FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Peach Property's IDR at 'CCC+'; Unsecured 'B-' Debt Rating Off RWN

Tue 21 Jan, 2025 - 12:55 ET

Fitch Ratings - Frankfurt am Main - 21 Jan 2025: Fitch Ratings has affirmed Peach Property Group AG's Long-Term Issuer Default Rating (IDR) at 'CCC+' and its senior unsecured rating at 'B-'. Fitch has removed the senior unsecured rating from Rating Watch Negative (RWN). The unsecured rating continues to have a Recovery Rating of 'RR3'. A full list of rating actions is below.

Using cash received from supportive shareholders (EUR120 million), portfolio disposal receipts (EUR120 million), and after the announcement of the EUR127 million bond tender offer results on 20 January 2024, EUR173 million of the November 2025 bond remains outstanding. Fitch believes that Peach still has options to repay in part, or in full, this remaining 2025 debt maturity by incurring additional secured and/or unsecured debt using unencumbered investment property assets totalling EUR340 million (as at end-2024), or through disposals.

KEY RATING DRIVERS

Addressing Unsecured Debt: Fitch expects Peach's unsecured debt to decrease to approximately EUR224 million by end-1Q25 (end-2024: EUR406 million), having used end-2024 cash to repay the EUR55 million promissory notes (maturing March 2025) and part-repay the eurobond through January's tender offer. After this, the remaining EUR173 million eurobond (due November 2025) and a EUR51 million convertible bond (May 2026) remain.

Fitch assumes that maturing secured debt will be refinanced by banks, possibly re-leveraged to raise more proceeds relative to the collateral granted.

Liquidity Deployment: Peach will prioritise using available liquidity to repay unsecured debt after receiving EUR240 million from the December 2024 equity increase and portfolio disposal. Further options to raise liquidity include selling assets, re-leveraging secured debt, elongating the existing unsecured bond and replacing it with other unsecured debt funding. New secured and/or unsecured debt could be supported by the EUR340 million of unencumbered investment property assets, as at end-2024.

January Tender Offer Not a DDE: Fitch does not classify Peach's January 2025 tender offer as a distressed debt exchange (DDE), as there was no material reduction in terms of the bonds, bondholders' tendering of their bonds was voluntary, and rejecting the offer would not have led the issuer into default. The tender offer's minimum purchase price, close to par (100% to the maximum 96.5%), does not signal a DDE either, but an orderly prepayment of unsecured funding.

Deleverage Path Affirmed: Fitch expects Peach's net debt/EBITDA ratio will improve to approximately 18x by end-2025 (end-2023: 22.6x) because recent cash proceeds are predominantly allocated to debt repayment, as demonstrated by the January 2025 tender offer. Fitch anticipates that EBITDA interest coverage will stabilise at around 1.5x by end-2025, supported by lower interest rates and reduced debt.

Post-Disposal Portfolio: Peach's 2024 figures will show the effect of the EUR448 million portfolio sale in 4Q24, reduced rent, EBITDA, attached secured debt and lower group debt through the EUR120 million net proceeds received. The disposal enables Peach to concentrate on its core clusters, supporting the implementation of capex to improve free cashflow and occupancy rates. Peach is now strongly focused on assets in North Rhine-Westphalia, where nearly all of its top 10 locations are situated. By retaining the sold portfolio's asset-management functions, Peach is ensuring operational continuity for the purchaser, 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.

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-/Stable) EUR28.8 billion. Peach's portfolio is more comparable to D.V.I. Deutsche Vermogens- und Immobilienverwaltungs GmbH's (DVI, BBB-/Stable) all-German (Berlin-weighted) 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 for both DVI and Vonovia is 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

- 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%; from 2026: 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 EUR340 million of unencumbered assets as of end-December 2024, to which it applies a standard 20% discount. We assume no cash is available for recoveries and that the EUR75 million revolving credit facility (RCF) is fully drawn (end-December

2024: undrawn, which expires in April 2025). 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 remaining EUR173 million bond following the January 2025 tender offer, a recovery rating-assumed fully drawn RCF and a EUR51 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 if further unencumbered assets are sold or pledged.

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 remaining 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

By end-2024, Peach had received a EUR120 million equity injection from supportive shareholders, and EUR120 million net proceeds from a portfolio disposal to Globe Trade Centre (BB+/Negative). Much of this cash is to reduce Peach's debt, with EUR13 million spent on transaction costs and EUR17 million on secured debt maturing in 4Q24. We expect Peach to have used its recently received liquidity after allocating around EUR20 million for non-committed asset-improvement capex and EUR10 million to repay drawn amounts under the RCF, and following the EUR125 million January 2025 tender offer (at an average 1.6% discount to par) for the unsecured eurobond.

Fitch continues to exclude any drawdown under Peach's EUR75 million RCF, expiring in April 2025. Peach could raise additional debt through refinancing sub-optimal loan-to-values in secured financings, pledge unencumbered assets to potentially add necessary liquidity for 2025 unsecured debt maturities, or issue a non-benchmark-size bond with longer maturity and higher coupon.

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.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Peach Property Group AG	LT IDR	CCC+	Affirmed		CCC+
senior unsecured	LT	B-	Affirmed	RR3	B-

Peach Property Finance GmbH

senior unsecured	LT	B-	Affirmed	RR3	B-

PREVIOUS Page 1 of 1 10 rows NEXT

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

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

Corporate Rating Criteria (pub. 06 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 06 Dec 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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Peach Property Finance GmbH	EU Issued, UK Endorsed

Peach Property Group AG	EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating s

READ MORE

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.