**Scope affirms EUROBODEN’s B issuer rating and BB- unsecured bond rating, both with Stable Outlook**

***Rating affirmation supported by company’s 2015 financial results closely matching its business plan.***

The BB- rating of the EUROBODEN GmbH’s unsecured corporate bond, issued in 2013 and maturing in 2018, reflects Scope’s view that recouping this investment is highly probable, thanks to the company’s disclosure of hidden reserves and the very well-located properties in its development portfolio.

The B Corporate Issuer-Credit Rating (CICR) for EUROBODEN, a real estate developer with a focus on the high-quality segment, is supported by the company’s: i) ‘A’ located and highly liquid properties in its development portfolio; ii) positive growth prospects in its core markets of Munich and Berlin; iii) profound market knowledge; iv) high profitability compared with the industry; and v) strong brand recognition that enables off-market deals.

The CICR is negatively affected by EUROBODEN’s position as a small niche player in high-quality residential property development and its volatile cash flows. The full exposure to the cyclical real estate market and dependence on external financing are also credit-negative. In addition, key person risk exists due to vital contribution of the CEO, owner and founder.

**KEY RATING DRIVERS**

**Small, but strongly growing, niche player in prime residential property development.** With total assets of EUR 53m at end-September 2015 (+48% YoY) and FFO of EUR 0.8m for the year to September 2015 (+480%), EUROBODEN is a small company, but exhibits strong growth in the highly fragmented market of German real estate developers. Its activities focus on niche, high-quality residential real estate development, a market characterised by elastic demand and generally volatile prices. The company’s small size and market position also indicate a heightened sensitivity to unforeseen shocks, stronger volatility in cash flows, and higher key person risk.

**Positive growth prospects for company’s core markets, Munich and Berlin.** Scope believes asset prices and demand in EUROBODEN’s core markets, Munich and Berlin, will keep growing after average prices in both markets rose by 55% from 2011. This trend looks set to continue, owing to the lack of new apartments and the strong growth expected for both cities – which could strengthen the company’s business model in the coming years.

**Volatile cash flows due to the concentrated development pipeline.** EUROBODEN’s cash flow volatility is exacerbated by its concentrated pipeline of eight development projects, the largest of which represents 29% of expected future turnover. This very modest diversification might affect future cash flows if projects suffer delays or cost overruns.

**Full exposure to cyclical real estate market.** EUROBODEN is highly exposed to inherent cyclicality in the real estate market, as 99% of its revenue is linked to development activity, which Scope judges as credit-negative.

**Highly liquid development portfolio with ‘A’ located assets.** The development portfolio’s assets are situated predominately in the ‘A’ rated locations of Munich and Berlin. Scope believes this supports the fungibility and liquidity of its properties and lowers potential price haircuts in a distressed sales scenario.

**High profitability, with adjusted EBITDA margin sustained at 16%.** EUROBODEN’s profitability has remained stable – EBITDA margin rose slightly to 8% in 2015 from 7% in 2014. However, Scope believes this will increase to well above 10%, supported by the sustained adjusted EBITDA margin of 16% for the last 10 projects and the high-quality pipeline. Scope believes the increase of profitability is supported by the firm’s profound market knowledge and brand recognition that enables off-market deals.

The company’s project related EBITDA margin is steady at 16%, higher than many of its peers.

**Significant reduction of loan/value ratio (LTV) below 40%.** EUROBODEN has reduced its leverage by obtaining building permissions for most of its project pipeline and subsequently increasing hidden reserves, reflected in an LTV of below 40% at YE 2015 (2014: 61%). However, this reduction in fair-value-based leverage is somewhat offset by the debt-financed extension of the project pipeline, which increased net debt/EBITDA to a high 14.4x in 2015 (2014: 13.4x). Scope judges that this increase is mitigated to some extent by EUROBODEN's relatively stable asset values, which the agency believes can be realised easily.

**Corporate governance issues and key person risk.** Due to the company's size, there is no advisory or supervisory board. Strategic decisions are made by EUROBODEN's owner and CEO, speeding up decision-making, but creating key person risk at the same time.

**LIQUIDITY AND DEBT REPAYMENTS**

Scope expects cash flow from operations to be negative in 2016, and therefore forecasts liquidity for 2015 to be below 1.0x following a volatile pattern of the previous years (2014: 1.7x; 2013: -0.9x; 2012: -0.5x). This volatility is expected to persist, driven by the fluctuating cash flows, which are also sensitive to the chunky project pipeline. These aspects significantly increase the risk EUROBODEN will not repay EUR 13.4m of debt due in the next seven months. However, Scope expects the company will refinance the maturing debt through EUR 5.2m of available credit lines, and, if projects are delayed, by extending current debt facilities or proceeds after projects end.

**BOND**

As the bond is unsecured, its credit quality is tightly linked with EUROBODEN's credit quality and performance. However, as EUROBODEN has disclosed hidden reserves, and has a development portfolio with very well-located assets, Scope believes the bond's potential recovery is well above market average, lifting the bond's rating two notches above the CICR.

**OUTLOOK**

The rating Outlook is Stable, supported by EUROBODEN's high-quality development pipeline in booming core markets of Munich and Berlin. The Stable Outlook incorporates Scope's expectation that the FFO fixed-charge coverage remains sustainably above 1.0x.

A negative rating action could be considered if the company's LTV exceeds 60%, if FFO fixed-charge cover did not remain substantially above 1.0x on a sustained basis or if the company's access to bank financing weakened.

Scope could consider a positive rating action if EUROBODEN significantly grows in size while maintaining LTV under 50%.

## IMPORTANT INFORMATION

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

### Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund, Dr. Sven Janssen.

The rating analysis has been prepared by Philipp Wass, Lead Analyst
Responsible for approving the rating: Werner Stäblein, Committee Chair

**Rating History - EUROBODEN GmbH**
**(Date | Rating action | Rating)**

27 May 2016 I Affirmation I B I Stable
28 May 2015 I Initial Rating I B I Stable

**Rating History - EUR 15m unsecured corporate bond (2013/2018) of EUROBODEN GmbH**
**(Date | Rating action | Rating)**

27 May 2016 I Affirmation I BB- I Stable
28 May 2015 I Initial Rating I BB- I Stable

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

### Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but for a fee based on a mandate of the rated entity.

As at the time of the analysis, neither Scope Ratings AG nor companies affiliated with it hold any interests in the rated entity or in companies directly or indirectly affiliated to it. Likewise, neither the rated entity nor companies directly or indirectly affiliated with it hold any interests in Scope Ratings AG or any companies affiliated to it. Neither the rating agency, the rating analysts who participated in this rating, nor any other persons who participated in the provision of the rating and/or its approval hold, either directly or indirectly, any shares in the rated entity or in third parties affiliated to it. Notwithstanding this, it is permitted for the above-mentioned persons to hold interests through shares in diversified undertakings for collective investment, including managed funds such as pension funds or life insurance companies, pursuant to EU Rating Regulation (EC) No 1060/2009. Neither Scope Ratings nor companies affiliated with it are involved in the brokering or distribution of capital investment products. In principle, there is a possibility that family relationships may exist between the personnel of Scope Ratings and that of the rated entity. However, no persons for whom a conflict of interests could exist due to family relationships or other close relationships will participate in the preparation or approval of a rating.

## Key sources of Information for the rating

- Prospectus
- Website of the rated entity
- Valuation reports
- Annual financial statements
- Annual reports/semi-annual reports of the rated entity
- Information provided on request
- Data provided by external data providers
- External market reports
- Press reports / other public information
- Interview with the rated entity

Scope Ratings considers the quality of the available information on the evaluated company to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

## Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

## Methodology

The methodologies applicable for this rating (Corporate Rating Methodology, Rating Methodology - European Real Estate Corporates) are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

## Conditions of use / exclusion of liability



## Rating issued by

Scope Ratings AG, Lennéstrasse 5, 10785 Berlin