market, and it looks for

high cash-on-cash yields and upside potential from rental increase and vacancy reduction. The company's management believe that yields are higher and less cyclical in the markets where it operates compared with primary (A) cities in Germany.

The German rental market is highly regulated: reletting rents and rent increases for existing tenants are capped according to a local index (Mietspiegel) calculated by local authorities and taking into consideration the property's location and quality. Rent increases are capped at 15%-20% over a period of three years, but can be greater if landlords modernise the units. While the potential for tighter regulations is a threat to asset values and cash flow growth, it will also probably intensify the supply and demand imbalance.

Broad tenant diversity and high affordability within its portfolio, as well as strong engagement with tenants, should limit implications of any tightening in regulations for PPG. Furthermore, the cities where PPG operates have a lower risk of political rent control interventions than larger cities, such as Berlin, because the shortage of rental apartments is less acute.

#### **Customer-centric approach, which will help sustain occupancy**

The company is focused on client service and has built a scalable platform that combines digital services and local physical locations (Peach Points). Establishing communication channels and remaining close to its tenants will help the company address any maintenance or other issues in a timely manner. This approach will help sustain and improve occupancy, and make it easier for the company to increase rents. PPG operated 15 Peach Points in the second half of 2022, a 25% increase compared to the previous period.

#### **Small scale and limited track record of operating with a scalable platform**

The company remains relatively small compared with other German residential peers we rate, despite several large acquisitions over the last few years. The company has been measured and disciplined in its growth since 2010, and it adheres to its own underwriting standards. The smaller scale somewhat constrains the company's ability to issue larger benchmark bonds and restricts the liquidity of its traded equity. On the asset side, the company does not enjoy the economies of scale of the larger competitors or the ability to spread overhead costs over a larger portfolio. However, acquisitions over the last few years have greatly expanded the platform and place the company on a stronger footing.

We expect the company to continue its track record of growing income through resetting rents to market and modernising its portfolio, leading to improved occupancy rates. The company had a 7.6% vacancy rate as of 30 June 2022, and 476 apartments held under renovation. During the first six months ended 30 June 2022 the company renovated around 1,400 apartments. PPG increased its rental income to CHF59.3 million, an 18% year-on-year increase while like-for-like rental growth in the first six months of 2022 was 3.4%.

#### **A more challenging operating environment means the improvement in credit metrics will be slower than we initially expected**

Moody's-adjusted gross debt/total assets stood at 54.9% as of 30 June 2022, and we expect this ratio to increase to just above 57% in the next 18 months after incorporating expected value declines of more than 10% and the planned fully subscribed CHF63 million equity raise via mandatory convertible bonds that are expected to switch to equity by April 2023. This leverage ratio is above our previous expectations and leaves limited capacity under the 60% guidance for the Ba2 CFR. The company's financial policy targets a maximum loan-to-value (LTV) ratio of 50% in the medium term.

The willingness of core shareholders to support the equity raise despite the company's shares trading at a steep discount to net asset value is credit positive. Further positive actions taken by PPG to strengthen its balance sheet include limiting capital expenditure, cutting costs, and a decision to waive dividends for 2022 (subject to approval by the Annual General Meeting).

Proceeds from the planned equity raise in addition to drawing under a €100 million secured facility will fully repay the upcoming CHF183 million equivalent outstanding backed senior unsecured notes due in February 2023 leaving no major refinancing needs until CHF626 million of debt becomes due in 2025.

Encouragingly, operating performance remains solid with the company expecting rental income at the upper end its forecast for 2022 (CHF113-117 million), a continuation in the trend of lower vacancy, and further rental growth in 2023. However, significant increases in maintenance, operating and financing costs will weigh on profitability. As a result, we now expect net debt/EBITDA to remain elevated for significantly longer than it had previously expected.

The company will also rely on its revolving credit facility to finance its capital expenditure programme to renovate its apartments and consequently reduce vacancy rate to around 6% in 2023 and 5% in 2024. We estimate that along with rental increases, the reduction in vacancy rate will increase revenue by around 7% in 2022 and around 6% in 2023. As a result Moody's-adjusted net debt/EBITDA will decline to around 23x by year-end 2023.

Moody's-adjusted fixed charge coverage is weak and stood at 1.3x as of 30 June 2022, which is below our 1.75x guidance for the Ba2 CFR. We forecast this ratio to improve in 2023 mainly due to repayment of the more costly senior unsecured bonds, and to be around 1.5x by year-end 2022 and to gradually improve above 1.8x by year-end 2024. The company is well protected against rising interest rates with around 94% of the its debt fixed and hedged.

## ESG considerations

### Peach Property Group AG's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 5

#### ESG Credit Impact Score

# CIS-3

## Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.



Source: Moody's Investors Service

**CIS-3** reflects moderately negative impact of ESG considerations on PPG's ratings. This reflects moderately negative exposures to environmental, social and governance risks for credit quality mainly linked lower rental growth or returns because of higher capital requirements to meet environmental standards or tighter regulation.

Exhibit 6

#### ESG Issuer Profile Scores

ENVIRONMENTAL

# E-3

## Moderately Negative



SOCIAL

# S-3

## Moderately Negative



GOVERNANCE

# G-3

## Moderately Negative



Source: Moody's Investors Service

### Environmental

PPG's credit exposure to environmental risk is moderately negative (**E-3**). This primarily reflects its exposure to carbon transition risk because of increasing capital spend requirements to improve the energy performance of its buildings from a regulatory, investors and tenant perspective.

### Social

PPG's credit exposure to social risk is moderately negative (**E-3**), driven by demographic and societal trends and customer relations. Regulatory risk due to the scarcity of affordable housing in its markets could lead to more stringent housing and rent control policies which would slow rental growth and negatively affect asset values. PPG faces moderate customer relations risk related to the potential threat of breaches of its customer's data which could lead to privacy and legal issues.

## Governance

PPG's governance risk is moderately negative (**G-3**), reflecting its relatively high leverage, track record of aggressive growth through large acquisitions, and high ownership concentration risks.

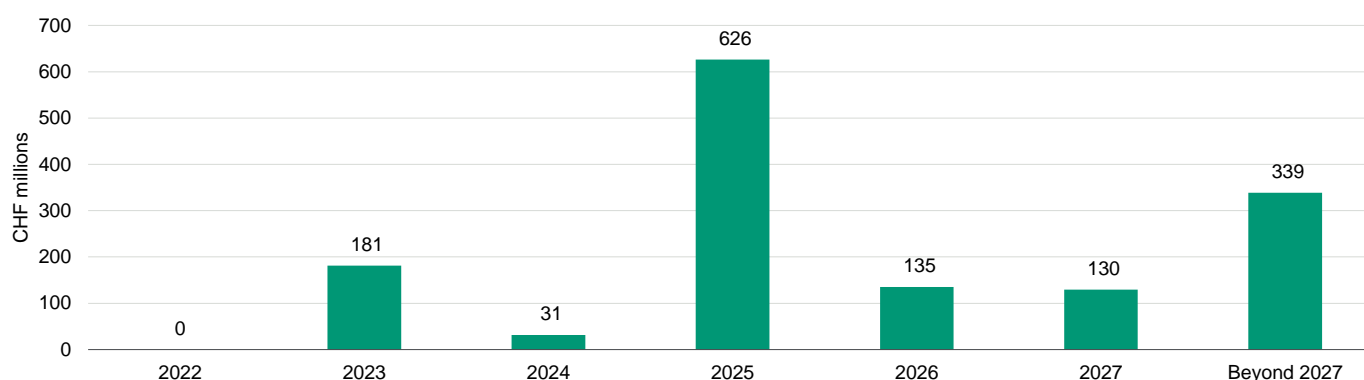
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Liquidity

PPG's liquidity is adequate. As of 30 June 2022, its sources of liquidity were CHF127.1 million consisting of CHF42.1 million of cash and cash equivalents and a CHF100 revolving credit facility out of which CHF15 millions have been drawn by the company as of 30 June 2022. The company's cash sources are sufficient to cover the cash requirements, mainly capital spending and debt service, for the next 18 months.

Exhibit 7

### Debt maturity profile as of 30 June 2022



Source: Company reporting

## Structural considerations

In line with Moody's REITs and Other Commercial Real Estate Firms methodology, PPG's Ba2 CFR references a senior secured rating because secured funding forms most of the company's funding mix (61% as of 30 June 2022). We previously rated unsecured debt at the same level as the CFR because of the high quality of the company's unencumbered asset pool that provided good asset coverage to unsecured creditors.

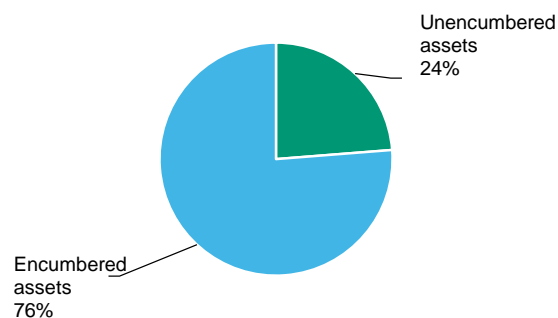
On 15 December 2022 we downgraded [Peach Property Finance GmbH](#)'s backed senior unsecured debt rating to Ba3 which is one notch below PPG's Ba2 senior secured CFR because the material decline in unencumbered assets weakened the credit standing of unsecured creditors. Unencumbered assets to unsecured debt ratio was 1.2x as of 30 June 2022, down from 1.55x as of 31 December 2021. This ratio is expected to deteriorate further to around 1x in 2023 as the upcoming backed senior unsecured debt maturing in February 2023 is partially refinanced with secured debt and the company makes further drawings under its €100 million unsecured revolving credit facility (€15 million drawn as of 30 June 2022).

The backed senior unsecured debt is issued by Peach Property Finance GmbH and guaranteed by PPG, and ranks pari passu with all existing and future senior unsecured obligations of the company. The bonds are subject to three financial incurrence covenants: (1) a minimum interest coverage (2) a maximum net LTV ratio (3) and a maximum net secured LTV ratio of 40%.

Exhibit 8

**PPG has a 24% unencumbered asset ratio**

As of 30 June 2022, CHFm

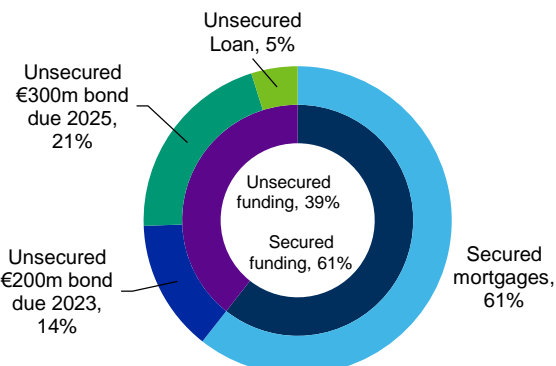


Source: Company estimates

Exhibit 9

**42% of PPG's funding is unsecured**

As of 30 June 2022



Source: Company estimates

**Rating methodology and scorecard factors**

The following table shows PPG's scorecard-indicated outcome using REITs and Other Commercial Real Estate Firms Methodology published in September 2022, with data as of 30 June 2022, and on a forward-looking basis.

Exhibit 10

**Rating factors**

Peach Property Group AG

REITs and Other Commercial Real Estate Firms Industry Scorecard [1][2]			Current LTM 6/30/2022		Moody's 12-18 Month Forward View As of 12/9/2022 [3]	
Factor 1 : Scale (5%)			Measure	Score	Measure	Score
a) Gross Assets (USD Billion)			\$3.0	Baa	\$3	Baa
Factor 2 : Business Profile (25%)						
a) Market Positioning and Asset Quality			Ba	Ba	Ba	Ba
b) Operating Environment			A	A	A	A
Factor 3 : Liquidity and Access To Capital (25%)						
a) Liquidity and Access to Capital			Ba	Ba	Ba	Ba
b) Unencumbered Assets / Gross Assets			23.7%	B	15% - 19%	Caa
Factor 4 : Leverage and Coverage (45%)						
a) Total Debt + Preferred Stock / Gross Assets			54.9%	Ba	55% - 60%	Ba
b) Net Debt / EBITDA			26.8x	Ca	24x - 26x	Ca
c) Secured Debt / Gross Assets			30.7%	B	30% - 35%	B
d) Fixed Charge Coverage			1.3x	Caa	1.5x - 1.6x	B
Rating:						
a) Scorecard-Indicated Outcome				Ba3		Ba3
b) Actual Rating Assigned						Ba2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 6/30/2022(L); Source: Moody's Financial Metrics™ [

3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

Source: Moody's Investors Service

## Ratings

Exhibit 11

Category	Moody's Rating
<b>PEACH PROPERTY GROUP AG</b>	
Outlook	Negative
Corporate Family Rating	Ba2
<b>PEACH PROPERTY FINANCE GMBH</b>	
Outlook	Negative
Bkd Senior Unsecured -Dom Curr	Ba3

Source: Moody's Investors Service

## Appendix

Exhibit 12

### Moody's-Adjusted Debt Reconciliation for Peach Property Group AG<sup>[1][2]</sup>

in CHF millions	FYE Dec-2017	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	LTM Jun-2022
<b>As Reported Debt</b>	<b>307.7</b>	<b>458.2</b>	<b>730.2</b>	<b>1,331.8</b>	<b>1,493.5</b>	<b>1,497.2</b>
Pensions	1.0	0.9	1.3	4.6	3.7	3.7
Hybrid Securities	106.8	112.8	91.7	90.7	57.4	57.4
Leases	6.9	9.1	0.0	0.0	0.0	0.0
<b>Moody's-Adjusted Debt</b>	<b>422.5</b>	<b>581.1</b>	<b>823.1</b>	<b>1,427.1</b>	<b>1,554.6</b>	<b>1,558.3</b>

[1] All figures are calculated using Moody's estimates and standard adjustments.

[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

Source: Moody's Financial Metrics <sup>TM</sup>

Exhibit 13

### Moody's-Adjusted EBITDA Reconciliation for Peach Property Group AG<sup>[1][2]</sup>

in CHF millions	FYE Dec-2017	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	LTM Jun-2022
<b>As Reported EBITDA</b>	<b>57.0</b>	<b>65.9</b>	<b>122.9</b>	<b>178.8</b>	<b>304.7</b>	<b>235.9</b>
Non-Standard Public Adjustments	1.2	0.0	0.0	0.0	0.0	0.0
Unusual Items - Income Stmt	-48.4	-50.5	-106.3	-155.6	-250.3	-179.4
Pensions	-0.1	0.0	0.0	-0.1	0.0	0.0
Leases	0.7	0.9	0.0	0.0	0.0	0.0
<b>Moody's-Adjusted EBITDA</b>	<b>10.3</b>	<b>16.3</b>	<b>16.6</b>	<b>23.2</b>	<b>54.4</b>	<b>56.5</b>

[1] All figures are calculated using Moody's estimates and standard adjustments.

[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

Source: Moody's Financial Metrics <sup>TM</sup>

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