EthiFinance Ratings

Nexity
969500JJ71T2DIPDVV84
CORPORATE RATING

BB

ISSUER RATING

Long-Term

Outlook	Stable

EF3

ISSUER RATING

Short-Term

Initiation date	29/11/2022
Rating date	18/10/2023

Contacts

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RATING ACTION AND RATIONALE

- EthiFinance Ratings downgrades its long-term corporate rating from BB+ to BB with a Stable outlook, and also downgrades its short-term rating from EF2 to EF3.
- The ratings downgrade reflects Nexity's deteriorating business prospects, attributed to an extremely unfavourable economic climate, given escalating interest rates and increasing construction costs. Individuals' purchasing power is being pressured, affecting real estate demand, and institutional investors have adopted a 'wait-and-see' approach, some redirecting investments towards asset classes offering higher yields. We consequently anticipate a weakening of Nexity's credit ratios, primarily stemming from diminishing profitability (with the FY23 EBITDA margin projected at 9.6% compared to 11.4% in FY22 and 12.2% in FY21). To mitigate this, Nexity is pursuing a deleveraging strategy, supported by the divestment of international operations such as those in Poland and Portugal in 2023. However, we view the company's continued dividend payments in this environment (€138m in FY22 and 1H23) as aggressive, which by hindering further deleveraging efforts also places constraints on our assessment of the company's financial policy. Finally, our ratings are influenced by Nexity's limited geographical diversification, with over 96% of sales generated in France in 2022 (now even more with the international disposals), rendering the group vulnerable to local regulatory changes and market volatility.
- On a more positive note, our ratings are bolstered by Nexity's position as the top real estate developer in France, along with the company's solid revenues visibility, demonstrated by a development backlog of €5.7bn as of end-June 2023 (equivalent to approximately 2 years of activity). However, this backlog, while currently satisfactory, is diminishing rapidly (€6.4bn at end-2022 and €6.6bn at end-2021), underscoring the ongoing challenges faced by real estate developers due to diminishing demand. Although geographical diversification is likely to effectively disappear, due to the company's refocusing on the French market, the company anticipates it will receive a total of €200m from the sale of its foreign subsidiaries. Some €100m has already been realized through the sale of its operations in Poland, the amount for the Portuguese subsidiary remains undisclosed at this time. This cash inflow will help to mitigate the expected decline in financial ratios stemming from the reduction of profitability due to the challenging real estate environment.
- Under our methodology, the real estate industry has medium ESG risks (heatmap score of between 2 and 3.5), which is neutral for our industry assessment. Our assessment of the company's ESG policy is positive (company ESG score of between 1 and 1.5), which impacts positively on our financial assessment and therefore slightly improves our rating.

ISSUER DESCRIPTION

Nexity, headquartered in Paris, France, is a prominent real estate group. Its shares are listed on Euronext Paris. Nexity's market capitalization has witnessed a substantial decline in 2023, plummeting to approximately €764m as of October 16, 2023, compared to roughly €1.5bn at the start of the year, reflecting the negative outlook of the sector. 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 French property development activities. As of end-June 2023, Nexity reported LTM revenues of €4.4bn with adjusted EBITDA of c. €488m and a net adjusted leverage ratio of 4.3x. Going forward, we forecast a gradual increase of the leverage ratio, to 4.5x at YE23 and to 4.8x at YE25, resulting from an expected gradual decrease in EBITDA, partially mitigated by a reduction in net debt, in line with company's strategy.

RATINGS MODIFIERS

- **Excellent liquidity profile with strong refinancing capacity**

We assess the liquidity profile of Nexity as “Superior” (the best of the four profiles according to our short-term methodology), reflecting the company’s strong refinancing profile and high liquidity level because no significant repayments are due before 2025.

- **Credit Metrics Expected Evolution (CMEE)**

Our CMEE is Negative as we forecast deteriorating financial ratios due to the current and future difficult environment for the real estate sector in France.

- **Controversies**

No controversies have been identified.

- **Country risk**

No specific country risk has been identified.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. In €m.

	FY21	FY22	FY23e	FY24e	FY25e	22vs21
Revenues	4 468	4 352	4 187	3 861	3 551	-2.6%
EBITDAR (adjusted)	544	498	403	371	341	-8.4%
EBITDAR margin	12.2%	11.4%	9.6%	9.6%	9.6%	-0.7pp
EBIT (adjusted)	374	335	247	228	209	-10.4%
EBIT margin	8.4%	7.7%	5.9%	5.9%	5.9%	-0.7pp
Interest	-69	-54	-83	-112	-133	-21.6%
EBT (adjusted)	305	281	164	116	77	-7.8%
Total assets	8 293	9 175	8 977	8 789	8 419	10.6%
Adjusted equity	1 948	2 036	2 036	2 063	2 078	4.5%
Total adjusted debt	2 471	2 713	2 813	2 841	2 691	9.8%
Cash & equivalents	1 062	898	994	1 120	1 070	-15.4%
Net adjusted debt (NFD)	1 409	1 815	1 820	1 721	1 621	28.8%
Adjusted equity / Total adjusted debt	79%	75%	72%	73%	77%	-3.8pp
NFD/ EBITDAR	2.6x	3.6x	4.5x	4.6x	4.8x	1.1x
Adjusted Funds From Operations	409	446	323	288	257	8.9%
Adjusted FFO/ NFD	29.1%	24.6%	17.7%	16.7%	15.8%	-4.5pp
EBITDAR / Interest	7.8x	9.2x	4.8x	3.3x	2.6x	1.3x

RATING SCORECARD

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

RATING SENSITIVITY

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

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

- **Long-term rating positive factors (↑).**

A rating upgrade is improbable given the current real estate environment (increasing interest rate and construction costs), but one could be entailed by an improvement in Nexity's competitive positioning or in the event of improvement in its financial profile, which would most likely come from total debt reduction. This could also result from a change towards a more caution financial policy in terms of dividend distribution.

- **Long-term rating negative factors (↓).**

A rating downgrade could be entailed by a continued deterioration in Nexity's operations which would imply a worsening financial profile.

- **Short-term rating positive factors (↑).**

An upgrade of the short-term rating to EF2 would necessitate an upgrade of the long-term rating to BB+, an unchanged excellent liquidity profile, along with 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.

- **Short-term rating negative factors (↓).**

A downgrade of the short-term rating to EF4 is also improbable, as it would imply both a downgrade in the long-term rating, an extreme deterioration in the liquidity score (from Superior to Weak), and an unchanged negative CMEE.

REGULATORY INFORMATION

LEI: 969500JJ71T2DIPDVV84

Initiation report: No

Rating initiation: BB+ for long-term rating & EF2 for short-term rating on 29 November 2022.

Last rating action: Initiation of the two ratings: BB+ for long-term rating & EF2 for short-term rating on 29 November 2022.

Rating nature: Unsolicited (this report is paid by investors, not the issuer).

With rated entity or related third party participation: Yes, the report was published with having been reviewed by the issuer

With access to internal documents: No

With access to management: No

Ancillary services provided to the entity: 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.

Name of the rating committee chair: Guillermo Cruz Martinez, Chief Rating Officer

Material sources used to support the rating decision:

- Annual report (2020, 2021, 2022)
- Quarterly reports, presentation slides and conference call
- Bloomberg

Limitation of the Rating action:

EthiFinance Ratings believes the quality and quantity of information available on the rated entity is sufficient to provide a rating.

EthiFinance Ratings has no obligation to audit or verify the accuracy of data provided.

Principal methodology used in this research available at:

https://files.qivalio.net/documents/methodologies/CRA_190_V3.CorporateRatingMethodology_Long_Term.pdf

https://files.qivalio.net/documents/methodologies/CRA_191.Corporate_Rating_Methodology_Short_Term-202303.pdf

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