MOODY'S INVESTORS SERVICE

CREDIT OPINION

8 November 2022

New Issue

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RATINGS

Warehouses de Pauw NV/SA

Domicile	Belgium
Long Term Rating	Baa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

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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Warehouses De Pauw NV/SA

New issuer

Summary

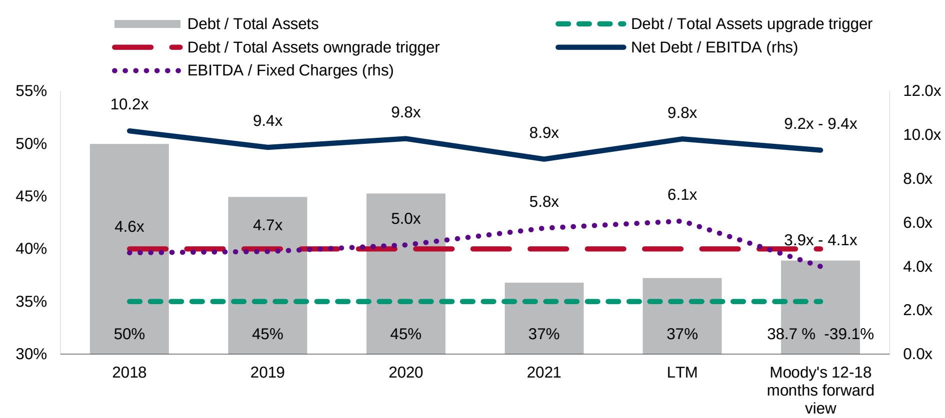
Warehouses De Pauw NV/SA's (WDP or the company) Baa1 long-term issuer rating reflects its moderate leverage metrics, with Net Debt/EBITDA at around 9.8x, and strong fixed-charge coverage. WDP's cautious financial policy and track record of adhering to it with a public commitment to a target earnings-based leverage ratio also supports the rating. WDP has a large and good-quality portfolio of logistics assets in the Benelux and Romania with a relatively long-dated rental cash flow from a diversified tenant roster and high occupancy level, underpinning cash flow stability. Structural support from e-commerce and supply chain reconfiguration continue supporting demand for logistics assets, a positive.

The rating also incorporates a deterioration in the macroeconomic environment with rising interest rates hurting property valuation and debt burden. However, we expect the fixed-charge coverage ratio to remain above 4x over the next 12-18 months, supported by the company's hedging strategy. Despite limited execution risk, WDP's significant growth target until 2025 (current development pipeline of around 8% of existing portfolio) also makes it vulnerable to rising inflation and construction costs, which will significantly erode development yields on future projects and overall profitability. WDP's capacity to defend its profitability against rising funding costs will depend on its future ability to access the capital markets.

Exhibit 1

Debt / gross assets ratio to remain resilient in a market downturn

Debt / Assets, Fixed charge coverage and net debt / EBITDA



Source: Moody's Financial Metrics

Credit strengths

» Moderate leverage, with strong fixed-charge coverage supported by a cautious financial policy and track record of adhering to it

» Large and diversified portfolio of logistics assets, with leading market positions translating into very high occupancy underpinning stable and inflation-indexed income

» Favourable structural demand and low vacancies in the sector

Credit challenges

» Rising interest rates resulting in lower attractiveness of real estate, expected property value declines and rising cost of debt

» Significant growth target until 2025 in a context of rising construction and funding costs

» Negative pledge on existing loans, which limits WDP's capacity to raise secured lending

Rating outlook

The stable outlook reflects our expectation that over the next 12 to 18 months WDP will continue to generate stable cash flow underpinned by constantly high occupancy levels, and maintain good liquidity and solid debt metrics thanks to a balanced funding mix while executing on its growth strategy.

Factors that could lead to an upgrade

While WDP is well positioned in its current rating category, a rating upgrade could occur under a continuously supportive environment for logistics platforms and if:

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

» Moody's-adjusted net debt/EBITDA constantly below 9x, driven by prudent financial policy supporting continuously moderate leverage, while gross debt/total assets is sustainably around 30%

» The company maintains solid execution and prudent financial policies through the real estate cycles, staggered debt maturity profile or liquidity, without a significant erosion of its current 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

Factors that could lead to a downgrade

Negative pressure on the rating could develop 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-to-asset maximal 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

Key indicators

Exhibit 2
Key indicators [1]
Warehouses De Pauw NV/SA

	31/12/2018	31/12/2019	31/12/2020	31/12/2021	6/30/2022(L)	12-18 months forward view
Gross Assets (USD Billion)	$4.0	$4.7	$5.9	$6.9	$7.3	7.2-7.6
Unencumbered Assets / Gross Assets	100.1%	100.1%	100.1%	100.1%	100.0%	100%
Total Debt + Preferred Stock / Gross Assets	50.0%	44.9%	45.3%	36.8%	37.2%	38.7% - 39.1%
Net Debt / EBITDA	10.2x	9.4x	9.8x	8.9x	9.8x	9.2x - 9.4x
Secured Debt / Gross Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Charge Coverage	4.6x	4.7x	5.0x	5.8x	6.1x	3.9x- 4.1x

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

Profile

Warehouses De Pauw NV/SA's (WDP) is a large, pure-play logistics real estate landlord with a portfolio of 281 assets worth €6.7 billion as of Q3 2022, generating €315 million in headline rent. The group's main markets are the Dutch, Belgian and, to a lesser extent, Romanian markets (accounting for 47%, 32% and 16%, respectively, of the group's total investment properties portfolio). The company targets to expand further in the German, French and Luxembourg logistics markets over the coming years, while the recent acquisition of a 10% stake in Catena, or 3% of WDP's assets, somewhat increases its exposure to the Nordic markets.

Since 1999, WDP has been publicly listed on the Brussels Stock Exchange. As of 27 October 2022, WDP had a market capitalisation of €5.2 billion. The family De Pauw is the main shareholder (23% ownership) but has no blocking minority rights. WDP was added into the Dow Jones Sustainability Index in Q3 2021.

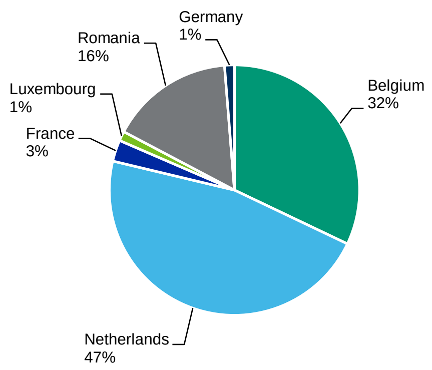
Detailed credit considerations

Large logistics platform with leading market positions in the Dutch and Belgian logistics markets, and a solid position in the Romanian market

WDP is one of largest European logistics owner, manager and developer across the Dutch, Belgian and Romanian markets, with 281 lettable sites. Its asset base places it among the largest logistics platforms in Europe after market leaders Prologis European Logistics Fund FCP-FIS (PELF, A3, Stable), Logicor and SEGRO European Logistics Partnership S.a.r.l. (SELP, Baa2 Stable). Its main markets in terms of assets and income base are the Netherlands (Aaa, Stable) and Belgium (Aa3, Stable), which are robust logistics markets, but the company also has a presence in France (Aa2, Stable), Luxembourg (Aaa, Stable) and Germany (Aaa, Stable), which we expect to grow further in the coming 24 months. Over the last six years, WDP has increased its presence in Romania (Baa3, Stable) (15% of its portfolio), a less mature market, which is more prone to oversupply but with stronger yields. WDP, however, is not contemplating an increase its exposure to the Central and Eastern European markets beyond 20%. In addition, the recent acquisition of a 10% stake in Catena, a Swedish logistics landlord provides some exposure to the Nordic markets. However, while some cross-selling has already been executed, we understand that WDP's stake in Catena will not increase in the near future, and its exposure to the Nordic markets will remain indirect and fairly limited compared with WDP's total portfolio.

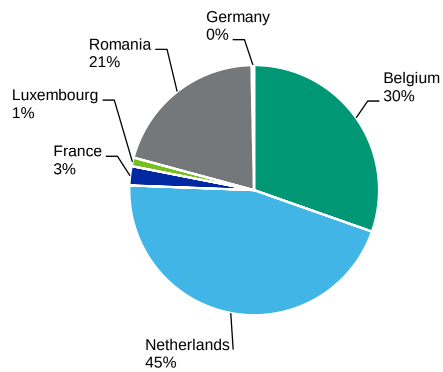
Exhibit: Assets address tenants' needs throughout the entire logistics chain

Exhibit 3
Portfolio geographic split, based on fair value (Q3 2022)



Source: Company reporting

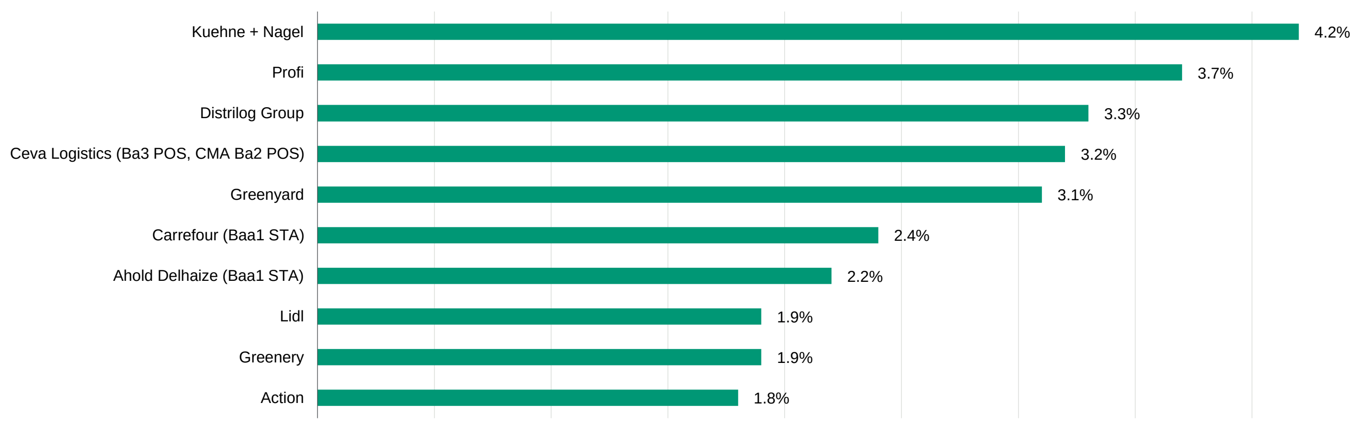
Exhibit 4
Portfolio geographic split, based on GRI (LTM, Q3 2022)



Source: Company reporting

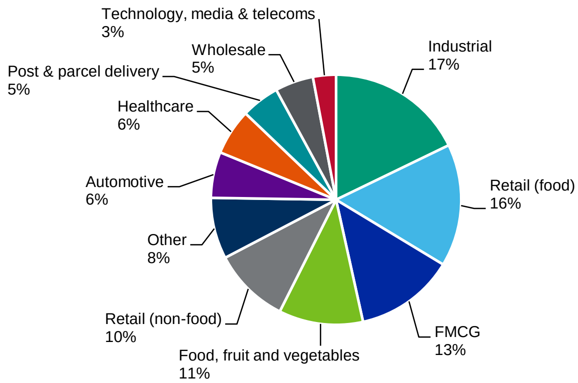
Thanks to its large scale and geographical diversification, WDP has a diversified tenant base spread across various industries such as industrial (18%), Food retail (15%), and Fast-Moving Consumer Goods (13%). WDP exposure to third party logistics providers is 36% while approximately 11% of the client base relates to dedicated e-commerce activities. Top tenants include tenants customary for a large, diversified logistics portfolio such as Carrefour S.A. (Baa1 stable). Tenant concentration is limited (top 10 tenants account for 28% of WDP's rental income) while contracts are negotiated individually. The lease roll is also well staggered, with 12% of the leases maturing in 2023 and 8% in 2024.

Exhibit 5
Strong tenant roster
Top 10 tenants, % of GRI



Source: Company report

Exhibit 6
High diversification in terms of tenant end industry
Tenant end industry

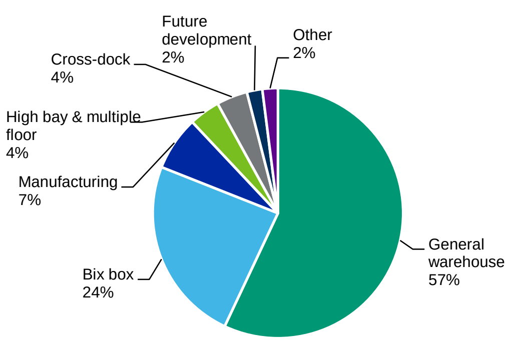


Source: Company report

Good-quality, well-located and recent portfolio with embedded rent uplift mechanisms supporting cash flow stability

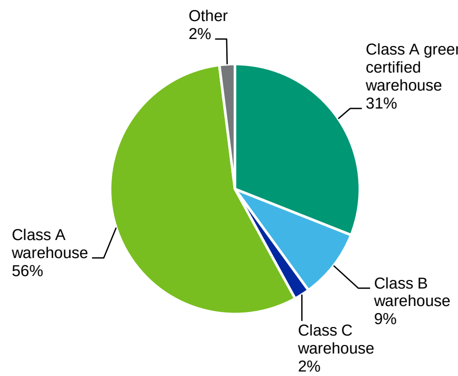
WDP leases assets across the entire logistics spectrum from large, big boxes to cross-dock assets fitting for last-mile logistics use. Around 50% of WDP's portfolio is in urban areas; however, this reflects the geographical features of its two main markets (Belgium and the Netherlands) with a continuum of agglomerations rather than a strong focus on main European city centres. WDP's assets are all located close to transportation hubs, be it road, railway, ports or airports. WDP has a relatively new property portfolio with an average property age of 7.4 years, while around a third benefits from BREEAM certifications.

Exhibit 7
Asset type split, fair value



Source: Company report

Exhibit 8
Asset type quality, fair value

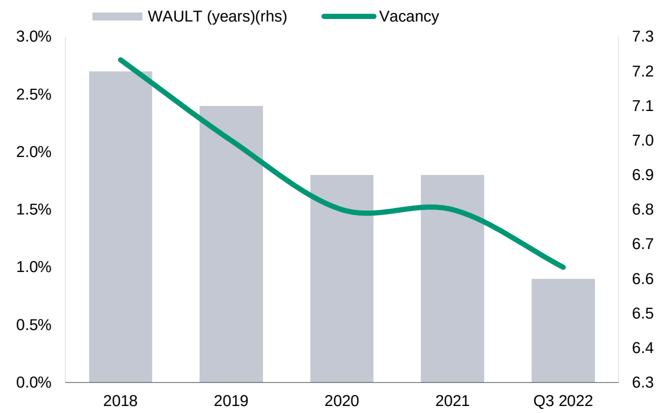


Source: Company report

The company's strong occupancy and retention rate indicate a robust quality portfolio. WDP's occupancy rate has been constantly high (99% as of Q3 2022) with a low point of 91.7% in 2009. WDP's retention rate is around 90%, and its top 10 tenants have an average tenor of 10 years, suggesting a strong relationship with its tenants.

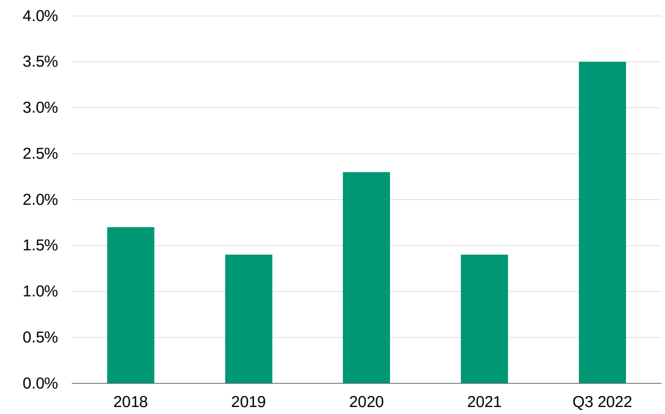
Leases are usually 10 years for end users, and three, six or nine years for 3PL, or five/five years in the Dutch market, with monthly or quarterly payment in advance. Lease payments are CPI-linked, some of them with a cap on inflation rise and a floor on negative move. Rent reversion in excess of inflation has been rather muted to date, suggesting rental income growth has been merely driven by inflation and strong occupancy. However, over the first nine months of 2022, WDP has achieved a 15% rental reversion on releasing vacant units, which translates into a 40-basis-point rent reversion in excess of inflation for the coming years, reflecting unfulfilled demand for logistics assets but also the relatively few instances of lease reversion given the long lease terms (6.6 years to maturity, 5.4 years to the first break) and the issuer's recent portfolio. We understand WDP favours high occupancy over more aggressive rental uplift; however, increasing Estimated Rental Values (ERV) support the expectation of continuously growing rental income over the next few years.

Exhibit 9
WAULT and Vacancy



WAULT defined as average lease duration to expiry
Source: Company reporting

Exhibit 10
Like-for-like rental growth



Source: Company reporting

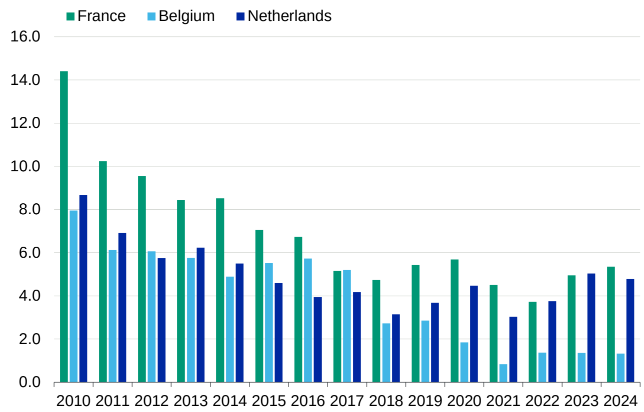
Structural tail winds for the logistics market currently compensate for the deteriorated macroeconomic environment

The logistics sector continues to be attractive to investors and occupiers. The significant expansion of e-commerce and a larger need for buffers along the global supply chain will support demand. WDP is focused on the entire logistics spectrum and will profit less from the e-commerce trend compared with urban logistics portfolios, but the overall net positive demand and land scarcity in its key markets will keep supporting WDP's operations.

In most countries, vacancy rates remain low, and take-up is above the longer-term average. Vacancies in the countries in which WDP operates are very low, which is consistent with the company's own low vacancy rate. CBRE expects net positive absorption across key European logistics markets into 2023, despite healthy supply, resulting in European vacancies remaining well below 6%. In this context, we are not yet concerned about oversupply despite continued high volumes of space under construction.

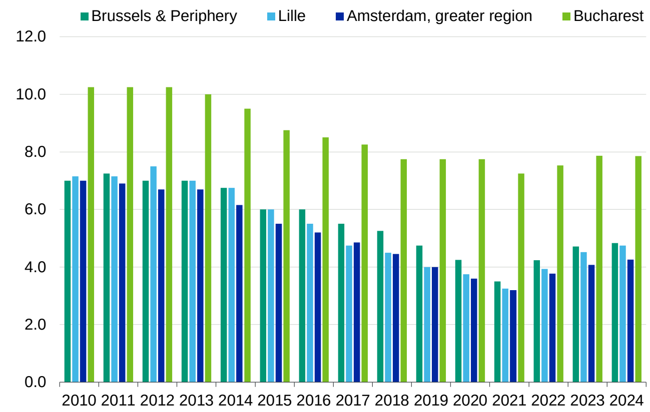
Among the countries that WDP operates in, the Netherlands and Belgium are the strongest markets; WDP's presence in the strong German market is not yet relevant enough to drive the operating profile of the company, but its exposure to the German and French markets will grow in the coming years. Given the more volatile market liquidity, Romania is more prone to weakening investor sentiment resulting in higher valuation losses; however, supply chain reconfiguration supports demand for logistics assets, while WDP's exposure to the Central and Eastern European markets shall not exceed 20%.

Exhibit 11
Market vacancy, prime industrial



Source: CBRE Ltd.

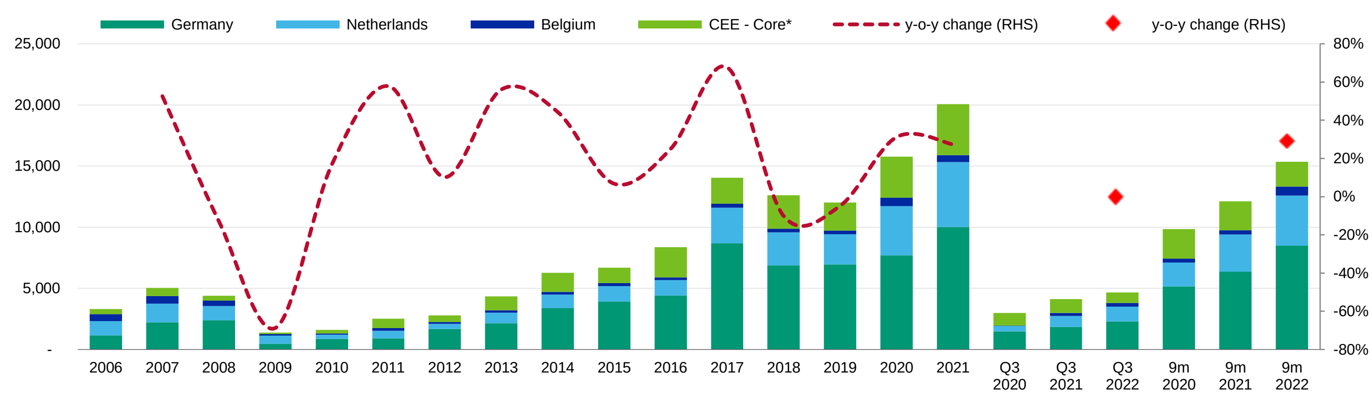
Exhibit 12
Prime industrial yields, logistics



Source: CBRE Ltd.

Accordingly, we expect solid market fundamentals in the next 12-18 months to support WDP and other logistics landlords. At the same time, the slowdown in economic growth and tightening financial markets are curbing investor sentiment across the European real estate market, which has to date been the main driver of the yield-compression-driven valuation increase in the sector. Investments in the logistics segment accounted for more than 20% of total investments in H1 2022, according to CBRE, compared with 11% in 2018.

Exhibit 13
Growing investment volumes in the logistics segment
Investment volume, EUR million

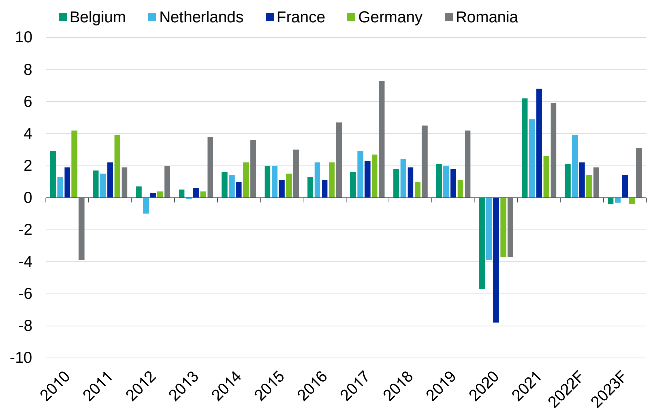


Source: CBRE Ltd.

Exhibit 14

The macro-environment will deteriorate over the next 12 to 18 months

Change in real GDP, %

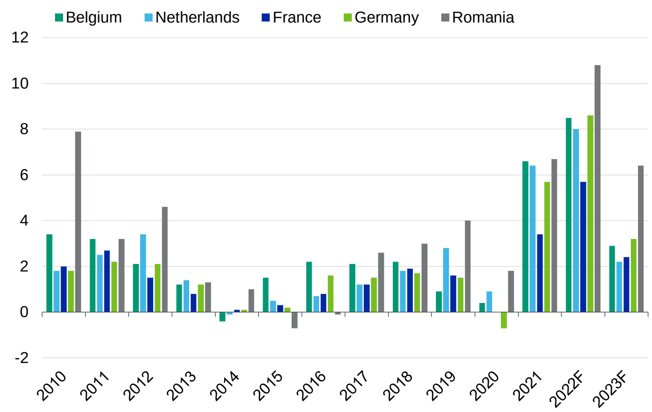


Source: Moody's Investors Service

Exhibit 15

The macro-environment will deteriorate over the next 12 to 18 months

Inflation, change in HCPI %



Source: Moody's Investors Service

Cautious financial policy and strong adherence to it translate into moderate leverage and robust fixed-charge coverage

WDP has a cautious financial policy and has a track record of adhering to it. It has a public commitment of around 8x net debt/EBITDA (as calculated by the company), which is cascaded down into the remuneration profile of its executives, which is positive. WDP targets a balanced funding mix for its investment works and focuses on long-term cash generation rather than on valuation appreciation. We expect WDP to maintain its cautious financial policy and adhere to it, which supports the rating.

WDP's effective leverage was 37% as of Q3 2022 and it will likely remain around 39% over the next 12-18 months, which encompasses recent equity rises (WDP successfully raised €300 million equity via accelerated bookbuilding (ABB)) and a buffer for a 10% valuation decline. WDP's property assets are valued by independent valuation firms on a quarterly basis, having resulted in an 4% like-for-like increase in the first nine months of 2022, but rising interest rates exert downward pressure on future valuation.

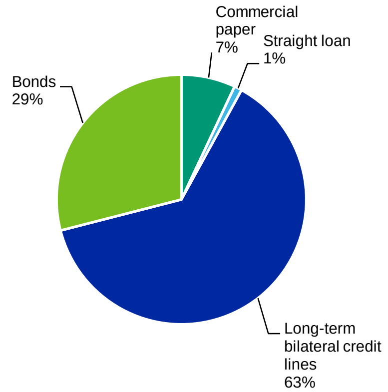
Moody's-adjusted ND/EBITDA is likely to remain in the 9x-9.5x range over the next 12-18 months, benefiting from the recent equity rise leading to leverage reduction, while income generation lags capital spending, especially in development works. Inflationary pressure will also weigh on future development yields. WDP's net debt/EBITDA target of around 8x (as calculated by the company) also limits the additional leverage the entity could deploy on the back of rising property valuation unless cash flow generation balances additional leverage, a positive.

The company's fixed-charge coverage has improved over the last three years, driven by the lower cost of debt (2% as of Q3 2022). Despite the sharply rising interest rates, we expect WDP to maintain a robust Moody's-adjusted fixed-charge coverage around 4x in the next 12-18 months, which factors in higher funding costs but also reflects the benefits from WDP's hedging strategy. WDP's current hedging ratio is 86% and the weighted average hedge instrument maturity is 6.9 years, which compares with the weighted average 5.4 years debt maturity.

Safe debt profile with a fully unencumbered asset base, but negative pledge limits WDP's ability to raise secured lending on the back of its assets

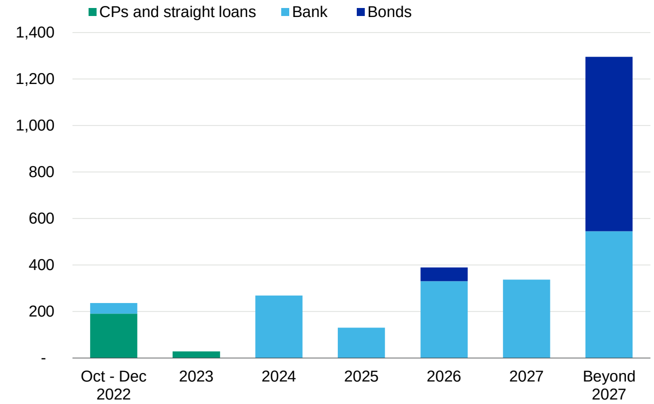
WDP's current funding is fairly diversified, comprising unsecured bank financing, private placements, commercial paper and strong access to public equity markets, with valuations that imply a premium to NTA and a successful €300 million equity rise via ABB in late October.

Exhibit 16
A diversified debt profile
Debt composition, Q3 2022



Source: Company reporting

Exhibit 17
A well staggered debt maturity profile
Debt maturity profile, EUR million



Source: Company information

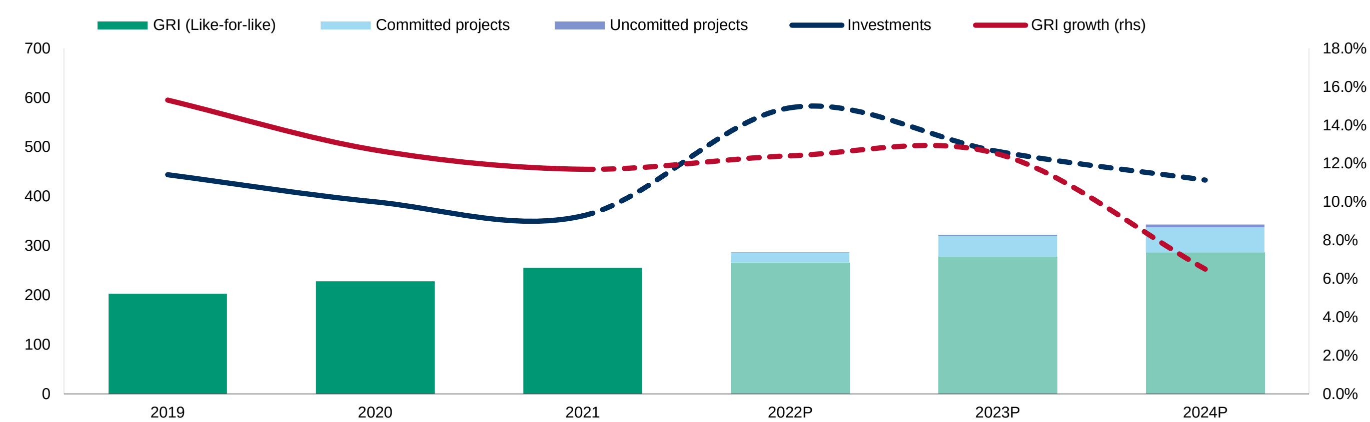
There is currently no mortgage security over any part of the portfolio, and we expect the future capital structure to combine capital market debt and unsecured, non-guaranteed loans, and to remain largely unencumbered.

Existing loans do have a negative pledge wording with respect to asset encumbrance. While we acknowledge that the unencumbered nature of its asset portfolio gives WDP full flexibility to dispose of assets in case of liquidity needs, there are some limitations to lending against these assets in a situation where market conditions for unsecured borrowings may be less available. The negative pledge is also a differentiating factor to other investment-grade peers that have full flexibility with regard to using their asset base for potential secured lending. However, given WDP's debt maturity profile, its still-good access to equity and sound liquidity management, targeting at all times 18 months of liquidity, refinancing risk is unlikely to materialise in the coming 12-18 months.

Growth through pre-let developments and strong track record will generate accretive revenue but introduces higher vulnerability to rising construction costs and inflation

WDP's portfolio more than doubled over the last four years, mostly through developments, and the company developed two-thirds of its current portfolio. The current development pipeline is around 771,000 square metres with a value of around €535 million (or around 8% of current portfolio) with a focus on the Dutch market (€305 million). It is 90% pre-let (pre-let rate at start has been above 90% since 2012), and developments are 50% on repeat business and 50% for new clients.

Exhibit 18
Development works generate accretive revenue
Historical rental income development and moody's projected GRI, EUR million



Source: Company reporting and Moody's estimates

We view land banks (2.7% of WDP's assets as of Q3 2022) as generally less liquid with more volatile valuations than income-producing properties, but we recognise the value of WDP's landholdings that benefit from limited supply. Driven by its large land bank (potential of more than 1.5 million sqm gross leasable area), WDP is well positioned to benefit from the good momentum in logistics and to capture yield thanks to cheaper development costs than acquisitions. Given WDP's long track record of delivering logistics assets on time and within budget, execution risk remains moderate, and no notching has been applied to reflect development risks. However, WDP's significant growth target (portfolio to reach €8 billion by 2025) makes it vulnerable to rising construction and funding costs. Development yields and overall profitability will be squeezed by inflation, which has reached an unprecedented record-high level over the last two decades. We, however, acknowledge that WDP has already locked-in the cost of all committed capital spending, while minimal profitability targets have to be met at each project level and are revised regularly. The company's capacity to effectively amend its development plan if funding costs significantly and sustainably rise will drive WDP's future profitability.

ESG considerations

We incorporate the impact of environmental, social and governance (ESG) factors when assessing companies' credit quality. In the case of WDP, the main ESG-related drivers are the following.

The environmental performance of the properties influences asset quality and their marketability. The share of BREEAM certified buildings is currently 31% but WDP targets to reach 75% green certifications by 2025. Additionally, the company is focused on continued improvement in the environmental sustainability of its assets. WDP has already assessed its scope 1 to 3 emissions and rolled out its ESG map to reduce scope 1 to 2 by 2030. WDP is also now included into the Dow Jones Sustainability index and aims at increasing its share of green financing from current 36% to 75% by 2025, which implies a strong focus on environmental topics.

WDP's operating environment will continue benefiting from the proliferation of e-commerce, and a reconfiguration of the supply chain in Europe fuelling demand for warehousing and logistics space. We see social issues for WDP has less relevant from a credit perspective. The company has defined diversity and inclusion best practices together with well-being and health and safety policy. The indirect effect of the challenge around availability of labour to its tenants is a more relevant aspect for the future performance of WDP, who however sees automation as a mitigant for tenants' labour shortage. We also believe WDP is well positioned to capture the ongoing demand for logistics assets stemming from all parts of the supply chain.

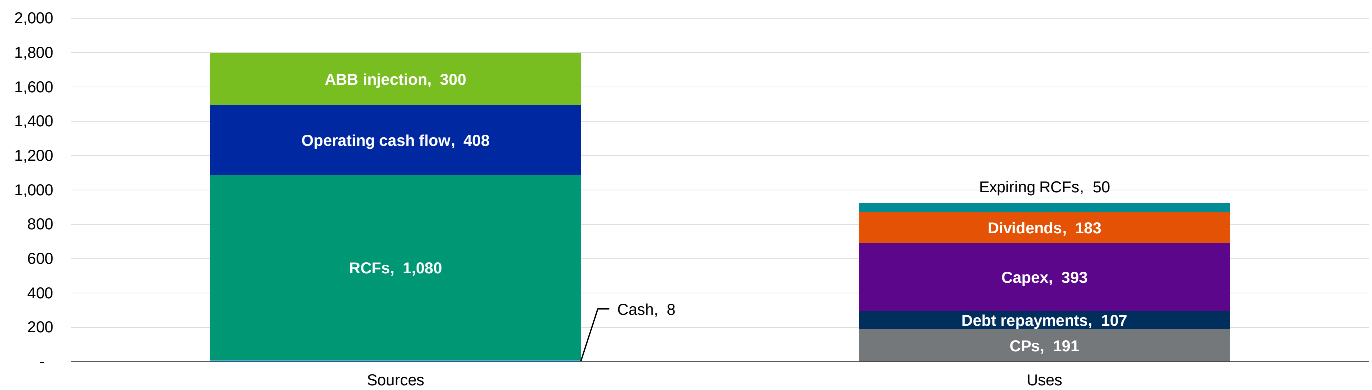
WDP is listed in Euronext Brussels stock exchange since 1999. Reference shareholder De Pauw family (<25% ownership) is involved in the operations through a co-CEO role but the ownership is otherwise well diversified. Sustained acceptance of scrip dividend (reducing the dividend payout from 80% to 50-45%) and regular equity injections illustrate WDP's good access to the equity markets. The company has a publicly communicated financial policy, which explicitly refers to a target earnings-based leverage. The cautious financial policy is fully endorsed by its shareholders and shapes the remuneration profile of its employees which ensures a strong adhesion from the company's stakeholders.

WDP's governance structure includes a board of directors with six members, being majority-led by independent directors. It also has audit and control, appointments, ESG and remuneration committees. The company has an experienced management team.

Liquidity analysis

WDP will maintain ample liquidity over the next 12-24 months. Liquidity is supported by its good-quality tenant base; cash flow predictability and visibility thanks to a limited lease rollover in the next two years (14%); €1.08 billion undrawn credit facilities and cash at hand of €7.7 million as of Q3 2022. 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.

Exhibit 19
Ample liquidity headroom
Sources and uses, 18 months, EUR million



Source: Company information

WDP has a strong track record of accessing the debt capital markets by issuing commercial papers and private placements, on top of unsecured bank financings from a large and diversified pool of banking partners. This translates into a well-staggered debt maturity profile.

Likewise, WDP has successfully and continuously accessed the equity markets over the last two decades. Strong valuation in recent years and still-robust equity investors' appetite translate into a premium to 21% NAV as of 27 October 2022, which compares well with that of other European real estate landlords, even if the premium has reduced significantly over the last six months in light of the deteriorated macroeconomic environment and weaker investor sentiment for the entire industry.

Methodology and scorecard

The principal methodology used in this rating is our REITs and Other Commercial Real Estate Firms rating methodology, published in September 2022. Please see the rating methodologies page on www.moodys.com for a copy of this methodology.

Exhibit 20

Rating factors

Warehouses De Pauw NV/SA

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 10/24/2022 [3]	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets (USD Billion)	$7.4	Baa	$7.2 - $7.7	Baa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	Baa	Baa	Baa	Baa
b) Operating Environment	Baa	Baa	Baa	Baa
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa
b) Unencumbered Assets / Gross Assets	100.0%	Aaa	100%	Aaa
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	37.2%	Baa	38.7% - 39.1%	Baa
b) Net Debt / EBITDA	9.9x	B	9.2x - 9.4x	B
c) Secured Debt / Gross Assets	0.0%	Aaa	0%	Aaa
d) Fixed Charge Coverage	6.0x	A	3.9x - 4.1x	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned				Baa1

[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 Financial Metrics

Ratings

Exhibit 21

Category	Moody's Rating
WAREHOUSES DE PAUW NV/SA	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1

Source: Moody's Investors Service

REPORT NUMBER 1346195

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's INVESTORS SERVICE