S&P Global Ratings

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Bulletin:

TAG Immobilien AG's Announced Equity Increase And Bridge Facility Extension Support Its Liquidity Position

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This report does not constitute a rating action.

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S&PGRBulletin: TAG Immobilien's Capital Raising Supports Liquidity

MADRID (S&P Global Ratings) July 8, 2022--S&P Global Ratings today said that TAG Immobilien's announced capital increase and bridge facility extension will support its liquidity position for the next 12 months.

TAG Immobilien AG (TAG; BBB-/Stable/A-3) announced a fully underwritten capital increase of around €200 million and two three-month extensions of the bridge facility it used to fund its acquisition of Polish developer ROBYG. It further announced plans to dispose of €300 million of assets (most of which we understand have not yet been signed) and its intention to obtain additional secured mortgage debt financing to refinance upcoming debt maturities, including €650 million of drawings under the bridge facility, which is now due in January 2024.

Based on the existing available committed credit lines of around €185 million, cash balances of around €200 million as of March 31, 2022, resilient cash flow generation from its German income-yielding portfolio worth €6.4 billion, and high presales for its 2022 and 2023 deliveries in Poland, we believe the company's liquidity position is sufficient to cover its uses for the next 12 months. We understand that short-term debt maturities over that period amount to approximately €349 million. Nevertheless, the company still needs to secure a long-term funding plan to refinance its drawings under the bridge facility, which hinges on the successful completion of the disposals and the subsequent securing of long-term debt financing within the following three to six months.

Current inflationary pressures and supply chain disruptions are challenging TAG's development business in Poland, but we understand the majority of 2022 deliveries have already been presold, with most of the remaining pipeline oriented toward its build-to-hold rental platform, reducing its exposure to the build-to-sell market, which we expect to slow due to rising interest rates. Additionally, we understand the company has certain flexibility regarding its build-to-hold pipeline in Poland, which would support cash flow preservation and reduce liquidity needs in the next 12 months.

Weaker capital market sentiment and current market turmoil will increase TAG's refinancing costs and erode its EBITDA interest coverage compared with our previous base case. However, we expect the company to maintain interest coverage ratios above 3.8x in the next 12-24 months, supported by its comparatively higher yielding German residential asset portfolio and operations in Poland.

We will monitor closely the company's execution of funding plans over the next few months and reflect any material changes in our rating analysis.