

Research Update:

Outlook On France-Based Unibail-Rodamco Revised To Negative On News Of Capital Reimbursement; 'A/A-1' Ratings Affirmed

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Overview

- France-based property group Unibail-Rodamco has announced a €1.83 billion capital reimbursement to be paid to shareholders in October 2010.
- Unibail-Rodamco's large, high-quality, and diversified retail property portfolio provides stable cash flows, in our view. The group also has a solid capital structure.
- In light of the capital reimbursement, we are revising the outlook on Unibail-Rodamco to negative from stable and affirming the 'A/A-1' long- and short-term corporate credit ratings on the group.
- The negative outlook reflects our view that Unibail-Rodamco's leverage and financial flexibility will be limited at the current rating level following the capital reimbursement.

Rating Action

On July 21, 2010, Standard & Poor's Ratings Services revised its outlook on France-based property group Unibail-Rodamco to negative from stable. At the same time, the 'A' long-term and 'A-1' short-term corporate credit ratings on Unibail-Rodamco were affirmed.

Rationale

The outlook revision follows Unibail-Rodamco's announcement of a €1.83 billion capital reimbursement to be paid to shareholders in October 2010. In our opinion, this dividend will likely limit the group's leverage and financial flexibility at the 'A' rating level.

The ratings on Unibail-Rodamco reflect our view of its position as Europe's largest real estate company; its high-quality and well-diversified property portfolio that is mostly focused on dominant shopping centers; and its stable and strong operating performance. Partially offsetting these strengths are Unibail-Rodamco's intermediate financial profile; the group's large development program and active asset rotation strategy; and some exposure to higher-risk segments and markets, including offices and convention and exhibitions activities.

Unibail-Rodamco's excellent business risk profile is underpinned by the group's large property portfolio (valued at €22.3 billion as of Dec. 31, 2009). The portfolio is predominantly invested in prime retail assets (74% of

the portfolio value), but also in high-quality office assets (18%) and convention centers. These properties are also well-diversified in terms of asset type, location, and tenants. They benefit from high occupancy rates and long average leases, which contribute to stable and predictable cash flow generation.

Unibail-Rodamco's operating stability is mainly supported by the high quality of its dominant shopping centers. These centers generally attract prime-quality retail tenants--with the ability to pay rent even in a severe downturn--and have low levels of vacancies. In addition, most of these retail assets are food-anchored and therefore have a steady flow of customers. We understand that the group's strategy remains focused on acquiring and developing very large shopping centers in its existing key markets, and we see this as positive for the ratings. On the other hand, we believe that the cyclicity of the group's office assets and nonrental activities, as well its presence in the depressed Spanish market, partly moderate the group's excellent business risk profile.

The ratings also reflect the group's intermediate financial profile, especially its solid capital structure and adequate financial flexibility, as well as its prudent interest rate hedging policy. Nevertheless, in our opinion, Unibail-Rodamco's financial profile will deteriorate somewhat as a result of the capital reimbursement, to what we consider to be a weak level for the 'A' rating. We anticipate that the group's loan-to-value (LTV) ratio will rise to almost 45%, from a reported 32% (34% post the acquisition of Simon-Ivanhoe, which the group expects to consolidate in 2010) as of Dec. 31, 2009. However, this is well within the maximum covenanted ratio of 60%. We project the group's reported interest-coverage ratio (based on net rental income and net interest charge) to fall to 3.0x from 3.9x in 2009--still well above the covenanted level of 2.0x.

Although we take a favorable view of management's experience and track record, we think the execution of the group's asset rotation policy and the size of its development pipeline is a potential risk.

Liquidity

The short-term rating is 'A-1'. This reflects our view of the stable cash generation of the business and Unibail-Rodamco's adequate liquidity following the payment of the capital reimbursement. In our opinion, the group's debt maturity profile is well-managed, and is satisfactory at 4.5 years, with no large debt maturity before 2011. Short-term debt amounts to €1,090 million, and we anticipate that Unibail-Rodamco should have €1.58 billion of undrawn committed credit lines and €150 million of cash and cash equivalents following the capital reimbursement and bond repayment on July 1, 2010.

Looking forward, we think Unibail-Rodamco's reported debt level will increase to €9.7 billion in 2010 from a Standard & Poor's-adjusted level of €7.7 billion at Dec. 31, 2009.

As of Dec. 31, 2009, 100% of the group's debt was fixed or hedged with swap and cap contracts, providing solid resilience to interest rate hikes in the next two to three years. Hedging remains material over 2010-2013. We understand that management will continue to maintain a strong interest rate hedging policy.

Outlook

The negative outlook reflects our view that Unibail-Rodamco's financial profile will deteriorate somewhat after the capital reimbursement, and will be operating close to the limit for the current rating, despite the excellent quality of its business risk profile.

We believe Unibail-Rodamco's financial measures should not deteriorate further following the capital reimbursement payment, and we expect them to improve over the next 18 months. Specifically, we anticipate that ratios should trend back toward EBITDA interest coverage nearer to 3.5x, funds from operations to debt of 9%, and an LTV ratio of 40% over the next 18 months.

We could, however, lower the ratings in the event that Unibail-Rodamco were unable to keep its LTV ratio below 45% due to a further deterioration in already-weak market conditions, materially increasing exposure to higher-risk markets, more-aggressive-than-expected capital expenditures, and execution risks on developments.

Equally, rating upside could occur if Unibail-Rodamco were able to significantly reduce its leverage and reduce its LTV ratio to a more sustainable level.

Related Criteria And Research

- Industry Credit Outlook: Global Real Estate Companies Weather Stormy Period, But Still Face Tough Times, Aug. 6, 2009
- Key Rating Factors for European Real Estate Companies, Nov. 24, 2004

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Unibail-Rodamco Rodamco Europe N.V. Corporate Credit Rating	A/Negative/A-1	A/Stable/A-1

Ratings Affirmed

Unibail-Rodamco Senior Unsecured Debt	A
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Commercial Paper	A-1
Rodamco Europe Finance B.V.	
Senior Unsecured Debt*	A
Commercial Paper	A-1
Rodamco Europe N.V.	
Commercial Paper	A-1
Rodamco Sverige AB	
Senior Unsecured Debt*	A
Commercial Paper	A-1

*Guaranteed by Rodamco Europe N.V.

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