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Fitch Affirms Akropolis at 'BB+'; Outlook Stable

Fitch Ratings - Warsaw - 16 Jul 2024: Fitch Ratings has affirmed AKROPOLIS GROUP, UAB's Long-Term Issuer Default Rating (IDR) at 'BB+' with a Stable Outlook. Fitch has also affirmed Akropolis's senior unsecured rating at 'BB+' with a Recovery Rating of 'RR4'.

Akropolis is concentrated on five shopping centres with an average retail gross lettable area (GLA) of 64,000 square metres (sqm) in Lithuania (A/Stable) and Latvia (A-/Positive). This limits asset, tenant and geographical diversification, which is a rating constraint.

The concentration risks are balanced against Akropolis's dominant position in its local retail markets, which is reflected in its continuously robust operating performance, including low vacancies. Its financial profile is strong for the rating with low leverage and ample liquidity. Fitch-calculated net debt/ EBITDA is around 3.0x and forecast to rise to a still moderate 4.3x in 2027 as Akropolis incurs substantial capex on its Akropolis Vingis mixed-use development. We expect EBITDA interest coverage to be high at 3.0x despite 2026 and 2027 debt refinancing with higher interest rates.

Key Rating Drivers

Rental Income Growth: In 2023 Akropolis's rental income increased 12% like-for-like (2022: 25%), driven mainly by CPI indexation of 8.2%. The average indexation applied in January 2024 was 7.2%. EBITDA margin, excluding one-off income related to marketing activities, improved in 2023 to 95% (2022: 93%), helped by lower property operating expenses, including stabilised energy costs that the group passed on to its tenants.

Growing Tenants' Sales and Footfall: The tenants' occupancy cost ratio (OCR) remained broadly flat at an affordable 10%, helped by a 7% increase in tenants' sales. This was due mainly to still high (albeit lower than in 2022) inflation of 8.7% in Lithuania and 9.1% in Latvia and increasing footfall. The Akropolis assets attracted over 44 million visitors in 2023 (7% increase year on year).

High Occupancy: Occupancy was high at 97% at end-2023 with only Akropole Alfa shopping centre in Riga experiencing a 6% vacancy. We do not expect the damage in Alfa caused by heavy rainfall on 1 July 2024 to materially affect the operations of the asset. Akropolis's GLA weighted average lease terms (to break) was 3.8 years (end-2022: 3.7 years) but would be lower if weighted by income. Given the strong market position of Akropolis's assets re-letting risk related to its material 2024 lease expiries (23% by rent) is, in Fitch view, limited. A substantial portion of it has already been re-let.

Dividend Payment: For the first time since 2020 Akropolis in April 2024 paid out dividends of EUR70 million from its accumulated profits, using its end-2023 readily available cash of EUR206 million. Fitch does not expect material dividends in 2025-2027, due to scheduled Akropolis Vingis capex and debt maturities, which management plans to address ahead of time.

Concentrated Portfolio: Akropolis's five assets valued at around EUR1 billion (end-2023) are in the small Lithuanian (around 60% by portfolio's market value) and Latvian (around 40%) retail markets. The largest asset, Akropolis Vilnius, comprises over 30% of the group's portfolio value. The number of assets and the size of the retail markets, where some well-known international brands are present via franchisees, mean tenant and asset concentration is high. The top 10 retail tenant groups generate 40% of rent, including 11% from tenants owned by Akropolis's parent company, Vilniaus Prekyba Group (VP Group).

Low Leverage: Fitch forecasts Akropolis's net debt/EBITDA to remain at around 3x in 2024 (2023: 3.1x), as rents indexation and limited capex offset dividend payments. We expect leverage to gradually increase to 4.3x in 2027, due to high capex on the Akropolis Vingis project. We forecast EBITDA interest coverage to decrease to near 3x in 2027 (2023: 5.1x) as Akropolis will refinance its debt at higher interest costs. Fitch-calculated loan-to-value (LTV) was below 30% at end-2023.

Akropolis Vingis Delayed: Akropolis expects to receive building permit for the construction of its mixed-use development in Vilnius in 2H24. The project will have total gross building area of around 220,000 sqm, including retail, office, residential for rent and entertainment space. In 2023 capex on the project was around EUR10 million, mainly related to planning, permitting and some infrastructure works. The total capex, uncommitted at this stage, is planned at around EUR300 million but may be reassessed ahead of works commencement. The first rental income receipts are now expected in 2028.

Akropolis has also continued refurbishment of the common space in its Klaipeda shopping centre and an 480 sqm extension of Akropolis Vilnius. The total related capex is expected at EUR7 million in 2024.

No Independent Oversight: Akropolis's concentrated ownership by the privately-held Vilnius Prekyba (VP) Group means financial disclosure and corporate governance are not comparable with listed companies'. This, together with a lack of independent directors on Akropolis's board, means that the arm's length nature of related-party transactions (including the Maxima Group and sister tenants) does not have the independent oversight of listed peers.

PSL Assessment: Fitch rates Akropolis on a consolidated plus one-notch basis under its Parent and Subsidiary Linkage (PSL) Criteria. We view its legal ringfencing as 'porous' based on self-imposed restrictions in the documentation of its EUR300 million bond maturing in June 2026. The restrictions include a maximum 60% total indebtedness/total assets (quasi-LTV) and less stringent limits on transactions with affiliates and dividends that limit potential value transfers to VP Group.

Access and control is assessed as 'open' due to full ownership by the VP Group and despite Akropolis being separately funded with its own treasury functions and independent cash management.

Derivation Summary

Akropolis's EUR1 billion retail portfolio is similar in size and concentration to Balkans Real Estate B.V.'s (BRE; BB(EXP)/Stable) EUR0.7 billion (fully consolidated) portfolio of retail (70% of market value) and office (30%) assets. However, country risk exposure is materially higher as all its assets are in Serbia (BB+/Stable). MAS PLC's (BB/Stable) nearly EUR1.0 billion central and eastern European portfolio is predominantly in Romania (BBB-/Stable), but has slightly lower asset concentration.

The portfolios of NEPI Rockcastle N.V. (BBB+/Stable), valued at EUR6.7 billion, of Globalworth Real Estate Investments Limited (BBB-/Stable) at EUR2.8 billion, and of Globe Trade Centre S.A. (BB+/Stable) at EUR2 billion are bigger and more diversified. However, only GTC and BRE are diversified between retail and offices.

Akropolis has the most conservative financial profile with net debt/EBITDA expected at below 4.0x until 2026 and an LTV below 35%. BRE's and NEPI's net debt/EBITDA are expected at below 6.0x. NEPI's assets are lower-yielding at a net initial yield of 6.9%. The financial profiles of Globalworth and GTC are weaker.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Rent increase of 6% in 2024, predominantly due to CPI indexation. Rent CAGR in 2024-2027 of 3%, reflecting indexation

- Stable occupancy of close to 97%

- Around EUR260 million capex until 2027, mostly related to the Akropolis Vingis project

- Dividend of EUR70 million in 2024 and EUR10 million yearly in 2025-2027

- Akropolis's bond to be refinanced at 6.5% in 2026

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Expansion of the portfolio in less correlated markets while maintaining portfolio quality

- Unencumbered assets/unsecured debt cover above 2.0x

- Net debt/EBITDA below 8.5x

- A consistent interest-rate hedging policy

- Improved corporate governance

- Improvement of the consolidated profile of VP Group

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Net debt/EBITDA above 9.0x and LTV trending above 55%

- Unencumbered assets/unsecured debt cover below 1.75x

- Failure to complete the Akropolis Vingis development on schedule and/or materially outside the assumed budget

- Twelve-month's liquidity score below 1.0x

- Transactions with related-parties that are detrimental to Akropolis's interests

- Deterioration of the consolidated profile of VP Group/or weaker limitation on value transfers to VP Group leading to 'open' assessment of legal ringfencing

Liquidity and Debt Structure

Strong Liquidity: At end-2023 Akropolis had EUR206 million of cash, excluding EUR19 million held in accounts pledged to banks as collateral that Fitch treats as restricted. The readily available cash, together with Fitch-forecast cash flow from operations less capex of EUR43 million, comfortably covers EUR70 million dividend paid in May and EUR8 million loan amortisations in 2024. The next meaningful debt repayment is in 2026 when Akropolis's EUR300 million unsecured Eurobond matures. Akropolis does not use committed revolving credit facilities as a contingent source of liquidity.

Four out of Akropolis's five assets are unencumbered, resulting in an unencumbered assets/unsecured debt of 2.3x.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Akropolis has an ESG Relevance Score of '4' for Governance Structure, reflecting the lack of corporate governance attributes to both mitigate key person risk from its dominant shareholder Nerijus Numa and ensure independent oversight of related-party transactions. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
AKROPOLIS GROUP, UAB	LT IDR	BB+	Affirmed		BB+
• senior unsecured	LT	BB+	Affirmed	RR4	BB+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	⊙	

Applicable Criteria

Corporate Rating Criteria (pub.03 Nov 2023) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.13 Oct 2023) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub.16 Jun 2023)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.21 Jun 2024)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

AKROPOLIS GROUP, UAB	EU Issued, UK Endorsed

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