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Research Update:

Akropolis Outlook Revised To Stable After Same Action On Maxima; 'BB+' Ratings Affirmed

October 26, 2021

Rating Action Overview

- We revised, to stable from negative, our outlook on Maxima Grupe UAB (Maxima), the main core subsidiary of Akropolis' parent, Vilniaus Prekyba UAB (VP group), following its recent stronger-than-expected operating performance.
- We still view Akropolis as a core subsidiary of VP group, and integral to the group's strategy, with the parent likely to provide support in case of stress, and so we align the rating on Akropolis with that on Maxima, which is the main driver of VP's creditworthiness.
- We have therefore revised our outlook on Akropolis to stable from negative, and affirmed our 'BB+' ratings, in line with Maxima Grupe.
- The stable outlook on Akropolis reflects that on Maxima, and our expectations that this entity, as well as VP group, will maintain S&P Global Ratings-adjusted debt to EBITDA and funds from operations (FFO) to debt below 3.0x and above 30% over the coming 12 months.

PRIMARY CREDIT ANALYST

Kathleen Allard
Paris
+ 33 14 420 6657
kathleen.allard
@spglobal.com

SECONDARY CONTACTS

Marie-Aude Vialle
Paris
+33 6 15 66 90 56
marie-aude.vialle
@spglobal.com

Carlos Garcia Bayon, CFA
Madrid
+ 34 91 423 3195
carlos.garcia.bayon
@spglobal.com

Franck Delage
Paris
+ 33 14 420 6778
franck.delage
@spglobal.com

Rating Action Rationale

Our outlook revision to stable follows our outlook revision to our rating on Maxima, the main core subsidiary of VP. Our final rating on Akropolis is aligned with that on Maxima and our assessment of VP's overall group credit profile. This is because Maxima is the main driver of VP's credit quality, being the main core subsidiary of the group and representing 74% of the group's EBITDA. In addition, we view Akropolis as a core subsidiary of the VP group. We believe it is highly unlikely that VP, which has owned 100% of Akropolis since 2016, will sell the company. This is because we understand VP views Akropolis as part of its group identity, as the real estate arm. About 50% of VP's real estate assets are Akropolis' shopping centers, and VP's subsidiaries represent about 25% of Akropolis' total gross leasable area and approximately 17% of its total income, as anchor tenants. We expect VP to support Akropolis under foreseeable circumstances, as demonstrated by the group's flexible dividend policy. Under this policy, the group envisages no dividend from Akropolis during the realization of its large Vingis development project (which involves €287 million of estimated capital expenditure [capex]). We also understand that

Akropolis' decision-making process heavily involves VP, with all decisions above €1 million approved by VP management. Since Maxima is the main factor in VP's credit quality, we align our final rating on Akropolis with that on Maxima, at 'BB+', with a stable outlook.

We expect Akropolis to maintain credit metrics and a liquidity cushion consistent with our current assessment of its stand-alone credit profile (SACP) over the next 12 months. Akropolis' leverage will likely be temporarily distorted by its planned acquisition and development capex program over the next two years. We also believe collection rates and therefore revenue generation might be affected in 2021 by the reimposed four-week lockdown in Latvia (25% of Akropolis' portfolio) starting October 21. We now expect the company's like-for-like revenue decline could be 5%-10% for 2021, versus 5% in our previous forecasts, even if we acknowledge Akropolis' high collection rates so far (98% in the first half of 2021, though excluding rent discounts granted to tenants) Still, we expect the company's S&P Global Ratings-adjusted debt to EBITDA to improve and stabilize to well below 7.5x from 2022, while its debt-to-debt-plus-equity should stay well below 45%. This would be line with the company's financial policy to maintain maximum 40% net loan to value (translating into about 42.5% S&P Global Ratings-adjusted debt to debt plus equity). The company has announced the acquisition of 100% of Latvia-based Delta Property, which owns Alfa (land and building), a large shopping center in Riga with an area of 154,000 sqm and about 7 million visitors per year, making it one of the largest assets in the city. In addition, Akropolis will deploy its large Vingis development project over 2021-2024 in the city of Vilnius. We assume the company will invest €200 million-€250 million in these two projects in 2022. We understand that out of these investments less than €200 million is committed and therefore included in our liquidity assessment as of Sept. 30, 2021. We expect Akropolis to maintain adequate liquidity over the next 12 months, and therefore to raise any additional funding if further investments are committed.

Outlook

The stable outlook on Akropolis reflects our expectations that Maxima will maintain its leading market position in the Baltics despite intensifying competition. The outlook also factors in the sound execution of its planned store expansions in Poland and Bulgaria, along with normalizing demand for food following the end of lockdowns.

This should result in 4%-8% sales growth and S&P Global Ratings-adjusted EBITDA margins falling toward, but not below, 2019 levels. The outlook also reflects Maxima's prudent dividend distributions, funded through free operating cash flows (FOCF) and our expectation of 30%-35% S&P Global Ratings-adjusted FFO to debt and about 2.6x-3.0x adjusted debt to EBITDA in 2021 and 2022. We also expect stronger credit metrics and deleveraging at the VP group level, with debt to EBITDA of 2.4x-2.6x-x in 2021 and 2.0x-2.5x in 2022, supported by a more conservative financial policy.

Downside scenario

We could lower the ratings on Akropolis if:

- Maxima significantly underperforms our base case, including suffering a material decline in operating performance, with diminishing profitability because of intensifying market competition, or if a weaker macroeconomic environment in the Baltics or Poland weighs on margins and cash flows;

- Maxima or VP's current financial policies became less prudent, either due to increased dividends or large-scale, debt-funded acquisitions that kept leverage at about 3.0x or above and FFO to debt below 30% at either Maxima or the wider group; or
- Maxima or VP's liquidity deteriorates or the senior notes refinancing is not addressed in a timely manner.

Although it would not result in a downgrade, due to expected group support, we could revise down our assessment of Akropolis' SACP if its liquidity cushion tightens, or leverage increases materially, such that S&P Global Ratings-adjusted debt to EBITDA increases well above 7.5x, or debt to debt plus equity does not remain comfortably below 45%.

Upside scenario

Albeit unlikely over the next 12 months given our understanding of management's financial policy, we could raise our ratings on Akropolis following a stronger-than-expected operating performance at Maxima and the overall VP group. This would include:

- Adjusted debt to EBITDA falling below 2.0x for Maxima and VP;
- Maxima's FOCF substantially exceeding actual dividend payments, resulting in debt reduction; and
- Solid liquidity levels being maintained.

We would also need to see a financial policy commitment from Maxima and its parent to sustain these credit metrics.

Company Description

Akropolis is a Lithuanian retail property landlord, with four shopping centers valued at €771 million at December 2020 and an average 7% yield. 75% of its portfolio is in large Lithuanian cities (Vilnius, Klaipeda, and Siauliai), and 25% in Latvia (Riga). It also owns offices within its shopping centers in Vilnius and Riga, but they represent less than 5% of total gross rental income.

The company is 100% owned and fully consolidated by the wider VP group, whose main consolidated business is Maxima (74% of EBITDA at year-end 2020), a leading Lithuanian retail chain with a focus on food. VP also consolidates pharmacy business Euroapotheca (13% of EBITDA), and other retail businesses (3%), in addition to Akropolis (10%).

Liquidity

We assess Akropolis' liquidity as adequate. We anticipate that liquidity sources will likely cover uses by more than 1.2x in the 12 months from Oct. 1, 2021.

We estimate principal liquidity sources for the 12 months started Jan. 1, 2021, include:

- €225.6 million of available unrestricted cash; and
- Our expectation of cash FFO of about €40 million-€45 million.

We estimate principal liquidity uses for the same period include:

- €21.5 million of contractual debt amortization payments and the repayment of outstanding credit lines; and

- Our expectation of less than €200 million for committed investments, including development capex or acquisitions.

Ratings Score Snapshot

Issuer Credit Rating: BB+/Stable/--

Business risk: Weak

- Country risk: Intermediate
- Industry risk: Low
- Competitive position: Weak

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: bb+

Entity status within group: Core

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Akropolis Group UAB		
Issuer Credit Rating	BB+/Stable/--	BB+/Negative/--
Senior Unsecured	BB+	