FitchRatings

RATING ACTION COMMENTARY

# Fitch Publishes Warehouses De Pauw's 'BBB+' IDR; Stable Outlook, Unsecured Debt 'A-'

Tue 08 Nov, 2022 - 12:49 AM ET

Fitch Ratings - Stockholm - 08 Nov 2022: Fitch Ratings has published Belgian real estate company Warehouses De Pauw NV/SA's (WDP) Long-Term Issuer Default Rating (IDR) of 'BBB+' with Stable Outlook and senior unsecured rating of 'A-'.

The ratings reflect WDP's EUR6.4 billion end-June 2022 property portfolio of logistics assets, which are primarily located in the Netherlands and Belgium. The portfolio is modern and well located, which has supported tenant demand, and led to a consistently high occupancy rate. Fitch expects net debt/EBITDA of 7.6x in 2022 and 7.9x in 2023, with regular equity issuance used to fund development and acquisition activity. WDP's financial policy is to maintain net debt/EBITDA (WDP-adjusted) of about 8x.

## KEY RATING DRIVERS

**Benelux-focused Logistics Portfolio:** At end-1H22, WDP owned a EUR6.4 billion investment property portfolio of logistics assets (end-2021: EUR5.9 billion). The assets are located across the Netherlands (48% of value/45% of rent), Belgium (32%/31%) and Romania (16%/21%). The majority of the portfolio consists of mid-sized general warehouses (about 5,000 sqm to 50,000 sqm) and about 23% is big box assets (greater than 50,000 sqm). WDP's high 11% Netherlands and 32% Belgium market shares (by owner-occupied space) and established domestic reputation leads to some control of rental evidence, although the consistently high renewal rate of over 90% and occupancy of close to 100% illustrates a focus on affordable rent rather than rent maximisation.

**Well-Located, Modern Assets:** The portfolio's assets are modern with an average age of 7.3 years (1H22) and are located near major transport infrastructure (roads, airports, and the geography's well-served ports). The Benelux assets benefit from being at the entrance point for goods entering Europe via sea and within close proximity of densely populated towns and cities. Over half of the portfolio is suitable for urban logistics.

**Moderate Leverage:** Fitch expects WDP's net debt/EBITDA (Fitch's calculation using annualised rental income) to be 7.6x in 2022 and 7.9x in 2023 (2021: 8.6x). We expect leverage to remain relatively stable as the company maintains its net debt/EBITDA (WDP-adjusted) target of about 8x by accessing additional equity, usually through a combination of an accelerated book build (ABB, 2022: EUR300 million) and scrip dividend take-up. We expect EBITDA interest coverage to remain above 6x, aided by an average cost of debt of 1.9% at end-1H22. Even if real estate valuation yields widen, end-1H22 loan-to-value (LTV) was below 40%.

**1H22 Activity:** Consistent with its 2022-2025 growth plan, WDP acquired a 10% equity stake in Sweden's Catena for EUR230 million; various property acquisitions; and in 2H22 bought out its German JV partner and acquired seven Netherlands logistics sites in Tournai for EUR120 million. To date in 2022, WDP has raised a total EUR476 million (EUR300 million ABB and EUR176 million contributions-in-kind (equity with acquisitions)) of additional equity.

**Development-led Growth:** We expect the majority of WDP's growth to be derived from the development of logistics assets, rather than the acquisition of completed assets. At end-1H22, the company had a development pipeline totalling 970,000 sqm, with 51% in the Netherlands, 28% in Belgium, 17% in Romania and 4% in Luxemburg. The total development cost (including the cost of land) is about EUR704 million and the cost to complete was EUR423 million at end-1H22.

The gross income yield on total development cost is about 5.7% in Benelux and 7.6% in Romania. The higher yield in Romania reflects the lower cost of land and cheaper construction costs and compensates WDP for the higher risks of investing in Romania.

**Limited Development Risk:** Development risk is mitigated by WDP's focus on pre-let rather than speculative developments. The company has a good record of pre-letting developments, and at end-1H22, 90% of the development pipeline was pre-let with an average duration of signed leases of 11.9 years. In addition, WDP has a prudent land acquisition strategy, whereby land is only acquired when zoning is in place.

**Solid Operational Performance:** The quality of WDP's portfolio is illustrated by its high occupancy rate of over 97% (1H22: 98.9%) and a lease renewal rate of about 90% over the last 10 years. The weighted average unexpired lease length (WAULT) to first break of 5.6 years provides WDP with stable rental income. The leases contain annual indexation clauses, which are upward-only and linked to local CPI. We expect like-for-like rental growth in WDP's portfolio to be limited due to the company's focus on maximising occupancy and good relationships with its tenants. Like-for-like rental growth was 3.1% in 1H22 (2021: 1.4%).

**Growing Tenant Demand:** WDP has a diversified tenant base (top 10: 29% of rent) and leases space to international and domestic tenants from a variety of different industries, including industrial, food retail, consumer goods, food distribution and non-food retail. Many of the tenants in these industries are taking up more space in order to fulfil consumer demand for e-commerce and to store more inventory to ensure that their supply chain is resilient to shocks. As the supply of new logistics space, particularly in Benelux, is constrained by limited land supply and zoning constraints, we expect demand for WDP's good quality space to continue to grow.

**Green Certification in Process:** Sustainability is a key part of WDP's strategy and green credentials remain an increasingly important consideration for tenants. At end-1H22, 29% of WDP's portfolio was green-certified (by 2025: management targets 75%). Green credentials help broaden the funding investor base. The large roofs of warehouses are well-suited for renewable energy, which provides revenues for WDP and makes the buildings more attractive for tenants (tenants save money on electricity distribution charges by buying from WDP). At 1H22, WDP had 95MWp (megawatt peak) installed renewable energy capacity (2025 target: 250MWp capacity).

## DERIVATION SUMMARY

WDP is rated the same as logistics property peer AXA Logistics Europe Master S.C.A. (IDR: BBB+/Stable) and one notch higher than SELP Finance SARL (IDR: BBB/Stable), which both own pan-European portfolios of logistics assets. SELP owns a EUR6.9 billion (end-2021) portfolio solely focused on big box assets and AXA LEM owns a EUR4.1 billion portfolio spread across logistics assets of various sizes. Tritax EuroBox plc (IDR: BBB-/Stable) also has a EUR1.3 billion pan-European portfolio as at end-September 2021. SEGRO plc (IDR: A-/Stable) has a GBP16.7 billion portfolio of wholly-owned assets that are primarily located in the UK and focused on urban warehouses. Fitch expects SEGRO's urban warehouse assets in London and Paris to generate higher rental growth than peers' portfolios.

WDP has a WAULT of 5.6 years, which is in line with SELP and AXA LEM's WAULT of about six years. SEGRO (including its 50% stake in SELP) has a longer WAULT of 7.2 years, although this is driven by the UK's longer WAULT of about eight years. Both WDP and SEGRO focus on development-led growth, although WDP takes less speculative development risk than SEGRO. SELP grows its portfolio through a mix of asset acquisitions and developments. Although Fitch views development activity as more risky than asset acquisitions, pre-letting developments significantly reduces this risk. Also, companies are compensated for the additional risk by being able to generate a higher rental income yield on development cost relative to the yield on logistic asset acquisitions.

Fitch forecasts WDP's forecast net debt/EBITDA will be 7.6x in 2022 and 7.9x in 2023, with development and acquisitions funded by a mix of debt and equity. This is lower than SELP's forecast net debt/EBITDA of about 9x, but higher than AXA LEM and SEGRO where Fitch expects net debt/EBITDA to be 7x-8x and below 8x, respectively. Unlike most peers, WDP focuses on cash flow leverage in the form of net debt/EBITDA rather than LTV. Fitch views this positively as net debt/EBITDA is more stable and can be controlled to a greater degree by management. A focus on net debt/EBITDA also means that WDP will not re-lever its balance sheet based on recent valuation increases in the logistics property sector as valuations are likely to turn adverse in the current rising interest rate environment.

## KEY ASSUMPTIONS

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

- Low single-digit like-for-like rental growth. Although CPI will be high double-digit, Fitch has used a conservative 2%-3% in its forecasts even though WDP's leases allow higher uplifts

- Development spending of about EUR300 million per year during 2022-2024

- Land acquisitions of about EUR150 million per year during 2022-2024

- Asset acquisitions of about EUR100 million per year during 2022-2024

- Developments and acquisitions funded with about a 50/50 mix of debt and equity

- Use of ABBs and scrip dividend (with take-up of about 50%) to procure the equity needed for its developments and acquisitions

## RATING SENSITIVITIES

**Factors that could, individually or collectively, lead to positive rating action/upgrade:**

- Increased 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

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

## LIQUIDITY AND DEBT STRUCTURE

**Comfortable Liquidity:** At end-1H22, WDP's readily available cash was EUR11.1 million and undrawn credit facilities above EUR1 billion. In October 2022, WDP completed a EUR300 million ABB. This liquidity is more than sufficient to cover the next 12 months' short-term debt maturities of EUR393 million in 2022 (including EUR195 million commercial paper). Debt maturities are well spread with a weighted average debt maturity of 5.4 years at end-1H21 (2021: 4.5 years). Raising funding for the development programme's spend, in April 2022 WDP issued EUR500 million 10-year US private placements at a 1.52% coupon under its updated green finance framework. WDP plans to increase its share of green funding further to 75% by 2025 (1H22: 36% of debt).

## ISSUER PROFILE

WDP owns a EUR6.4 billion portfolio of logistics assets, primarily located in Netherlands, Belgium and Romania. The portfolio is well located and diversified by asset type, with a mix of big box and smaller warehouses. The company's growth strategy is largely driven by the development or redevelopment of assets, with the majority of space pre-let. WDP has been publicly listed on Euronext since 1999.

## 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.

## RATING ACTIONS

| ENTITY / DEBT | RATING | | |
|---|---|---|---|
| Warehouses De Pauw NV/SA | LT IDR | BBB+ Rating Outlook Stable | Publish |
| senior unsecured | LT | A- | Publish |

**VIEW ADDITIONAL RATING DETAILS**

## FITCH RATINGS ANALYSTS

**Fredric Liljestrand**
Senior Director
Primary Rating Analyst
+46 85051 7809
fredric.liljestrand@fitchratings.com
Fitch Ratings Ireland Nordic Region Filial
Kungsgatan 8 Stockholm 111 43

**Manu Nair**
Director
Secondary Rating Analyst
+44 20 3530 1255
manu.nair@fitchratings.com

**John Hatton**
Managing Director

Committee Chairperson
+44 20 3530 1061
john.hatton@fitchratings.com

## MEDIA CONTACTS

**Tahmina Pinnington-Mannan**
London
+44 20 3530 1128
tahmina.pinnington-mannan@thefitchgroup.com

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

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub. 28 Oct 2022)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

## APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.3 (1)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

| | |
|---|---|
| Warehouses De Pauw NV/SA | 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 scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.



READ LESS

## 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.

Real Estate and Homebuilding Corporate Finance Europe Belgium