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Fitch Affirms Peach Property's 'CCC+'; Places Unsecured 'B-' Debt on RWN

Fitch Ratings - Frankfurt am Main - 21 Nov 2024: Fitch Ratings has affirmed Peach Property Group AG's Long-Term Issuer Default Rating at 'CCC+', while placing its 'B-' senior unsecured rating on Rating Watch Negative (RWN). The unsecured rating has a Recovery Rating of 'RR3'.

Following the portfolio disposal announced on 16 November 2024 and net disposal receipts of EUR120 million due to be received in cash, and Peach's end-2024 EUR120 million underwritten equity raise, Fitch expects Peach's leverage and interest cover to improve. However, this liquidity still does not quite cover 2025's total EUR355 million of unsecured debt maturities.

The RWN reflects a potential decline in Peach's unsecured debt recovery estimate due to the sale of unencumbered assets as part of the disposal. The recovery estimate may also worsen because liquidity raised is not expected to be used immediately to prepay scheduled debt maturities for 2025. Fitch would seek certainty and specificity that cash proceeds received are designated for debt reduction before resolving the Rating Watch.

Key Rating Drivers

Portfolio Disposal to GTC: Peach has sold 5,200 of its residential units to Globe Trade Centre (GTC), valued at EUR448 million by GTC. After also transferring some assets' attached secured debt and other adjustments, Peach is expected to receive net cash proceeds of EUR120 million.

Recovery Prospects May Change: Fitch believes that recovery prospects for Peach's EUR479 million of unsecured debt could be at or below 50%. Our calculation includes end-June 2023 reported unsecured debt, comprising the equally ranking EUR55 million promissory notes, a EUR300 million bond, an assumed fully-drawn revolving credit facility (RCF) and a EUR49 million convertible bond. This total debt amount is measured against 1H24 unencumbered properties reported at EUR368 million before the disposal.

Fitch does not include any residual value of assets within secured financings, as the timing of each entity's monetisation is controlled by the relevant secured creditors. However, loan-to-value (LTV) ratios at Peach's secured-funded entities average 31%, suggesting that these residual values can be meaningful.

Peach's Retained Portfolio: The disposal enables Peach to concentrate on its core clusters and improve occupancy rates through capex. Peach is now strongly focused on assets in North Rhine-Westphalia, where nearly all of its top 10 locations are situated, following the sale of properties in

Kaiserslautern, Heidenheim, and Helmstedt to GTC. By retaining the sold portfolio's asset management functions, Peach ensures operational continuity for GTC while also generating additional income for itself.

Recreating Financial Headroom: Peach's management has emphasised that, after retaining the post-disposal "strategic portfolio", some cash proceeds should be allocated to reducing pockets of stubborn vacancies, enhancing asset quality, and meeting remunerative ESG requirements. This would increase Peach's rents over time and reduce remaining void costs, but would need re-investment and take two to three years to show results. We expect annual capex to be lower than the EUR30 million-EUR35 million per year that management previously communicated, given the reduced size of the portfolio.

Leverage Improving: Despite the expected 19% decline in the group's rents due to the EUR448 million (19% of the portfolio) disposal, Fitch expects Peach's net debt/EBITDA to improve to around 18x by end-2025 (end-2023: 22.6x). Interest cover is also expected to improve back to 2023's levels of around 1.5x by end-2025, aided by lower policy interest rates and lower levels of debt. In its calculation, Fitch assumes hybrid bond interest is not deferred but paid at a 9.25% margin plus the policy rate.

Personnel Capacities Allocation: Peach will continue to manage the assets sold to GTC, which Fitch expects to contribute minimally to Peach's revenue from FY25 onwards. This strategy utilises existing headcount, as Peach would otherwise have fewer assets to manage following the sale of around 20% of its investment properties.

Derivation Summary

Peach's portfolio, which we expect to amount to around EUR1.9 billion at end- 2024, is materially smaller than Fitch-rated German residential-for-rent peers Vonovia SE's (IDR: BBB+/Stable) EUR81 billion and Heimstaden Bostad AB's (BBB-/Negative) EUR28.8 billion. Peach's portfolio is more comparable to D.V.I. Deutsche Vermogens- und Immobilienverwaltungs GmbH's (DVI, BBB-/Stable) EUR2.9 billion at end-2023.

The Peach portfolio's average end-2023 in-place rent was EUR6.2 per sqm per month, indicating lower-quality assets and locations than Vonovia's German portfolio, which had rent of EUR7.74 per sqm, and DVI's Berlin-weighted portfolio rent of EUR8.9 per sqm. The difference in these portfolios' qualities is also reflected in their respective vacancy rates, at a reported 7.4% for Peach at end-2023, above 1.6% at DVI and 1.5% at Vonovia at end-2023.

Peach's interest cover, forecast at around 1.2x in 2024, is lower than Heimstaden Bostad's 1.4x, which will increase thereafter. The interest cover of DVI and Vonovia is both forecast to remain at or above 2.3x over the next three years. Peach's end-2023 remaining average debt maturity was low at 2.9 years, compared with Vonovia's 6.9 years, and at or above eight years for Heimstaden Bostad and DVI, putting Peach's liquidity and rating under significant pressure.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Annual rental growth around 3.5%, comprising 1.5% for phased indexation/re-lettings and 2% for reletting of refurbished units

- Hybrid bond interest not deferred but paid at 9.25% margin plus policy rate

- Dividends at 50% of cash from operations (CFO) from 2026 onwards

- We assume around EUR20 million of renovation and development capex per year during 2024-2027 (2023: EUR13 million). This should help keep vacancies stable at around 7%-8%

- Completion of Peach's Swiss residential-for-sale development in 2025 with net sale proceeds of EUR30 million

- Interest costs on euro-denominated variable-rate debt to rise based on Fitch's Global Economic Outlook policy rate assumptions (2024: 3.25%; 2025: 2.5% and thereafter: 2.0%)

Recovery Analysis

Our recovery analysis assumes that Peach would be liquidated rather than restructured as a going concern (GC) in a default.

Fitch uses the EUR368 million in unencumbered assets as of end-June 2024 to which it applies a standard 20% discount. We assume no cash is available for recoveries and that the EUR75 million RCF is fully drawn (end-June 2024: undrawn). Additionally, a standard 10% deduction is made for administrative claims.

The resulting amount is compared against unsecured debt, which comprises its equally ranking EUR55 million promissory notes, a EUR300 million bond, an assumed fully drawn RCF and a EUR49 million convertible bond.

Fitch's principal waterfall analysis generates a ranked recovery for the senior unsecured debt at 'RR3' (a waterfall generated recovery computation output percentage of 51%-70%). However, the 'RR3' may change as unencumbered assets are sold as part of the disposal.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A material likelihood of a debt restructuring on terms that would constitute a distressed debt exchange

- Senior unsecured rating: reductions in the unencumbered property portfolio relative to unsecured debt, adversely affecting recovery estimates

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Execution of a plan to address 2025's refinance risk that is not viewed by Fitch as a distressed debt exchange

- Twelve-month liquidity score above 1.0x combined with a sustainable capital structure with limited funding risks

Liquidity and Debt Structure

Peach's liquidity remains under pressure. Management has been focussed on the near-term refinance risk of EUR55 million of promissory notes maturing in March 2025 and the EUR300 million Eurobond maturing in November 2025. It also has around EUR223 million of secured bank debt maturities in 2025, but Fitch expects these to be rolled over, if not already repaid or transferred through the portfolio disposal to GTC.

By end-2024, Fitch expects Peach to have received additional equity injections of EUR120 million and the GTC net disposal proceeds of EUR120 million. This is projected to increase cash on the balance sheet to approximately EUR260 million from EUR22 million at end-2023. This figure accounts for a cash outflow of EUR8 million after capex and the repayment of drawn amounts under the RCF.

Our liquidity calculation does not include any drawdown under Peach's EUR75 million RCF as it expires in April 2025. It could also raise additional debt in some sub-optimal LTV secured financings, which Fitch believes can potentially add the necessary amount of liquidity to help cover 2025 unsecured debt maturities. Alternatively, Peach could seek bondholder consent to part-repay November 2025's EUR300 million bond and issue a EUR100 million (or more) longer-dated, higher-coupon bond. However, the size of the bond will be non-benchmark, with limited unencumbered assets for this class of creditor.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Peach Property Group AG	LT IDR	CCC+	Affirmed		CCC+
• senior unsecured	LT	B- ⬙	Rating Watch On	RR3	B-
Peach Property Finance GmbH					

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• senior unsecured	LT	B- ⬙	Rating Watch On	RR3	B-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⭘	◆
STABLE	⊙	

Applicable Criteria

Corporate Rating Criteria (pub.03 Nov 2023) (including rating assumption sensitivity)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub.02 Aug 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.21 Jun 2024)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Peach Property Finance GmbH	EU Issued, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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