EthiFinance Ratings

NEXITY SA

444346795 CORPORATE

BB- ISSUER RATING
Long term

OUTLOOK
Stable

EF3 ISSUER RATING
Short-term

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Rating Action and Rationale

- EthiFinance Ratings downgrades the long-term rating of Nexity SA from BB to BB-, maintaining a Stable outlook. EthiFinance Ratings affirms the short-term rating of Nexity at EF3.
- The downgrade of our long-term rating is a consequence of Nexity's deteriorating business prospects, attributed to an extremely unfavourable economic climate, given the rise in interest rates and increasing construction costs. Individuals' purchasing power is being pressured, reflected in a decrease of c. 28% in sales of residential property to individuals (source: Observatoire FPI), and institutional investors have adopted 'wait-and-see' approach, some redirecting investments towards asset classes offering higher yields. Consequently, Nexity's credit ratios deteriorated in FY23, primarily stemming from diminishing profitability (FY23 EBITDA margin of 10.4% compared to 12.3% in FY22) and we expect the profitability to hit a low point in FY24 (EBITDA margin of 8.5%). The adjusted net leverage also deteriorated, to 4.6x at end-2023 (from 3.4x at end-2022), and we expect another deterioration in FY24 (5.4x expected). Moreover, the group's revenues visibility is being challenged by the diminution of its backlog (from €6.2bn at YE21, to €5.4bn at YE23), underscoring the ongoing challenges faced by real estate developers due to diminishing demand. Moreover, our ratings are influenced by Nexity's limited geographical diversification, as the group is now focused on France, rendering it vulnerable to local regulatory changes and market volatility. Finally, a part of Nexity's debt is subject to financial covenants tested every six months. We expect the deterioration of EBITDA to stress the ratios, in particular the coverage ratio. However, Nexity announced in April 2024, following the closing of the disposal of its management property business, it has obtained a waiver on its covenants for the test period of June 2024, leaving some financial headroom to Nexity in 2024.
- The ratings remain supported by the group's position as the top real estate developer in France. Moreover, Nexity has taken action to mitigate the deterioration of its credit profile. It is pursuing a deleveraging strategy, supported by the divestment of international operations (Poland and Portugal in FY23 while activities in Germany, Belgium and Italy will probably be discontinued) and the divestment of management property business completed in April 2024. Also, Nexity's decision to cut its dividend for FY23 will help the group to preserve cash and reduce its net debt.
- Real estate developers have medium ESG risks according to our methodology (sector heatmap score between 3 and 3.5) given their impact on the environment. This results in a sectoral assessment that does not affect the rating. Regarding environmental factors, real estate developers have a medium impact on climate as they are not heavy producers of GHG. However, the GHG emissions from the production of cement, wood, bricks, and other materials used by the industry are extremely high. The industry is a heavy user of raw materials and land, which creates dependencies and impacts, in particular as usage can be at the expense of agriculture. The financial materiality is relatively limited as regulation is low. Regarding supply chain, the industry is competitive, limiting the dependence. The industry can also have a positive impact on consumers, particularly in emerging countries where home access remains key, and on communities, being a large provider of jobs.
- Our assessment of the company's ESG policy is positive (company ESG score of between 1 and 1.5), positively impacting our financial assessment. Nexity stands out in terms of governance with a high independence of its board, the separation of the roles of chairman and CEO, and a good analysis of ESG issues. Nexity also benefits from a good social assessment, with a decrease of accident frequency rates and a good representation of women within management's teams, despite the rise of staff turnover. In terms of environmental factors, Nexity is committed to reduce its direct emissions (scope 1 & 2) and its indirect emissions related to promotion (scope 3) respectively by 47% and 42% by 2030 (vs 2019). However, as of 2022, direct emissions increased by 1% vs 2019 and indirect emissions by 6% vs 2019.

Issuer Description

Nexity, headquartered in Paris, France, is a prominent real estate group. The company operates in almost all areas of French real estate development and services – although its business model means it retains no rental-yielding real estate assets. The group has recently reviewed its portfolio of activities and is refocusing on its operations in France.

In 2023, the group generated revenues of €4.0bn, down 9% vs 2022, and adjusted EBITDA of €411m (EBITDA margin of 10.4%). The adjusted net leverage ratio (NFD/EBITDA) deteriorated to 4.6x, compared to 3.4x YE22. Going forward, we forecast a further deterioration of the leverage ratio to 5.4x at YE24, resulting from an expected decrease in EBITDA, partially mitigated by a reduction in net debt, in line with company's strategy. From FY25, the gradual debt reduction combined with an improvement of EBITDA will probably enable the company to deleverage. Nexity is listed on the Euronext Paris stock exchange, with a market capitalisation of €539m, as of 23rd April 2024. Nexity's market capitalization witnessed a substantial decline in 2023 (c. €1.5bn at the start of the year), reflecting the negative outlook for the sector.

Liquidity

We assess the liquidity profile of Nexity as "Adequate", reflecting the weak refinancing profile following the deterioration of its financial profile while the company has a high liquidity level with no significant repayments due before 2025.

Credit Metrics Evolution Expectation (CMEE)

Our CMEE is Negative, reflecting our view that credit metrics will deteriorate due to the current and expected difficult environment for the real estate sector in France.

Main Financial Figures

Main financial figures. millons of EUR	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	4 352	3 964	3 313	3 414	3 828	-8,9%
EBITDA	535	411	282	369	441	-23,2%
EBITDA Margin	12,3%	10,4%	8,5%	10,8%	11,5%	-1,9pp
EBIT	335	178	116	200	254	-46,7%
EBIT Margin	7,7%	4,5%	3,5%	5,8%	6,6%	-3,2pp
EBT	300	137	2	102	145	-54,4%
Total Assets	9 175	8 497	6 748	6 885	7 213	-7,4%
Equity	2 036	1 941	1 927	1 992	2 053	-4,7%
Total Financial Debt	2 713	2 619	2 454	2 398	2 401	-3,5%
Net Financial Debt	1 815	1 903	1 522	1 299	1 243	4,8%
Equity/TFD	75,0%	74,1%	78,5%	83,1%	85,5%	-0,9pp
NFD/EBITDA	3,4x	4,6x	5,4x	3,5x	2,8x	1,2x
Adj Funds From Operations	446	223	168	268	325	-50,1%
Adj FFO/NFD	24,6%	11,7%	11,0%	20,6%	26,1%	-12,9pp
EBITDA/Interest	9,8x	4,6x	2,9x	2,8x	3,1x	-5,3x

Credit Rating

Credit Rating	
Business Risk Profile	**BB**
Industry risk assessment	BB
Industry's ESG	Neutral
Competitive Positioning	BB+
Governance	BB-
Financial Risk Profile	**B+**
Cash flow and leverage	B
Solvency	BB+
Company's ESG	Positive
Anchor Rating	**BB-**
Modifiers	-
Rating	**BB-**

Rating Sensitivity

- **LT Rating: BB-**
- **ST Rating: EF3**

Factors that may (individually or collectively) impact the ratings:

- **Rating positive factors (↑)**

A long-term rating upgrade to BB could be entailed by an improvement of Nexity's credit metrics, in particular a faster deleveraging than expected with an adjusted net leverage below 4.0x for a sustained period of time.

An upgrade of the short-term rating to EF2 would require an upgrade of the long-term rating to BB+, along with a change to a Superior liquidity profile and to a Positive CMEE, which would only happen with a significant recovery in the real estate sector, which is currently not envisaged for the coming years.

- **Rating negative factors (↓)**

A long-term rating downgrade to B+ could result from a deeper than envisaged continued deterioration in Nexity's operations, which would imply a worsening financial profile. In particular, a net adjusted leverage above 5.0x for a sustained period of time would trigger a downgrade of the long-term rating.

A downgrade of the short-term rating to EF4 would imply a deterioration in the liquidity score (from Adequate to Weak), along with an unchanged long-term rating and negative CMEE. A long-term rating downgrade to B+ would also trigger a downgrade of the short-term rating to EF4.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
  - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3 Corporate%20Methodology 2023-10-06.pdf
  - Corporate Rating Methodology - Short Term : https://files.qivalio.net/documents/methodologies/CRA 191.Corporate Rating Methodology Short Term-202303.pdf
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.