FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms WDP's IDR at 'BBB+'/Stable; Senior Unsecured at 'A-'

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Fitch Ratings - Warsaw - 25 Jul 2024: Fitch Ratings has affirmed Benelux-focused logistics property owner Warehouses De Pauw NV/SA's (WDP) Long-Term Issuer Default Rating (IDR) at 'BBB+'. The Outlook is Stable. Fitch has also affirmed WDP's senior unsecured debt rating at 'A-'. A full list of ratings is below.

WDP's ratings reflect its EUR6.3 billion portfolio (end-1Q24; end-2023: EUR6.1 billion) of big box and general warehouses, which is benefiting from ongoing demand for modern logistic and industrial hubs in a period of structural undersupply, and rental growth with annual contractual indexation-linked rental uplifts. These benefits are balanced by the 80% geographic concentration in Benelux, a small presence in other Western European markets, and 16% exposure to higher-yielding (and higher risk) Romanian assets.

The rating and Outlook are commensurate with WDP's robust financial profile, strengthened by solid access to capital supporting ongoing investment spending, including undrawn credit facilities and regular equity in the form of accelerated book building (ABB), scrip dividends and contributions-in-kind. WDP's net debt/EBITDA improved to 7.4x at end-2023 (end-2022: 8.4x) and we expect it to remain within the 8.0x to 8.5x range until 2027.

KEY RATING DRIVERS

Acquisitions Complement Development-Led Growth: WDP is planning to spend around EUR500 million annually on acquisitions, developments and renewable energy projects in 2024-2026. In 2023, it completed around 436,000 sqm of lettable space (100% let, average lease term of 13 years, gross initial yield (GRI) 6.3%) with EUR312 million capex. At end-2023, another 552,700 sqm of development requiring EUR402 million of capex was in the pipeline (71% pre-let, 10 years, GRI 6.4%). WDP acquired around EUR150 million of income-producing properties in 2023 and a similar amount so far in 2024.

WDP aims to fund investments with a 50:50 mix of debt and equity. WDP raises equity regularly through ABBs, contributions-in-kind or scrip dividends. In 2023, its equity raise totalled about EUR382 million (ABB: EUR300 million, scrip dividends: EUR77 million, contributions-in-kind: EUR5 million). WDP also had access to about EUR1.9 billion of undrawn credit facilities (end-1Q24).

Geographical Diversification Ongoing: WDP's well-located, modern portfolio (average age of eight years and 84% class A) is predominantly focused on Belgium (35% of standing portfolio at end-2023) and the Netherlands (44%), where the company has a dominant market presence, which aids rental evidence. The rest of the portfolio is located in Romania (16%), France (3%), Luxemburg (1%) and Germany (1%). Its properties are well-located with a focus on good access to main road transport corridors, ports and airports.

Fitch views WDP's investment in Romania as riskier, reflected in the higher net initial yield (NIY, end-1Q24: 7.6%) than Benelux (around 5%), meaning the group's end-1Q24 NIY average of 5.3% is a mix of different profiles. WDP plans to increase its footprint in France and Germany, targeting a critical mass of at least EUR250 million in each country by end-2027. WDP has a dividend-receiving 10% equity stake in the Nordic logistics company, Catena AB (publ).

Operational Performance Remains Robust: Like-for-like rental income increased 6% in 2023 (4% in 2022), which is mostly attributable to indexation (applicable to all of its lease agreements). In 2024, we expect inflation-driven rental uplift to average 3% and 2% in the following years. Occupancy remains high at 98.4% at end-1Q24 (end-2023: 98.5%) with a stable weighted average lease term to earliest-break of 5.5 years. The tenant base is well-diversified, with the top 10 tenants representing 26% of rental income with the biggest tenant (Kuehne + Nagel) below 4%.

Strong Financial Profile: WDP's use of debt and equity in investment funding, led to net debt/EBITDA decreasing to 7.4x at end-2023 (8.4x at end-2022). With planned acquisitions and developments, we forecast leverage to stay around 8.0x-8.5x until 2027. The company's average cost of debt is stable at around 2% as all debt has fixed interest rates or an overlay of fixed interest rate hedging. Therefore, EBITDA interest coverage was about 9.2x in 2023 (6.9x in 2022) and thanks to forward hedging in place for refinancings, should stay above 4.5x until 2027. Fixed-rate debt and hedging averages six years. All the portfolio is unencumbered.

Strong Demand for Modern Warehouses: WDP benefits from continuing demand for modern and energy-efficient buildings, supported by supply chain regionalisation and e-commerce growth. Strong demand accompanied by constrained supply driven by higher financing and construction costs, scarcity of land, less speculative development and initiatives to preserve greenfield area, increases estimated rental values (ERVs) and reversionary potential within the portfolio.

Benefits from Green Credentials: We expect the green credentials of WDP's well-located properties, including additional profits from photovoltaic (PV) energy, to be value-accretive. Electricity produced by solar panels, and the additional margin from direct sales, supports the provision of other green energy solutions like electric vehicle chargers or heat pumps, to help tenants' decarbonisation targets. The company plans to increase its solar capacity from 187 MWp (megawatt peak) at end-1Q2024 to 350 MWp by 2027.

DERIVATION SUMMARY

WDP's IDR is the same as its continental European peer AXA Logistics Europe Master S.C.A's (AXA LEM; IDR BBB+/Stable) but higher than SELP Finance SARL's (SELP; BBB/Stable), Tritax EuroBox plc's (BBB-/Stable), Catena AB (publ)'s (BBB-/Stable) and VGP N.V (BBB-/Stable). SEGRO PLC (BBB+/Stable), also rated the same as WDP, has a bigger portfolio, including urban big boxes, of EUR18 billion and is primarily focused on the UK market.

WDP's EUR6.1 billion (end-2023) Benelux-focused modern portfolio of big boxes and general warehouses is comparable in size and quality with SELP's or VGPs pan-European portfolios of EUR6.7 billion and EUR7.2 billion, respectively, but larger than its other continental European peers AXA LEM's (EUR4.9 billion) and Tritax EuroBox's (EUR1.6 billion) or Sweden-focused Catena (EUR2.7 billion). WDP's end-2023 weighted average unexpired lease term of 5.3 years is comparable with SELP's 5.7 years and Catena's 5.1 years but lower than AXA LEM's 6.6 years, SEGRO's seven years or Tritax EuroBox's and VGP's eight years.

In comparison with the development-led growth strategy of SELP and SEGRO, WDP supplements its predominantly pre-let development pipeline with acquisitions. In contrast, the strategies of AXA LEM and Tritax EuroBox are acquisition-led, aided by some development or forward-purchases. We consider a development-led growth approach riskier, somewhat mitigated with higher returns from invested capital.

Fitch forecasts WDP's net debt/EBITDA at around 8.0x-8.5x in 2024-2027 which is similar to SEGRO and lower-rated Catena (both around 8.0x) but higher than equally-rated AXA LEM's (around 5.5x-6.5x). Catena's rating is constrained by a shorter debt maturity profile, and AXA LEM's by its fund structure. Lower-rated Tritax EuroBox and SELP have higher ranges of 9.5x-10.5x and 9.0x-10.0x, respectively.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within our Rating Case for the Issuer:

- Like-for-like rental growth is driven by indexation-linked rental uplifts of 3% in 2024 and about 2% in the following years to 2027. Total CAGR in 2024-2027 of 9% is supported by rents from developments and acquisitions coming on-stream.

- Acquisitions of around EUR640 million during 2024-2027 with a GRI yield of about 6%. Developments during 2024-2027 of EUR1,250 million with a GRI of about 7%.

- Investments in solar panels of EUR50 million yearly.

- Equity sourced from retained earnings or scrip dividends. No equity issuance assumed. Dividend assumed at 80% of funds from operations and 20% of scrip dividend take-up (in comparison to over 50% take-up historically).

RATING SENSITIVITIES

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

- Increased material geographic diversification and scale across western Europe

- Net debt/EBITDA below 8x on a sustained basis

- EBITDA net interest cover above 3x on a sustained basis

- Increase in the weighted average debt maturity to above five years

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

- Net debt/EBITDA above 9x (reflecting the current portfolio mix) on a sustained basis

- EBITDA net interest cover below 2x on a sustained basis

- Deterioration in unencumbered investment property/unsecured debt asset cover to significantly below 2.0x on a sustained basis

LIQUIDITY AND DEBT STRUCTURE

Good Liquidity: At end-2023, WDP had EUR13 million of readily available cash supported by EUR1.7 billion of undrawn credit facilities (with maturities after 2024).

The company has since concluded an additional EUR300 million eight-year loan with International Finance Corporation. Together with Fitch-forecast free cash outflow of EUR165 million, the company had enough liquidity to cover debt maturing in 2024. WDP's debt has a weighted average maturity of 5.9 years with no bulk repayments in the near term.

As all of the company's debt was either fixed or covered by interest-rate hedges, this helps maintain a comparatively low average cost of debt at about 2%, which Fitch forecasts at around 2.5% until 2027. EBITDA interest coverage is expected to stay above 4.5x (FY23: 9.2x).

Senior Unsecured Rating Uplift: The additional rating notch above the IDR for WDP's senior unsecured debt reflects an above-average recovery for certain types of real estate, and for companies fulfilling Fitch's criteria, which includes regular independent valuations, investment in established markets with investor depth, and unencumbered investment property assets/unsecured debt above 2x and a secured debt/total debt ratio less than 20%. WDP's 16% exposure to Romania does not adversely affect this assessment for the group. All WDP's debt is unsecured.

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.

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 ⬍	PRIOR ⬍

Warehouses De Pauw NV/SA	LT IDR	BBB+ Rating Outlook Stable Affirmed	BBB+ Rating Outlook Stable
senior unsecured	LT	A- Affirmed	A-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 13 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 03 Nov 2023) (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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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