

Research Update:

# Logistics Real Estate Company P3 Group Ratings Affirmed At 'BBB'; Outlook Stable

November 22, 2023

## Rating Action Overview

- We expect P3 Group S.a.r.l (P3) to pursue portfolio expansion over the coming years through more development activities and acquisitions, while upholding its commitment to the current rating, and that it will use equity and debt to fund its growth. We forecast S&P Global Ratings-adjusted debt to debt plus equity of 50%-51% and an EBITDA interest coverage remaining above 2.4x.
- Refinancing its 2023-2024 debt maturities improved P3's weighted-average debt maturity profile to about 4.3 years (versus 2.8 years at end-2022), but it strongly affected the average cost of debt. We therefore forecast an EBITDA-to-interest coverage ratio of 2.5x-2.6x over the next 24 months, leaving limited headroom against our 2.4x downside threshold.
- We affirmed our 'BBB' ratings on P3 and its senior unsecured debt.
- The stable outlook captures our view that P3's strong asset quality enables the group to continue generating steadily growing and predictable income. We also factor in our assumption that P3 will expand its portfolio and increase exposure to high-quality logistic assets, while maintaining its credit metrics commensurate with the current rating.

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## Rating Action Rationale

**We expect P3 to expand its portfolio over the coming years as it seeks more development activities and acquisitions while maintaining credit ratios in line with our 'BBB' rating.** The company aims to expand its portfolio by net investments of about €1.0 billion annually over the following years to build a portfolio worth €10 billion-€11 billion. We understand the company's plans hinge on development activities and include acquisitions. Our base case weighs in annual equity contributions of €100 million-€300 million via shareholder loans or direct injections, as well as some assets disposals to partially fund the planned portfolio growth, in line with P3's financial policy. We note that a high proportion of these activities are currently uncommitted and that P3 would delay development activities or acquisitions if disposals or equity injections are not completed. We expect the company to maintain S&P Global Ratings-adjusted ratio of debt to debt plus equity well below 55%. We also forecast debt to EBITDA will improve toward 1.1x-1.2x from

above 13x currently, on the back of increasing EBITDA, while prudently issuing additional debt.

**P3's successful refinancing of its 2023 and 2024 debt maturities yielded a stronger debt maturity profile.** P3 significant refinanced about €1.8 billion-€2.0 billion, or 45%-47% of its total debt, in last 12 months, translating into a weighted-average debt maturity of about 4.3 years (pro forma recent transactions) from 2.8 years at end-2022. The recent refinancing increased the average cost of debt significantly to 3.5%-3.6%, from 1.05% in June 2022, with S&P Global Ratings-EBITDA interest coverage dropping markedly to 3.1x at June 2023 from 10.3x a year prior. We forecast an EBITDA interest coverage of 2.5x-2.6x over the next 24 months. This would remain above our 2.4x downside threshold, although with limited headroom. The company has limited refinancing needs in next 15 months, and the increase in its fixed/hedged debt ratio to about 80% from 50% at end-2022 minimizes the risk from further-rising interest rates. Also, we expect P3 to take sufficient measures to keep adequate headroom under the threshold for the current rating. Furthermore, we take into account that P3 would receive sufficient equity contributions from ultimate shareholder GIC (Realty) Private Ltd (GIC), if needed. For instance, GIC injected €600 million of equity contributions in the form of shareholder loans in the past 12 months, to maintain P3's financial policy of a loan-to-value ratio of below 47.5% (reported 46.3% at June. 30, 2023).

**We anticipate P3's operating performance will remain stable in the next 12-24 months, mainly benefitting from revenue contributions from upcoming development activities, acquisitions, and positive indexation.** P3 reported like-for-like net rental growth of 7% in first-half 2023, largely related to indexation and contractual rental uplifts. Demand for logistics assets in Europe is still very strong, and we expect this to continue as e-commerce grows in European markets and near-shoring continues. We view the sector as well positioned, thanks to robust market fundamentals, but continue to factor into our forecasts a degree of macroeconomic uncertainty. As such, we expect overall like-for-like rental growth of 4%-5% in 2023 and 2%-3% in 2024, mostly spurred by leases either linked annually to the consumer price index (about 95% of total leases, subject to some leases with caps), or regular rent reviews, and stable occupancy levels of about 96% as reported during the first half of 2023. We assume rental growth will be further supported by P3's net investment plans over the next two to three years.

## Outlook

The stable outlook reflects our view of P3's strong asset quality and high geographic diversity, likely enabling the company to continue generating steady and predictable income. We also factor in P3's continuing expansion of its portfolio and increasing exposure to high-quality logistic assets, while maintaining its credit metrics in line with the current rating. Under our base-case scenario for the coming 12-24 months, we anticipate that P3 should maintain S&P Global Ratings-adjusted EBITDA interest coverage ratio of about 2.5x-2.6x, debt to EBITDA of 11x-12x and a debt-to-debt-plus-equity ratio of about 50%-51%.

## Downside scenario

We could lower the rating if the company fails to sustain:

- Debt to debt plus equity ratio below 55%;
- EBITDA interest coverage at 2.4x or above;
- Debt-to-EBITDA deviates materially from our base case; and

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- A change in its current ownership structure that we view as less favorable or a change in existing or future shareholder loans leads us to review the equity treatment.

Ratings pressure could also emerge if P3 acquired properties with weaker characteristics--for example, properties in less fundamentally solid locations--or if the company were to increase its exposure to underperforming assets.

### Upside scenario

We could raise the rating if P3 significantly expands its portfolio scale and scope beyond our base case, while maintaining positive like-for-like rental growth and stable occupancy levels. In addition, the company would need to sustain:

- EBITDA interest coverage maintained as per our base case;
- Debt to debt plus equity below 40%; and
- Debt-to-annualized EBITDA ratio well below 13.0x on a sustainable basis.

### Company Description

P3 is a limited liability company incorporated in Luxembourg and a real estate owner of logistics and industrial properties. The company was established in 2001 and owns a gross portfolio value of about €8.3 billion (about 7.2 million square meters of gross leasable area) as of June 30, 2023. The total portfolio includes about 322 logistics properties spread across 11 European countries. 31% of the total gross asset value (GAV) is located in Germany and a further 28% is located in other western European locations.

P3 is 100% owned by Euro Vitus Private Ltd., which is ultimately controlled by the sovereign wealth fund GIC.

### Our Base-Case Scenario

#### Assumptions

- Eurozone GDP to grow by 0.5%-1.0% in 2023 and 2024 and CPI of about 5.0%-6.0% in 2023 and 2.0%-3.0% in 2024.
- Unemployment to remain at 6.0%-6.5% over the next 12-24 months.
- Like-for-like growth in net rental income of 4%-5% in 2023 and 2%-3% in 2024, mostly spurred by leases either linked annually to CPI (about 94% of total leases, subject to some leases with caps), or regular rent reviews.
- Stable occupancy levels of 96% in the coming 12-24 months.
- Overall negative portfolio revaluations of 5%-6% for 2023 and 2%-3% for 2024.
- Capital expenditure (capex) of €400 million-€500 million in 2023 and €900 million-€1 billion 2024 to fund new developments, in line with the company's strategy to expand its portfolio. We note that the large part of development activities remains uncommitted.
- We assume acquisition spending of €600 million-€700 million in 2023 and €200 million-€300 million in 2024.

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million per year from 2024 onwards.

- Proceeds from disposals of roughly €200 million in 2023 and €500 million each year from 2024 onwards to support the development and acquisition activities.
- Stable EBITDA margins of 81%-82% in 2023-2024.
- No dividend payouts, in line with the company's strategy to expand the business.
- Equity contributions in the form of equity injection or shareholders loan of €200 million-€300 million in 2023 and €100 million-€300 million each year going forward to support the portfolio growth.
- An increase in the overall cost of debt to closer to 3.7%-3.8% from 1.05% over the next 12-18 months as we assume new debt to be financed at 5.5%-6.0%.

## Key metrics

### P3 Group S.a.r.l.--Key Metrics\*

Mil. €	2021a	2022a	2023f	2024f	2025f
EBITDA	260.5	296.4	355-360	400-405	425-430
EBITDA margin (%)	81.8	81.4	82-82.5	82-82.5	82-82.5
Debt to EBITDA (x)	13.3	13.1	12-12.5	11.0-11.5	10.5-11
EBITDA interest coverage (x)	11.7	6.1	2.6-2.7	2.5-2.6	~2.5
Debt to debt plus equity (%)					

\*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

## Liquidity

We assess P3's liquidity as adequate because we expect liquidity sources to exceed uses by 1.2x over the 12 months from Oct. 1, 2023.

### Principal liquidity sources

- An unrestricted cash balance of roughly €70 million.
- Committed undrawn credit facilities of about €650 million, maturing in more than 12 months.
- Our estimate of cash funds from operations of €220 million-€240 million.
- Signed new bank loan of about €275 million.

### Principal liquidity uses

- Short-term debt repayments of €200 million.
- Capex of €300 million-€350 million, some of which we understand is uncommitted.

## Covenants

We understand that, as of June 30, 2022, P3 has adequate headroom under all its covenants, and we forecast that it will maintain sufficient headroom of more than 10% under all its covenants in the next 12 months.

## Environmental, Social, And Governance

Environmental, social, and governance factors have no material influence on our credit rating analysis of P3. We understand that as of first half 2023 75% of the total portfolio is BREEAM certified. This is in line with other rated peers in the logistics property segment. We believe customer (tenant) demand for sustainable buildings has been increasing across Europe in the past couple of years.

## Ratings Score Snapshot

Issuer Credit Rating	BBB/Stable/--
Business risk:	Satisfactory
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb-
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:	bbb

## 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

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- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

## Related Research

- Full Analysis: P3 Group S.a.r.l., Feb. 13, 2023

## Ratings List

### Ratings Affirmed

#### P3 Group S.a.r.l.

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Issuer Credit Rating	BBB/Stable/--
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Senior Unsecured	BBB
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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