MOODY'S RATINGS

Rating Action: Moody's Ratings changes WDP's outlook to positive from stable; Baa1 issuer rating affirmed

26 Jun 2024

Milan, June 26, 2024 -- Moody's Ratings (Moody') has today affirmed the long term issuer rating of Baa1 of Warehouses De Pauw NV/SA (WDP or the company); the outlook has been changed to positive from stable.

"Today's affirmation of WDP's Baa1 issuer rating reflects the company's robust operational performance, underpinned by a diversified and high-quality portfolio of logistics assets. The company's leading market positions translate into low vacancies and relatively stable long-term rental cash flow," says Elise Savoye, CFA, a Vice President Senior Analyst at Moody's and Lead Analyst for WDP. "This affirmation also illustrates the company's moderate risk and leverage appetite, reflected in its prudent financial policies and strong adherence to these," Ms. Savoye continues."The positive outlook reflects our expectation of continued solid budget execution, bolstered by structural support from supply scarcity and supply chain reconfiguration, and the prudent execution of the growth plan. We expect WDP to maintain its strong credit metrics, with a ND/EBITDA of around 8x and a fixed charge coverage ratio (FCC) above 5.0x over the next 18 months" adds Ms. Savoye.

RATINGS RATIONALE

The affirmation of the rating and the change of outlook to positive from stable reflect our expectation that the company will continue to post a very robust operational performance over the next 12 to 18 months. Continuously high occupancy rates, a 15% increase on average in effective renewals, and a potential lease revision of 13% of the portfolio in Q1 2024 indeed signal continuous support from persistent supply scarcity and supply chain reconfiguration. WDP's leading market position in its key markets and its high-quality, diversified logistics portfolio - with consistently high tenant retention rates and low delinquency levels - further support future rental growth. We believe this growth will slightly outpace the level of inflation, on top of additional earning coming from the €1.5 bn capital expenditure plan over the 2024-2027 years.

In 2023, WDP posted lower-than-expected leverage, with ND/EBITDA at 7.3 x as of FY2023, compared to 8.0x in the previous budget. This was driven by WDP's successful ABB issuances in 2022 and 2023, which capitalized on the healthy investor sentiment in the logistics sector, and additional equity raised notably via scrip dividend. This also reflects WDP's well-balanced funding strategy, with at least half of the growth capex overall funded by equity.

The company's FCC was solid at 7.0x as of year-end 2023, reflecting a 5.3% EPRA net initial yield across the portfolio. This is also due to the high hedge ratio, which, according to WDP's policy, should not fall below 85%, and well-staggered debt and interest rate swap profiles. We anticipate that the FCC ratio will remain significantly above 4.5x over the next 12 to 18 months, on moderate level of new debt funding (which we expect around €1 billion over the 2024-2026 period) and on its hedge strategy. This will provide WDP sufficient time to adapt its business to the higher interest rate environment, while maintaining robust profitability. The company's management has demonstrated a focus on profitability with moderate risk and leverage appetite, as evidenced by a consistent track record in adhering to its prudent financial policies, a credit positive. We also note favorably that development exposure has reduced from when the rating was first assigned and should not exceed 10% of the portfolio with the new growth target.

OUTLOOK

The positive outlook reflects our expectation that the company will continue to grow its cash flow and maintain good liquidity while retaining high occupancy levels and a balanced growth strategy without compromising the capital structure. The outlook also reflects a still favorable operating environment for the European logistics property sector and our expectation of continuous strong budget execution and supportive financial policies.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

A rating upgrade could materialise under a continuously supportive environment for logistics platforms and if:

• The company maintains solid execution and prudent financial policies through the real-estate cycles, staggered debt maturity profile and good liquidity without significant erosion of its current strength in interest rate coverage

• WDP successfully develops greater scale while keeping development pipeline below 10% -15% with high pre-let requirements, as measured by our metric of total costs for completion of committed developments/total assets

• Moody's adjusted fixed-charge coverage sustained above 4.5x

• Moody's adjusted net debt to EBITDA constantly below 9x driven by prudent financial policy supporting continuously moderate leverage while gross debt/total assets is sustainably around 35%

While unlikely given the strong positioning of the company's rating, negative pressure on the rating could materialize if any of the following conditions were met:

• Moody's-adjusted fixed charge coverage falling below 3.5x on a sustained basis

• Moody's-adjusted leverage reaching levels constantly well above 40%

• Net debt/EBITDA rising sustainably well above 10x, unless mitigated by substantial headroom with respect to the debt/asset ratio

• Weakening liquidity or failure to refinance debt maturities well in advance

• Business risk profile weakens, on a sustained basis, as a result of a broad deterioration in the macroeconomic environment or the demand for logistics assets, leading to weaker operating performance increasing vacancies in the portfolio

• The company takes excessive risk within its development pipeline

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Governance is a key driver for this rating action. WDP's prudent financial policies and its track record of adherence to them support its rating. The company has demonstrated prudent management of development risk, and its successful equity raises over the last two years have bolstered its strong liquidity profile. WDP has been listed on the Euronext Brussels Stock Exchange since 1999. It has a somewhat concentrated ownership, with the reference shareholder, the Jos De Pauw family, owning 20.9%.

LIQUIDITY

WDP will maintain ample liquidity over the next 12-24 months thanks to its good-quality tenant base; cash flow predictability and visibility thanks to a limited lease rollover in the next two years (20%); €1.9 billion undrawn credit facilities and cash at hand of €18 million as of Q1 2024. Available liquidity, together with company's funds from operations, will comfortably cover operational cash needs of WDP over the next 12-18 months. WDP's liquidity is also supported by its solid liquidity management targeting 18 months of liquidity at all times and successful rising of equity over the last two years via ABB issuances, scrip dividend and payment in kind acquisitions.

The company has ample capacity under its various covenants.

The principal methodology used in this rating was REITs and Other Commercial Real Estate Firms published in February 2024 and available at https://ratings.moodys.com/rmc-documents/414558 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

CORPORATE PROFILE

WDP is a large, pure player logistics real estate landlord with a portfolio of 302 assets worth more than €7 billion portfolio as of Q1 2024 generating €346 million in headline rent on an LTM basis. The group main markets are the Dutch, Belgian and Romanian market (respectively 42%, 33% and 19% of the group total investment properties portfolio) and to a lesser extent the French, German and Luxembourg markets (5%), planning to expanding its footprint in these logistics markets. WDP also has a 10% stake in Swedish Catena logistics landlord. As of June 2024, WDP had a market capitalization of €5.7 billion with its shares trading at €25.5, a 24% premium to its Q1 2024 net tangible asset (calculated based on the rules of the European Public Real Estate Association).

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824 .

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