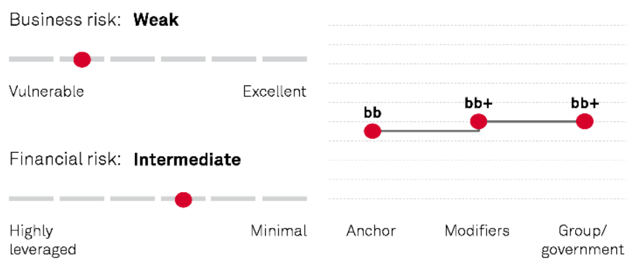
Akropolis Group UAB

June 15, 2022

Ratings Score Snapshot



BB+/Stable/--

Issuer credit rating

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Credit Highlights

Overview

Key strengths	Key risks
--Robust market position in the Baltics retail market, with large shopping centers generating high retailers' sales and footfall.	--Concentration risk to a limited number of five assets and small portfolio (around €1.0 billion), making the company more vulnerable to any market volatility than larger and more diversified players.
--High occupancy levels above 95%, that should translate into steady rental income generation over the next 12 months.	--Operations in the Baltic markets, which do not have strong legal barriers to entry regarding potential new competition in the retail real estate segment.
--Prudent financial policy translating into a moderate leverage, with S&P Global Ratings-adjusted debt-to-debt-plus-equity and debt-to-EBITDA ratios below 41-42% and 7.5x respectively.	--Full dependence on the retail property segment, highly affected during the COVID-19 crisis and that is again under pressure in the inflationary environment, also facing competition from e-commerce, although limited so far in the Baltics.

We forecast S&P Global Ratings' adjusted debt-to-EBITDA ratio to remain comfortably below 7.5x over 2022-2023, due to recovering EBITDA and additional revenue from its recent acquisition. We expect the company's EBITDA to grow from €57.2 million in 2021 to €65 million-€75 million in 2022-2023. Because of the pandemic, the company granted rent discounts of €8.5 million in 2021 (versus €6.2

million in 2020). In addition, the company's Akropole Alfa shopping center acquisition was realized end of November 2021, therefore generating only one month of rental income. As a result, the company's debt to EBITDA peaked at 7.4x at the end of 2021. Since most pandemic-led restrictions have been lifted, we expect no additional rent discounts from 2022. Akropolis' net rental income should also benefit from rising inflation, and full-year rental income generation from its new Akropole Alfa asset (around €15 million-€20 million). That said, the current high inflation and more subdued macroenvironment may also affect Akropolis' retail tenants' performance and customers' purchasing power. All in all, we expect the company's S&P Global Ratings-adjusted debt-to-EBITDA to improve to 5.5x-6.5x over our forecast horizon through 2023.

We expect Akropolis to maintain a liquidity cushion and an EBITDA-interest-coverage ratio that would remain consistent with our current assessment, despite rising interest rates. While interest rates have materially increased over the past several months, we believe Akropolis would maintain sufficient liquidity sources to cover its uses over the next 12 months. This is because the company has limited debt maturities of €7.0 million in 2022 and €7.0 million in 2023, in addition to capital expenditure (capex) required for its Vingis development project, which will be deployed until 2026 in the city of Vilnius. While we expect the company's 2.48% current average cost of debt will increase over the coming years, we expect the company's EBITDA-interest-coverage ratio to remain strong at 5.5x-6.5x over 2022-2023, given its limited refinancing needs over this period.

Outlook

The stable outlook on Akropolis reflects our expectations that Maxima will maintain its leading market position in the Baltics despite intensifying competition. The outlook also factors in the sound execution of its planned store expansions in Poland and Bulgaria, along with normalizing demand for food following the end of lockdowns. This should result in 4%-8% sales growth and S&P Global Ratings-adjusted EBITDA margins falling toward, but not below, 2019 levels. The outlook also reflects Maxima's prudent dividend distributions, funded through free operating cash flows (FOCF) and our expectation of 30%-35% S&P Global Ratings-adjusted funds from operations (FFO) to debt and about 2.6x-3.0x adjusted debt to EBITDA in 2021 and 2022. We also expect stronger credit metrics and deleveraging at the Vilniaus Prekyba UAB (VP) group level, with debt to EBITDA of 2.4x-2.6x-x in 2021 and 2.0x-2.5x in 2022, supported by a more conservative financial policy.

Downside scenario

We could lower the ratings on Akropolis if:

- Maxima significantly underperforms our base case, including suffering a material decline in operating performance, with diminishing profitability because of intensifying market competition, or if a weaker macroeconomic environment in the Baltics or Poland weighs on margins and cash flows.
- Maxima or VP's current financial policies became less prudent, either due to increased dividends or large-scale, debt-funded acquisitions that kept leverage at about 3.0x or above and FFO to debt below 30% at either Maxima or the wider group; or
- Maxima or VP's liquidity deteriorates, or the senior notes refinancing is not addressed in a timely manner.

Although it would not result in a downgrade, due to expected group support, we could revise down our assessment of Akropolis' stand-alone credit profile if its liquidity cushion tightens, or leverage increases materially, such that S&P Global Ratings-adjusted debt to EBITDA increases well above 7.5x, or debt to debt plus equity does not remain comfortably below 45%.

Upside scenario

Albeit unlikely over the next 12 months, given our understanding of management's financial policy, we could raise our ratings on Akropolis following a stronger-than-expected operating performance at Maxima and the overall VP group. This would include:

- Adjusted debt to EBITDA falling below 2.0x for Maxima and VP;
- Maxima's FOCF substantially exceeding actual dividend payments, resulting in debt reduction; and
- Solid liquidity levels being maintained.

We would also need to see a financial policy commitment from Maxima and its parent to sustain these credit metrics.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Lithuania of 3.6% in 2022 and 3.1% in 2023, after 5.2% in 2021 recovering from -0.1% in 2020. Real GDP growth in Latvia of around 4.3% in 2022 and 3.8% in 2023, after 4.7% in 2021 recovering from -3.6% in 2020. We expect a consumer price inflation growth of about 5.0% in 2022 and 3.0% in 2023 in Lithuania, and 5.5% in 2022 and 3.5% in 2023 in Latvia.
- Like-for-like net rental income growth rising by 10%-12% in 2022. The company granted rent discounts of around €6.2 million in 2020 and €8.5 million 2021, due to the pandemic (out of total net revenue of €57 million and €58.8 million in the same years, respectively). We do not expect it will grant any additional discounts over 2022-2023 given that most pandemic-led restrictions have been lifted. In addition, the rise in inflation would likely impact the company's cost structure but would also benefit to the indexed fixed leases, and therefore rental income, although we are uncertain whether all retailers will be able to absorb fully this rising indexation over the coming years, as customers' purchasing power will also be squeezed in the inflationary environment.
- Overall revenue growth of about 40%-45% in 2022. In addition to the significant like-for-like growth expected, the company's revenue generation would also include the additional €15 million-€20 million revenue generation from the Akropole Alfa shopping center acquired in November 2021 (valued at €198 million on Dec. 31, 2021).
- Slight decrease in EBITDA margins over 2022-2023, as a result of rising inflation.
- Flat like-for-like revaluation in the overall portfolio.
- Development capex of about €70 million over 2022-2023, reflecting gradual investment in the company's large Vingis development project that should be delivered in the first half of 2025. The Vingis investment totals about €300 million and includes another large shopping center in Vilnius, and an office.
- Limited maintenance capex of up to €5 million per year.
- No acquisitions over 2022-2023, as the company has just acquired its Akropole Alfa shopping center, and we understand it will focus on its existing portfolio and its large development projects over 2022-2023.
- No disposals, since the company only has five assets that are all core to its strategy.
- No cash dividends in 2022 and 2023. We understand VP would likely not consider any dividend outflows from Akropolis to offset the cash outflows for the Vingis project development.
- Cost of debt increasing gradually from its current 2.48% level.

Key metrics

Akropolis Group UAB--Key Metrics*

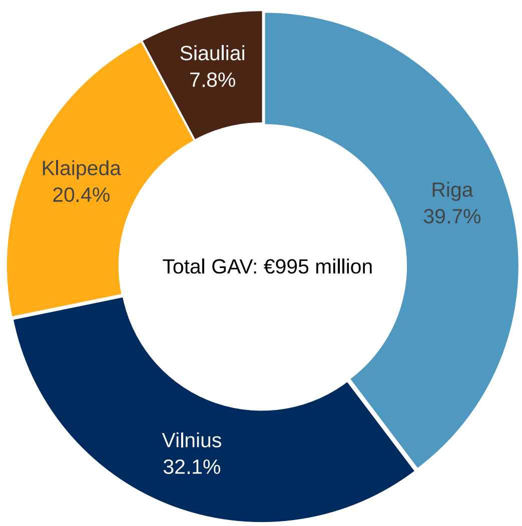
	2020a	2021a	2022e	2023f	2024f
EBITDA interest coverage (x)	15.5	7.1	5.5-6.5	5.5-6.5	5.0-6.0
Debt to EBITDA (x)	5.0	7.4	5.5-6.0	6.0-6.5	6.0-6.5
Debt to Debt plus Equity (%)	35.8	42.6	38.0-41.0	38.0-42.0	38.0-42.0

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

Company Description

Akropolis is a Lithuanian retail property landlord, with five shopping centers valued at €995 million at December 2021. Around 60% of the value of its portfolio is in large Lithuanian cities (Vilnius, Klaipeda, and Siauliai), and around 40% in Latvia (two assets in Riga, which we understand are eight kilometers from each other, making them complementary). It also owns offices within its shopping centers in Vilnius and Riga, but they represent less than 5% of total gross rental income.

Akropolis Group, Uab: Geographical Breakdown



Source: S&P Global Ratings, Company Reports

The company is 100% owned and fully consolidated by the wider VP group, whose main consolidated business is Maxima (72% of reported EBITDA at year-end 2021), a leading Lithuanian retail chain with a focus on food. VP also consolidates pharmacy business Euroapotheca (14%), and other retail businesses (3%), in addition to Akropolis (11%).

Peer Comparison

Akropolis Group UAB--Peer Comparison

Companies	Akropolis Group UAB	IGD Siiq SpA	Summit Properties Ltd.	Diok Real Estate AG
Ratings	BB+/Stable/--	BB+/Stable/--	BB+/Stable/--	B-/Negative/--
Portfolio Size	€995 million	€2.1 billion	€1.2 billion	€229 million

Segments	96.3%: Retail 3.7%: Office	100%: Retail	29%: Offices 14%: Logistic 27%: Retail 29%: Residential 1%: Other	100%: Offices
Geographical Split	60%: Lithuania 40%: Latvia	94%: Italy 6%: Romania	50%: Germany 50%: USA	100%: Germany

Source: S&P Global Ratings, Company Presentation

Akropolis Group UAB--Financial Peer Comparison

	Akropolis Group UAB	IGD Siiq SpA	Summit Properties Ltd.	Diok Real Estate AG
Foreign currency issuer credit rating	BB+/Stable/--	BB+/Stable/--	BB+/Stable/--	B-/Negative/--
Local currency issuer credit rating	BB+/Stable/--	BB+/Stable/--	BB+/Stable/--	B-/Negative/--
Period	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2020-12-31	2020-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	58.8	152.0	77.1	11.4
EBITDA	57.2	106.1	50.5	6.2
Funds from operations (FFO)	46.8	77.7	36.4	(1.8)
Interest expense	8.1	28.5	15.4	7.6
Cash flow from operations	42.6	78.7	29.3	(1.5)
Capital expenditure	0.0	18.7	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Cash and short-term investments	82.1	158.1	410.2	9.1
Debt	423.3	988.5	181.7	176.3
Equity	571.3	1,171.8	1,018.1	37.8
Valuation of investment property	1,006.8	2,093.2	1,250.3	206.3
Adjusted ratios				
EBITDA interest coverage (x)	7.1	3.7	3.3	0.8
Debt/EBITDA (x)	7.4	9.3	3.6	28.6
Debt/debt and equity (%)	42.6	45.8	15.1	82.3

Source: S&P Global Ratings

Business Risk

Akropolis' portfolio is constrained by the company's concentration risk on a limited number of assets, almost solely in the retail property segment, and its overall small portfolio. The company owns five shopping and entertainment centers valued at around €1.0 billion at year-end 2021. Its growth strategy is clearly defined, with a large retail development project in Vilnius (Lithuania) that should be delivered by 2025-2026, after completing an acquisition in Riga during 2021. By 2026, as per the company's strategy and including this development project, Akropolis' portfolio will likely reach around €1.5 billion, although this would remain small in comparison with most rated European retail property companies. The dependence on a few assets makes the company more vulnerable to any market volatility, in our view.

We also generally consider retail property sector as less resilient than some other property segments like the residential one, since the retail segment largely depends on household consumption and changes in consumer habits. We further believe the retail segment has been facing structural challenges for years due to increasing e-commerce competition, although this has been limited so far in the Baltics. The pandemic has also put a lot of pressure on the retail segment, which now has to face a more subdued macroenvironment and high inflation, which may not be favorable for customers' purchasing power. In that context, the density of shopping centers per inhabitant is also an important factor. Although it remains moderate in Lithuania and Latvia, close to Western European levels and lower than the Nordics, we also view competition as a risk because these markets do not have very strong legal barriers to entry.

That said, we view Akropolis' shopping centers as prime and well positioned in the Baltics, as demonstrated by its high footfall and very low vacancy rates in the past couple of years. Each of the company's shopping centers is either the largest in its city (Vilnius, Klaipeda, Siauliai, and its newly acquired Akropole Alfa asset in Riga) or the second largest (in Riga as well, a city where the company owns the two largest assets), with an average size of about 65,500 square meters (sqm), almost twice that of large European company Klepierre. They are not located in historical city centers, but still within affluent and easily accessible areas of cities.

Akropolis' tenants (both international and local) include a mix of a convenience offerings, featuring its anchor grocery store Maxima (about 11% of Akropolis' total income), pharmacies, services, and easily accessible parking areas; and entertainment offerings (10%-20% of gross lettable area), including cinemas, restaurants, bowling, and indoor skating rinks, in addition to the usual clothing (20%-30% of gross lettable area) and home interior/household tenants. As a result, its shopping centers attract particularly high footfall, with 41 million visitors overall in 2019, which represents about 10.2 million visitors per asset; while the combined Lithuanian and Latvian population is only about 4.7 million. Furthermore, reflecting their attractiveness to customers and tenants, these assets have demonstrated a low 1%-3% vacancy level for the past couple of years, even during the pandemic. We therefore believe that Akropolis' position in the retail real estate market is robust, and that its assets should continue attracting footfall and tenants, despite competition.

We note that the company is currently undertaking one development project, Akropolis Vingis at Vilnius city, expected to be completed by 2025-2026, adding another €30 million-€40 million to the rental income generation from 2025. However, for any given year, this development capex would not exceed 10% of total portfolio value, ensuring no major development risk for the company.

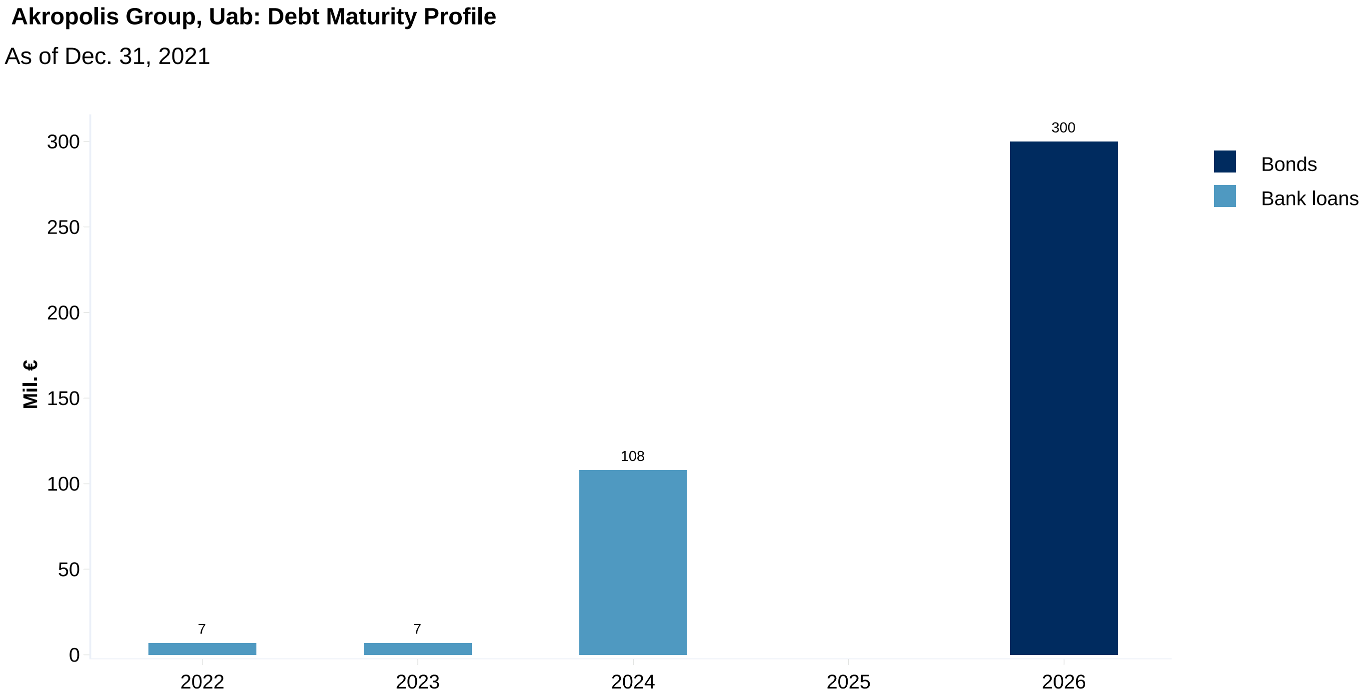
Financial Risk

Our assessment of Akropolis' financial risk profile is characterized by its prudent financial policy, targeting a maximum net loan-to-value of 40%. This ratio slightly exceeded this level at the end of 2021, at 41.4%, following the large Akropole Alfa shopping center acquisition realized in November 2021 (valued at €198 million end of 2021). We expect this ratio to stabilize below 40% over the coming 12 months, in line with the company's financial policy, since the company would likely reduce its net debt amount as a result of its cash-flow generation. This would translate into around 41-42% maximum S&P Global Ratings-adjusted debt to debt plus equity, as per our 2021 calculations, therefore remaining comfortably below 45%, consistent with our current rating.

At the same time, thanks to Akropolis' relatively high 7% yield, Akropolis' adjusted debt to EBITDA should remain relatively low at well below 7.5x over 2022-2023, which compares well with that of rated retail property companies in Europe. This ratio increased from 5.0x at the end of 2020 to 7.4x at the end of 2021. This is because the Alfa shopping center acquisition was realized end of November 2021, therefore impacting the company's debt amount while its EBITDA contribution was limited for the year. We expect this ratio to improve to 5.5x-6.5x over 2022-2023.

Akropolis' average length of debt maturities stood at around 3.8 years at year-end 2021, which we consider as moderate compared with that of other rated property owners. Although the company has sufficient liquidity to cover its 2022 debt maturities of about €7 million, we note that there are material funding needs required for its 2024 debt maturities of approximately €108 million. We expect the company will address these maturities well in advance and will observe its refinancing activities closely over the near future. The company's average cost of debt is relatively low at 2.48% as of December 2021, but we expect its future debt issuances to be raised at a materially higher cost, given the current rise in interest rates. Still, we forecast that the company will maintain a solid EBITDA interest coverage ratio of 5.5x-6.5x over the next 12 months. Akropolis' total debt is 71% unsecured and with a fixed interest rate.

Debt maturities



Source: S&P Global Ratings, company reports

Akropolis Group UAB--Financial Summary

Period Ending	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019
(Mil. €)			
Revenue	58.8	57.0	54.6
EBITDA	57.2	53.9	50.8
Funds from operations (FFO)	46.8	48.7	41.8
Interest expense	8.1	3.5	2.8
Cash flow from operations	42.6	53.9	40.1
Capital expenditure	0.0	0.0	0.0
Dividends paid	0.0	50.0	1.0
Cash and short-term investments	82.1	56.7	53.7
Debt	423.3	267.8	282.2
Equity	571.3	480.7	617.0
Valuation of investment property	1,006.8	796.0	791.6
Adjusted ratios			
EBITDA margin (%)	97.2	94.7	93.1
EBITDA interest coverage (x)	7.1	15.5	18.1
Debt/EBITDA (x)	7.4	5.0	5.6
Debt/debt and equity (%)	42.6	35.8	31.4

Source: S&P Global Ratings

Reconciliation of Akropolis Group UAB Reported Amounts with S&P Global Adjusted Amounts ()

	--Fiscal year ended Dec. 31, 2021--			
Akropolis Group UAB reported amounts (mil. €)				
	Debt	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**
	423.2	58.4	108.0	57.2
S&P Global Ratings' adjustments				
Cash taxes paid	--	--	--	(7.4)
Cash interest paid	--	--	--	(3.0)
Reported lease liabilities	0.1	--	--	--

	Debt	EBITDA	EBIT	Funds from operations
EBITDA: Gain/(loss) on disposals of PP&E	--	(1.2)	(1.2)	--
Depreciation and amortization: Asset valuation gains/(losses)	--	--	(50.5)	--
Total adjustments	0.1	(1.2)	(51.7)	(10.4)
S&P Global Ratings' adjusted amounts				
	Debt	EBITDA	EBIT	Funds from operations
	423.3	57.2	56.4	46.8

Source: S&P Global Ratings

Liquidity

We assess Akropolis' liquidity as adequate. We anticipate that liquidity sources will likely cover uses by more than 1.2x in the 12 months from April 1, 2022.

Principal liquidity sources

- €92.3 million of available unrestricted cash; and
- Our expectation of cash FFO of about €45 million-€50 million.

Principal liquidity uses

- €7.0 million of contractual debt amortization payments, and the repayment of outstanding credit lines; and
- Our expectation of less than €30 million for committed investments, including maintenance or development capex for the Vingis project in Vilnius.

Covenant Analysis

Requirements

We understand that the company had adequate headroom (more than 10%) under its bond covenants as of March 31, 2022. We expect Akropolis will maintain sufficient headroom over the coming years.

Compliance expectations

Main bond covenants include:

- Loan-to-value ratio to be lower than 60%;
- EBITDA-interest-coverage ratio above 2x; and
- Secured debt to portfolio value under 30%.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5

- N/A

S-1	**S-2**	S-3	S-4	S-5

- N/A

G-1	G-2	**G-3**	G-4	G-5

- Governance structure
- Transparency and reporting

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021. N/A--Not applicable.

Governance factors are a moderately negative consideration in our credit rating analysis of Akropolis, since we believe that the company's reporting transparency compares negatively with that of publicly rated retail peers, and because of the influence that Vilniaus Prekyba, as the only shareholder, may have on the business of its fully owned subsidiary. Environmental and social factors are an overall neutral consideration. While COVID-19 accelerated the adoption of e-commerce, we view e-commerce as a secular change that has been affecting the retail sector well before the pandemic, and we do not view this as a social risk, but rather a general industry trend reflecting changing consumer preferences.

Group Influence

We view Akropolis as a core subsidiary of the VP group, integral to the group's strategy. We believe it is highly unlikely that VP, which has owned 100% of Akropolis since 2016, will sell the company. This is because we understand VP views Akropolis as part of its group identity, as the real estate arm. About 50% of VP's real estate assets are Akropolis' shopping centers, and VP's subsidiaries represent about 25% of Akropolis' total gross leasable area and approximately 17% of its total income, as anchor tenants. We expect VP to support Akropolis under foreseeable circumstances, as demonstrated through the group's flexible dividend policy, under which the group considers no dividend from Akropolis during the realization of its large Vingis development project (which includes a total €287 million of estimated capex). In addition, we understand Akropolis' decision-making process heavily involves VP, with all decisions above €1 million approved by VP management. Since Maxima is the main driver of VP's credit quality, we align our final rating on Akropolis with that on Maxima.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2021, Akropolis' capital structure comprised of €121.9 million of secured bank loans and €300 million senior unsecured bond.

Analytical conclusions

We rate the company's senior unsecured bond at 'BB+', in line with the issuer credit rating. This is because we do not see significant subordination risk in the company's capital structure, with secured debt representing around 29% of total debt, well below our 50% threshold below which we would typically notch the issue down from the issuer credit rating.

Rating Component Scores

Foreign currency issuer credit rating	**BB+/Stable/--**
Local currency issuer credit rating	**BB+/Stable/--**
Business risk	**Weak**
Country risk	Intermediate
Industry risk	Low
Competitive position	Weak
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bb**
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	**bb+**

Related 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
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

Ratings Detail (as of June 15, 2022)*

Akropolis Group UAB	
Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+
Issuer Credit Ratings History	
26-Oct-2021	BB+/Stable/--
19-May-2021	BB+/Negative/--
Related Entities	

Ratings Detail (as of June 15, 2022)*

Maxima Grupe UAB

Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.