Bulletin:

Citycon Makes Progress On Disposals Amid Management Changes And Sound Operating Performance

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This report does not constitute a rating action.

PARIS (S&P Global Ratings) Nov. 19, 2024--S&P Global Ratings said today that recent disposals closed by Citycon Oyj (BBB-/Negative/A-3) should be credit positive. The company also posted sound operating performance for the first nine months of 2024, while announcing some key changes in management.

Citycon released its third-quarter results on Nov. 6, 2024. The total value of divestments in the first nine months of the year came to €145 million, compared with a target of €350 million by year-end. The impact on credit ratios was limited as of Sept. 30, 2024, due to reduced cash consideration of €88.4 million and €41.9 million in losses associated with the disposals in the first three quarters of the year. This consequently translated into a relatively stable debt-to-debt-plus-equity metric of 56.7% as of Sept. 30, 2024 on a rolling 12-month basis, compared with 56.5% as of Dec. 31, 2023 and a peak of 57.3% as of March 31, 2024. Citycon's debt to EBITDA stood at 12.2x, versus 12.8x at Dec. 31, 2024, benefitting from sound indexation and mild debt reduction.

The company then announced, on Nov. 19, 2024, a new divestment of an Estonian asset for a gross consideration of €129 million, reflecting a 9% discount over the latest book value, which we understand will be paid fully in cash. As a result, net cash proceeds for the full year 2024 should be close to our expectation of €220 million from disposals, which would bring ratios back close to the rating threshold of 55% debt to debt plus equity, all else being equal.

We note that the company has expressed confidence in its ability to end 2024 with €380 million of divestments closed and €950 million by year-end 2025, with additional €300 million worth of assets currently under letter of intent or in very advanced negotiations. We will pay particular attention to the cash component of these transactions and their underlying discount to book values, as this could cancel out part of the deleveraging effort. The company also announced the suspension of dividends for 2025, which will be credit positive with a gradual impact throughout 2025 as dividends were meant to be paid quarterly.

Citycon has also revamped its management team, as its CEO was replaced after six months in position by Scott Ball, who was CEO of the company from 2019 to 2024 before being appointed vice chairman of the board. Scott Ball will then step aside by April 2025 in favor of Oleg Zaslavsky, currently managing director and CFO of a subsidiary of Aroundtown Group. Eero Sihvonen, former Citycon CFO with a tenure of over 16 years at the company, was announced as the replacement for Sakari Järvelä as CFO. We understand the board aims to accelerate delivery on the deleveraging target it has set out with this new management team in place.

The company's weighted average maturity stood at 2.9 years as of Sept. 30, 2024, just below our three-year requirement for real estate companies. The next sizeable maturities are two Norwegian krone bonds totaling about €196 million due in September 2025, followed by approximately €842 million due between mid-2026 and mid-2027. We will continue to monitor this metric and the company's efforts to mitigate potential refinancing risks and improve the weighted average debt maturity.

Citycon's operating performance in the first nine months of 2024 has remained resilient, with a 5.2% increase in net rental income on a like-for-like basis, stable occupancy of 95.1%, and tenant sales increasing by 1.9%, while footfall is down by 0.2%. Its occupancy cost ratio remains low at 9.4%, allowing for an effective transfer of inflation to tenants.

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