MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Baa1 first time rating to Warehouses de Pauw NV/SA

08 Nov 2022

Paris, November 08, 2022 -- Moody's Investors Service (Moody's) has today assigned a first-time Baa1 long-term issuer rating to Warehouses de Pauw NV/SA (WDP or the company), a real estate company focused on logistics assets in Benelux and Romania. The outlook is stable.

"The Baa1 issuer rating reflects the company's well executed business model focused on a large and diversified portfolio of logistics assets, relatively long dated rental cash-flow from a diversified tenants roster and high occupancy level underpinning cash-flow stability" says Elise Savoye, CFA, a Vice President Senior Analyst at Moody's and Lead Analyst for WDP. "Despite the deterioration of the company's operating environment, with notably higher funding cost and valuation decline likely in the future, we expect WDP to maintain robust Moody's adjusted leverage well below 40% and net debt to EBITDA at around 9x to 9.5x. in the next 12 to 18 months thanks to its cautious financial policy while fixed charge coverage will remain above 4x." adds Ms. Savoye.

RATINGS RATIONALE

Warehouses de Pauw NV/SA's Baa1 long term rating is supported by (1) its large scale and good quality logistics portfolio across stable markets in Western Europe and a solid position in the Romanian market, which translates into consistently high occupancy and tenant retention rates, robust yield generation and stable cash-flow arising from long term leases; (2) structural tailwinds from e-commerce and supply chain reconfiguration still supporting excess demand for logistics assets despite the deteriorating macro-economic environment; and (3) WDP's cautious financial policy and track record of adhering to it with a public commitment to an earnings-based leverage ratio (Net Debt/EBITDA as calculated by the company) of around 8.x and a focus on long-term cash-flow generation rather than on valuation appreciation, which supports robust fixed charge coverage of around 4x over the next 18 to 24 months.

However, the ratings also reflect WDP's significant development pipeline of around €535 million (or roughly 8% of existing portfolio) while the issuer contemplates to grow further its portfolio by ca €500 million each year until 2025. WDP however has a strong track-record in asset development with two thirds of its portfolio built in-house and very high pre-let requirements (90% as per the current committed pipeline), which limits execution risk. WDP also benefits from a sizeable landbank (1.5 million sqm of potential GLA), a positive given current land scarcity in the markets where WDP operates. WDP's significant growth target makes it vulnerable to rising construction costs and upward pricing pressure on land plots; development yields on future projects and overall profitability will be squeezed by inflation. The ratings also incorporate the reduced ability of WDP to raise liquidity on the back of its assets, even if fully unencumbered because of the negative pledge wording in its bilateral lending arrangements. We however expect WDP's liquidity to remain good over the next 12 to 18 months, while WDP has a robust track record of accessing the equity market, with a successful €300 million equity ABB issuance achieved on October 20 2022 while shares still trade at a premium to NAV.

WDP's leverage as measured by Moody's adjusted gross debt / total assets stood at 37.2% as of Q3 2022 and Moody's expects this ratio to trend around 39% in the next 12 to 18 months assuming valuation decline. Moody's adjusted fixed charge coverage was strong at 6x for the last twelve months to Q3, and Moody's expects this ratio to remain above 4x in the next 12 to 18 months as the company gains the benefit of its hedging strategy (with a hedge ratio constantly above 80 %), the €476 mln equity rise (including a €300 million ABB) which limits the impact of rising funding costs while there is limited refinancing needs until 2026.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

WDP's governance practices seem appropriate and its prudent financial policies including a commitment to maintain LTV below 50% throughout the cycle and ND/EBITDA as per their calculation of around 8x and a track record of adhering to it are supportive to its rating. The cautious financial policy also shapes the remuneration profile of its employees which ensures a strong adhesion from the company's stakeholders. The company adheres to the typical corporate governance standards for Belgian listed companies, including a board of directors with six members, being majority-led by independent directors. It also has audit and control, appointments, ESG and remuneration committees. WDP is listed in the Euronext Brussels Stock exchange since 1999 and present a somewhat concentrated ownership with reference shareholder De Pauw family (<25% ownership) involved in the operations (through a co-CEO role) but does not own a blocking minority. Sustained acceptance of script dividend (reducing the dividend pay-out from 80% to 50-45%) and regular equity injections illustrate WDP's good access to the equity markets through the cycles.

The environmental performance of the properties influences asset quality and their marketability. The share of BREEAM energy-certified buildings is currently 29% but WDP targets to reach 75% BREEAM energy certifications by 2025.

WDP's operating environment will continue benefiting from the proliferation of e-commerce, and a reconfiguration of the supply chain in Europe fueling demand for warehousing and logistics space, which we expect will counterbalance the deterioration of the macro-environment over the next 12 to 24 months. We see social issues for WDP as less relevant from a credit perspective.

RATING OUTLOOK

The stable outlook reflects Moody's expectation that despite the deteriorating operating environment, the company will continue to demonstrate robust operating performance with high occupancy levels, good liquidity and a balanced funding mix while executing on its growth strategy. The stable outlook also reflects our expectation that WDP will operate within its leverage policy which will translate into a ND/EBTIDA between 9x and 9.5x, an effective leverage at around 38%-39% and a fixed charge coverage above 4x (all on a Moody's adjusted basis) over the next 12 to 18 months. This forward view incorporates a buffer for a 10% valuation decline and rising funding costs.

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

While Warehouses de Pauw NV/SA is well positioned in its current rating category, a rating upgrade could materialise 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 to 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 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

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

LIQUIDITY

WDP will maintain ample liquidity which is supported by good quality tenant base, cash flow predictability and visibility thanks to a limited lease roll-over in the next 2 years, €1,080 million undrawn credit facilities, and cash at hand of €7.7 million as of September 2022. Over the next 18 months, the main demands on cash include spending on new developments (€393 million), annual dividends of around €180 million and debt repayment, including commercial papers (€298 million). Moody's expects WDP to maintain good liquidity at all times supported by its cautious liquidity management with a target of maintaining 18 months of liquidity and WDP's future funds from operations over the next 12 to 18 months.

The company has ample capacity under its various covenants.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was REITs and Other Commercial Real Estate Firms published in September 2022 and available at https://ratings.moodys.com/api/rmc-documents/393395 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Warehouses de Pauw NV/SA is a large, pure player logistics real estate landlord with a portfolio of 281 assets worth €6.7 billion portfolio as of Q3 2022 generating €286 million in headline rent on an LTM basis. The group main markets are the Dutch, Belgian and to a lesser extent Romanian markets (respectively 47%, 32% and 16% of the group total investment properties portfolio). Further expansion into the German, French and Luxembourg logistics markets is targeted over the coming years, while recent acquisition of a 10% stake in Catena increases exposure to Nordics markets. As of 27 October, WDP had a market capitalization of €5.2 bn with its shares trading at €26.64, a 21 % premium to its Q2 2022 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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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