Corporate Rating
EUROBODEN GmbH
Germany, Real Estate

Scope Ratings
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Corporate Profile

EUROBODEN GmbH (henceforth EUROBODEN) is an owner-managed residential real estate developer with a focus on the high quality segment. Its activities cover the entire development process, from site evaluation, project planning to implementation and marketing. The group focusses on developing architectural valuable residential real estate properties and works with a pool of famous architects, such as David Chipperfield, Jürgen Mayer H. and David Adjaye. Since its foundation in 1999 EUROBODEN has developed 265 residential properties with a total volume of EUR 135m.

Rating

Corporate Rating:	B
Outlook:	Stable
Corporate Bond Rating:	BB-
Outlook:	Stable
Sector:	Real Estate (Development)
Monitoring:	Monitored

Analysts

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Rating Rationale

Scope rates EUROBODEN B and its unsecured corporate bond (2013/2018) BB- both with Stable Outlook.

The Corporate Issuer-Credit Rating (CICR) of ‘B’ for EUROBODEN is supported by the company’s highly liquid development portfolio located in prime locations. The rating reflects positive growth prospects in its core markets of Munich and Berlin, and the firm’s profound market knowledge, as well as the company’s comparatively high profitability in the industry, with strong brand recognition that makes off-market deals possible.

Negative rating factors are EUROBODEN’s market position as a small niche player in high quality residential real-estate development and its volatile cash flow generation. Full exposure to the cyclical real estate market and dependence on external financing and refinancing risk with 60 % of EUROBODEN’s debt due in the next 24 months are also credit negative. Key man risk exists due to Mr. Höglmaier’s vital contribution as both CEO and founder.

The BB- rating of the unsecured corporate bond (2013/18) reflects the expected high probability of recouping the investment thanks to hidden reserves disclosed by EUROBODEN, and its very well located development portfolio.

Outlook

The rating Outlook is Stable. It is supported by EUROBODEN’s high quality development pipeline in booming core markets of Munich and Berlin.

Rating Drivers

Positive	Negative
Lack of supply in EUROBODEN’s core markets Munich and Berlin supporting stability of demand	Small niche market player in the development of high quality residential real estate which keeps EUROBODEN exposed to more elastic demand and potential margin deterioration
Germany’s positive economic environment is expected to support the company’s business in the next few years	High refinancing risk with EUR 17.6m (60% of total debt) of debt due in the next 24 months
EUROBODEN’s development portfolio in prime locations supports price stability and asset fungibility	Highly exposed to external sources of financing as reflected in the comparably high Loan to Value (LTV) of 61% (2014) and the partial tenor mismatch in its project debt structure
EUROBODEN shows higher profitability compared to peers with a weighted average EBITDA Margin of 16% for the last ten projects	High key man risk associated with the founder
Very good market knowledge and standing due to its established brand enabling off-market deals.	Concentrated development pipeline with a limited geographical diversification focusing on Munich and Berlin
Adequate FFO Fixed Charge Cover at 1.1x (2014) expected to increase to a level above 2.0x in 2015 and 2016	Full exposure to the cyclicality in the real estate market with almost all sources of revenues linked directly to the company’s development activity.

Financial overview

	'10*	'11*	'12*	'13*	'14*	'15e*	'16e*
P & L Statement (EURm)							
Total Output	9.9	11.7	13.6	12.9	28.6	25.5	16.1
EBITDAR (adjusted)	0.5	2.8	3.5	1.6	2.0	3.4	5.0
Leases/rental expenses	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
EBITDA (adjusted)	0.5	2.8	3.5	1.6	1.9	3.2	4.8
EBIT (adjusted)	0.4	2.8	3.4	1.4	1.8	3.1	4.7
Net interest expenses	-0.7	-0.9	-0.7	-0.9	-1.4	-1.2	-1.6
Balance sheet (EURm)							
Gross financial debt	22.7	26.3	8.6	14.0	25.6	36.7	24.4
Lease-adjusted financial debt	22.7	26.3	8.6	14.0	26.2	37.3	25.0
Cash & marketable securities	6.6	11.4	0.5	0.7	0.5	11.3	4.4
Net financial debt	16.0	14.9	8.1	13.3	25.7	26.0	20.6
Total Assets (book value)	29,7	34,9	21,5	23,8	36,1	48,3	38,1
Cash Flow Statement (EURm)							
Funds flow from operations (FFO)	0.8	1.5	2.0	0.5	0.2	1.4	2.3
Changes in Working Capital	0.0	0.3	5.7	-5.5	-14.1	-1.8	3.1
Operating Cash Flows	0.8	1.9	8.4	-5.7	-11.8	-0.3	5.5
CAPEX	0.0	-0.1	-0.5	-0.1	0.0	0.0	0.0
Free Cash Flow (FCF)	0.8	1.8	7.9	-5.8	-11.8	-0.3	5.5
Key Financial ratios							
Gross margin	29.7%	33.4%	46.5%	32.6%	14.3%	24.1%	48.1%
EBITDA margin	4.6%	23.9%	26.0%	12.4%	6.6%	12.7%	30.2%
Return on Assets	5.0%	7.0%	13.1%	6.2%	6.6%	5.5%	10.2%
FFO Fixed Charge Cover	2.0x	2.6x	3.1x	1.4x	1.1x	2.1x	2.4x
EBITDA Fixed Charge Cover	0.6x	3.0x	3.7x	1.4x	1.2x	2.4x	2.9x
Loan to Value	76.5%	75.5%	40.2%	58.9%	61.0%	67.6%	55.2%
Debt-to-Equity Ratio	1248.0%	792.6%	166.4%	253.5%	401.6%	476.1%	244.8%
Total Debt/EBITDA	49.9x	9.4x	2.4x	8.8x	13.7x	11.4x	5.0x
Net Debt/EBITDA	35.3x	5.3x	2.3x	8.3x	13.4x	7.9x	4.1x
FFO/Total Debt	6.7%	9.1%	34.1%	11.5%	6.6%	7.5%	16.4%
Liquidity	37.7%	75.5%	-54.3%	-93.8%	204.1%	214.8%	6.9%

* EUROBODEN's Financial Year ends 30th of September

Source: EUROBODEN, Scope estimates

Rating change drivers

Positive	Negative
Higher granularity of development pipeline with top three projects comprising less than 10% of total expected turnover	Failure to refinance debt due in the next 22 months
Deleveraging to a sustainable LTV level below 50%	EUROBODEN fails to increase its sustainable adjusted EBITDA margin to above 20 % for its individual projects
Successful refinancing of debt due in the next 22 months	

Business Risk Profile

Market development

Economy: positive environment with asset prices pushed by ECB

Germany's positive expected GDP growth (2014: 1.6%; 2015e: +1.5%; 2016e: +2.0% *Source: DESTATIS*) as well as low unemployment under 5.0% (*Source: OECD*) underlines the country's position as one of the strongest European economies alongside smaller markets like Ireland, Luxembourg and the Baltic states. Germany's robust economy is driving the strongest growth rate for purchasing power per capita in Europe at 4.6% yoy to Europe's average of 1.7% yoy; (*Source: GfK 2015)* and also blunting the impact of recent asset price increases.

Scope believes assets prices will keep growing with the European Central Bank (ECB) leaving interest rates at a historical 0.05% low and the extended asset purchase program of EUR 60bn per month.

Economic prospects – especially for Germany – are expected to support EUROBODEN's main activity as a real estate developer.

Residential real estate: lack of supply expected to balance demand

After its 2008 trough at a 152k permissions (down 42% from 2001) the number of building permissions for dwellings in Germany increased for six consecutive years and exhibits a CAGR of 9% since 2008 (*Source: DESTATIS*). Population growth in economically thriving regions is driving demand with the following increases expected by 2020: 10% in Munich, 6% in Hamburg, 3% in Berlin and 7% in the university towns of Münster and 6% in Heidelberg (*Source: Oxford Economics*). Forecasted growth in the number of households (2.3% by 2025; *Source: DESTATIS*) resulting from declining household sizes will further boost this trend. Other factors for increasing demand are low interest rates, feasible LTV ratios, being among the highest in Europe, and low finance margins. EUROBODEN's main activities are in Munich – with 87% of its development pipeline – and Berlin.

Positive market growth prospects for core markets Munich and Berlin

Scope believes asset prices and demand for EUROBODEN's core markets in Munich and Berlin will keep growing after both markets exhibited average 40% price rises since 2011. This is underlined by: i) the lack of new apartments; and ii) positive growth expectations for both cities. The company might profit from these trends and strengthen its business model in the next few years.

Competitive positioning

Very small company in a highly fragmented market

With total assets of EUR 36m at end September 2014 and FFO of EUR 0.2m for the year to September 2014, EUROBODEN is a small company in the highly fragmented German real estate developers' market. It is not expected to grow significantly in the next years in view of the enormous competition in EUROBODEN's core markets Munich and Berlin, with EUROBODEN expected to maintain its focus on its niche market.

The company's small size indicates higher sensitivity to unforeseen shocks, potential volatility in cash flows, and greater key man risk.

Niche market player in the prime segment exposed to more elastic demand

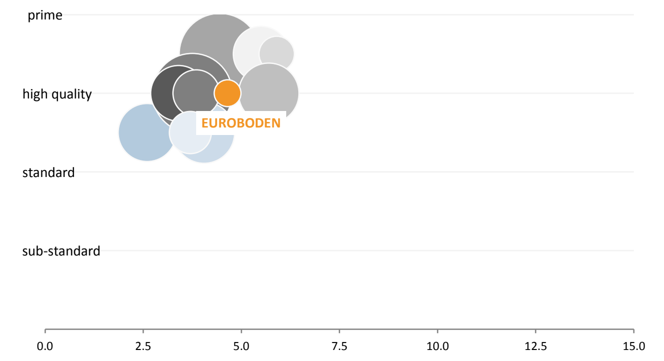
As a niche market player, EUROBODEN retains a very small market share of below 1% in its core markets Munich and Berlin. However, both are highly competitive with approx. 100 competitors each, with the largest player holding a 4% market share in Munich and 1.8% in Berlin (*Sources: Neubaukompass Berlin and Munich, Federal Bureau of Statistics of Berlin and Bavaria*). Both markets benefit from a strong economic environment. In an economic downturn or a significant decrease of demand, competition is likely to wipe out the majority of EUROBODEN's competition.

EUROBODEN's portrays itself as an "Architekturmarke" (original architect brand) supported by an established network of well-known architects. According to the company, the self-positioning and brand building allows it to benefit from off-market deals that avoid bidder competition (land + property sourcing) and carry through its pricing policy. In Scope's view, recent property purchases as well as recently finished projects support this claim.

Niche market of prime residential real estate development characterised by elastic demand

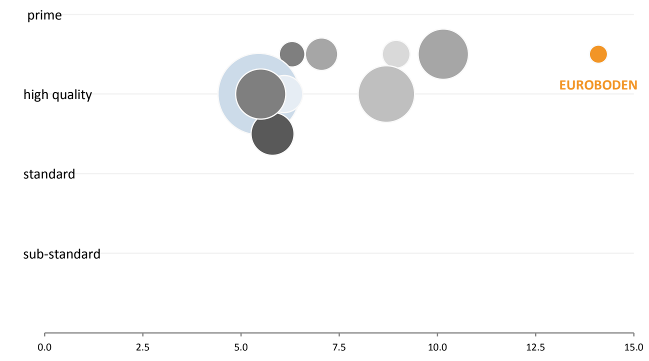
Scope believes, however, that EUROBODEN's focus on the prime, high price niche market segments in Berlin and Munich characterised by elastic demand and volatile price levels (*Source: Knight Frank Prime Global Cities Index, Global House Price*), exposes the company to adverse market movements.

Figure 2 - Market positioning EUROBODEN Berlin (TOP 10) *X-Axis: Pricing (EURk/sqm)I Y-Axis: Segment I Bubble: No. of units*



Sources: Neubaukompass Berlin, Scope Ratings

Figure 3 - Market positioning EUROBODEN Munich (TOP 10) *X-Axis: Pricing (EURk/sqm)I Y-Axis: Segment I Bubble: No. of units*



Sources: Neubaukompass München, Scope Ratings

Diversification

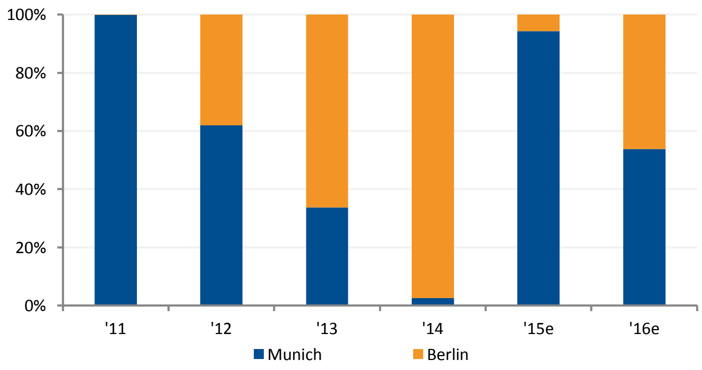
Limited geographical diversification with a focus on Munich and Berlin

Geographical distribution of the company's revenues is highly volatile driven by EUROBODEN's small size and chunky development pipeline, limited to Munich and Berlin (Figure 4). Scope judges this localised geographical diversification to be a credit risk, given the very similar demand patterns in both markets.

Dependent on residential real estate development

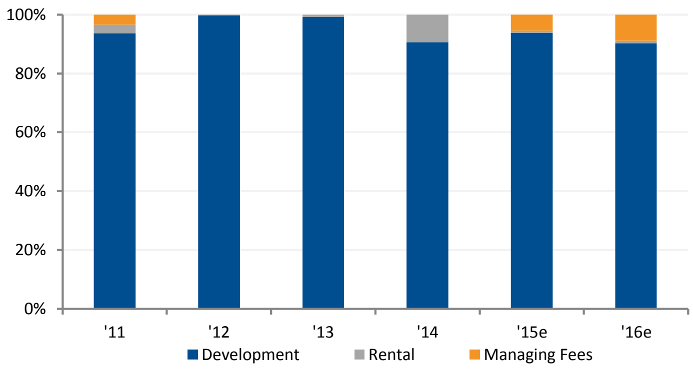
EUROBODEN is highly exposed to inherent cyclicality in the real estate market, with the majority (2014: 91%; 2015e: 94%) of its revenues generated from development activities. Other revenues sources such as rental income or managing fees contribute much less (Figure 5) and are directly linked to the company's development activities too. Scope judges this a credit negative.

Figure 4 - Geographical distribution of revenues (%)



Sources: EUROBODEN, Scope Ratings

Figure 5 - Income source distribution (%)



Sources: EUROBODEN and Scope Ratings

Concentrated development pipeline of six projects

EUROBODEN's development pipeline is highly concentrated, consisting of six projects, the largest of which alone represents 30% of expected four years turnover. The modest pipeline diversification might affect future cash flow generation if projects are delayed or suffer cost overruns. Please note: potential impacts are already included in Scope's rating scenario.

Asset quality

'A' located development portfolio supports price stability and fungibility

EUROBODEN's development portfolio is situated in the mature and liquid markets of Munich and Berlin. The company focusses predominantly on 'A' locations in these cities, which Scope believes supports the fungibility/liquidity of EUROBODEN's properties and lowers potential price haircuts in a distressed sales scenario.

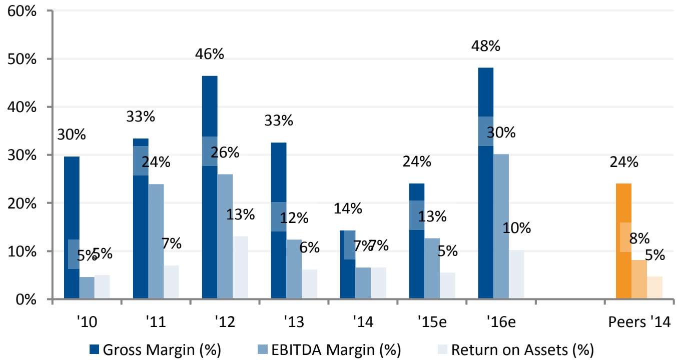
Profitability

Higher profitability than peers expected to increase further

EUROBODEN's EBITDA margin decreased to 7% in 2014 from 12% in 2013 (Figure 6). However, Scope believes EUROBODEN's profitability will increase to well above 10%, supported by signed contracts representing EUR 8.2m of future revenues and the high quality project pipeline with targeted margins above 20% (Figure 7). The reliability of the targeted margins is reinforced by the firm's profound market knowledge and brand recognition that makes off-market deals possible.

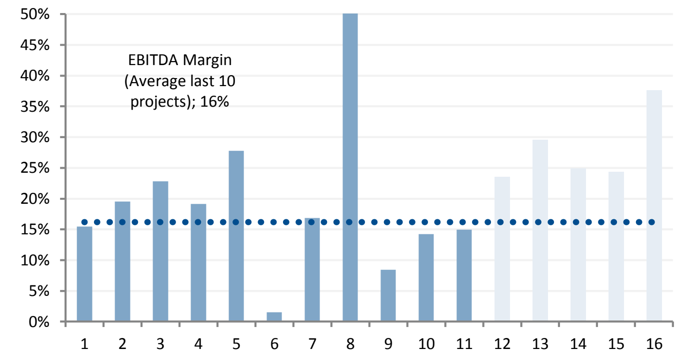
Due to the timing mismatch of cash out- and inflows (expenses and revenues), Scope looked at the profitability of EUROBODEN's last ten projects (Figure 7). Seen from that viewpoint one can observe relatively stable profitability that provides Scope with certainty about their sustainable profitability with an EBITDA margin of around 16%. With that margin, EUROBODEN exhibits comparatively higher margins than most of its peers.

Figure 6 - Profitability EUROBODEN vs. Peers



Sources: EUROBODEN, Scope Ratings

Figure 7 - EBITDA Margin EUROBODEN (last 10 projects +ff)



Sources: EUROBODEN and Scope Ratings

Management & corporate governance

Experienced market player with streamlined acquisition process

EUROBODEN benefits from long-term relationships with most of its external partners and 16 years' experience in its core market Munich. Its streamlined acquisition process allows for purchase decisions to be taken within a day. Together with its well established brand – primarily in Munich - this allows EUROBODEN to participate in off-market deals and avoid bidder competition.

High key man risk associated with the founder

Because of the company's size there is no official advisory or supervisory board in place. Strategic decisions are taken by EUROBODEN's owner. This gives the company a speedier decision-making process, but creates key person risk in the shape of CEO Stefan Höglmaier.

Financial Risk Profile

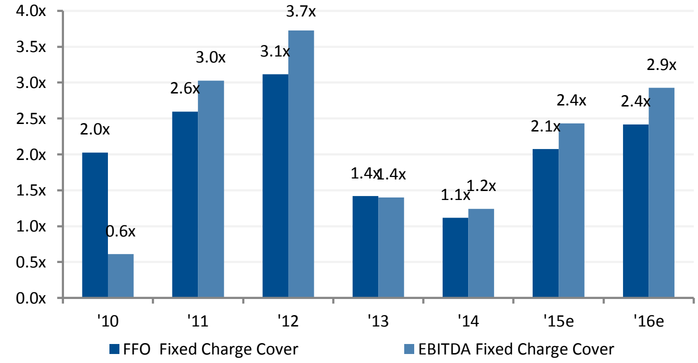
Debt protection and cash flows

FFO Fixed Charge Cover at 1.1x (2014) expected to increase to above 2.0x

EUROBODEN's FFO Fixed Charge Cover (x) stood at an adequate 1.1x end September 2014 and is expected to increase above 2.0x in the coming years (Figure 8) caused by expected project deliveries. The ratio will fluctuate heavily relying on on-time delivery and project disposal. If projects delay, EUROBODEN may be dependent on external financing to cover its fixed charges.

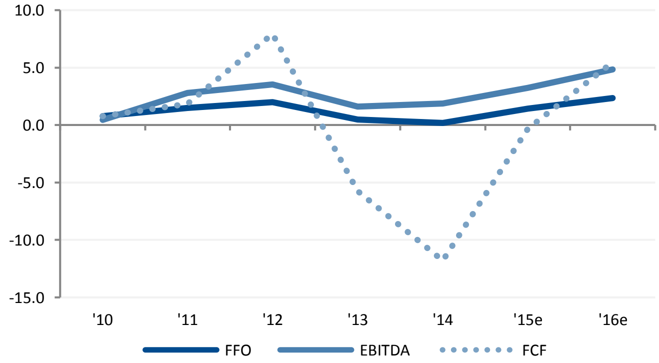
The company's cash flow generation was volatile with the Free Cash Flow (FCF) fluctuating between EUR 7.9m (2012) and EUR -11.8m (2014 - Figure 9). Scope expects it to remain volatile driven by EUROBODEN's business model as a real estate developer. Cash in- and outflows do not necessarily match during a project lifetime and EUROBODEN's small size and chunky project pipeline leaves it vulnerable. The latter exacerbates the volatility inherent in EUROBODEN's business model.

Figure 8 - FFO Fixed Charge and EBITDA Fixed Charge Cover



Sources: EUROBODEN, Scope Ratings

Figure 9 - FFO, EBITDA FCF (EURm)



Sources: EUROBODEN and Scope Ratings

Leverage

Comparatively high leverage with LTV of 61% and Net Debt/EBITDA of 13.4x in 2014

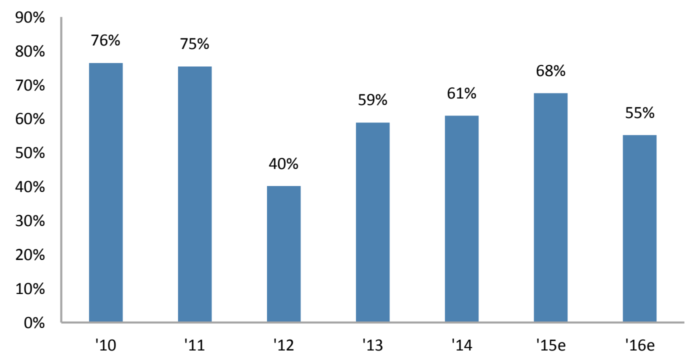
The company's LTV stood at a high 61% end September 2014 (Figure 10). In Scope's view EUROBODEN's LTV creates additional risk by increasing the company's reliance on external funding and successful project disposal. Compared to peers, Scope expects an LTV below 50% to be adequate for a developer of that size. Scope does not believe the company will be able to reduce its leverage significantly over the next few years.

With a Net Debt/EBITDA (x) of 13.4x (2014) the company exhibits a level consistent with a B rating. The ratio was and will remain volatile. However, Scope judges this volatility of Net Debt/EBITDA to be typical for a developer with projects not looked at, or financed in annual tranches, but for the whole development period.

As long as debt in EUROBODEN's project SPVs is i) interest only and ii) matches the expected project lifetime, risk expressed by that high level is to some extent mitigated. However, EUROBODEN's debt maturity profile does not match the expected lifetime of the respective project with redemptions one to two years prior to delivery for EUR 12.4m of its debt.

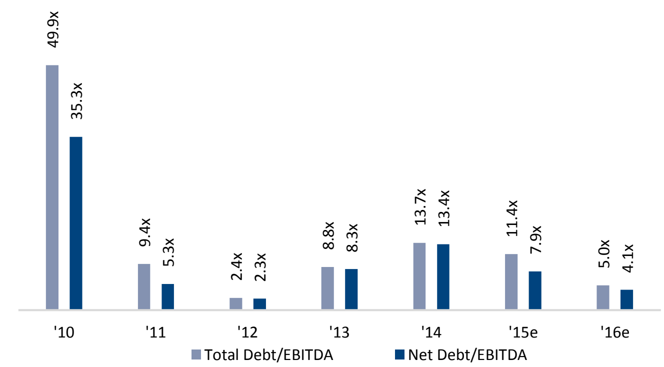
EUROBODEN's total debt position of EUR 16.3m (EUR 3.6m corporate bond; EUR 12.4m project debt; EUR 0.3m corporate debt) depends on EUROBODEN's ability to generate stable and above all sufficient cash flows out of its project SPVs to cover these obligations. Due to the volatility of cash flows (Figure 9), Scope sees high risks connected to a delay in developments and respective disposals within the project SPVs.

Figure 10 - LTV (%)



Sources: EUROBODEN, Scope Ratings

Figure 11 - Net Debt/EBITDA (x) and Total Debt/EBITDA (x)



Sources: EUROBODEN and Scope Ratings

Liquidity and debt repayments

Stretched Liquidity recovered to 2.0x in 2014

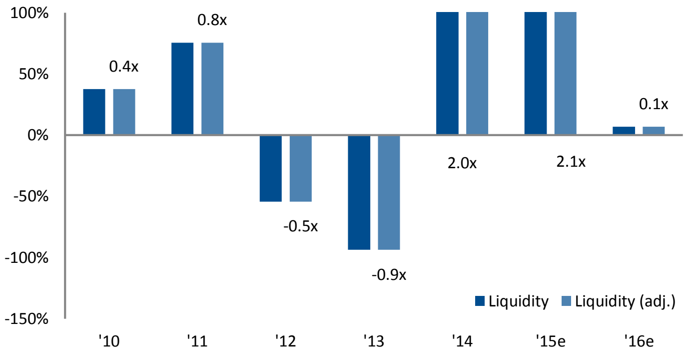
With 2.0x in 2014 EUROBODEN's Liquidity stood well above 1.0x. It has however been subject to high volatility in the past. Liquidity is typically tight for small real estate developers with mainly short-term debt covering financing for each project. EUROBODEN converted its debt structure from short- to long-term debt shifting its short-term ratio of total debt from 86% in 2010 to 16% in 2014. This led to a sea change from negative Liquidity ratios (-0.5x in 2012 and -0.9x in 2013) to positive in 2014 and forecasted for 2015. However, Scope expects EUROBODEN to be exposed to refinancing risk in 2017 - potentially triggered by project delays - expressed by low Liquidity of 0.1x in 2016.

Comparatively high refinancing risk with 60% of debt due in the next 22 months

Almost 60% of EUROBODEN's debt (EUR 17.6m) is due within the next 24 months (Figure 13). Scope does not believe the company will be able to repay that debt from operational cash flow and available cash. This requires the company to turn to external funding to redeem maturing debt. Scope expects maturing debt to be refinanced through the company's available credit lines of EUR 4.5m. In the event of project delays we expect an extension of current debt facilities or proceeds after projects exit.

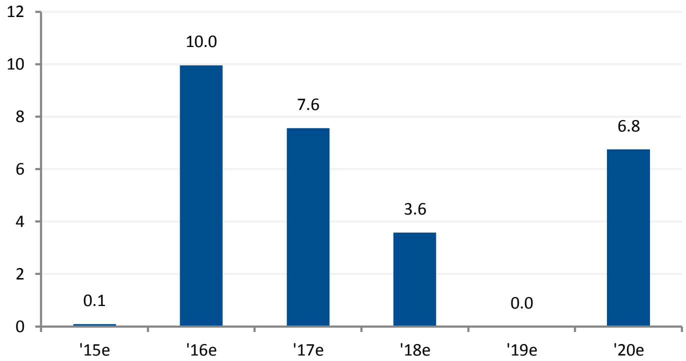
Scope believes that EUROBODEN achieves operational success – supported by the market environment – and delivers almost on time, budget and at targeted prices. Therefore extensions of credit facilities for project debt should become available as well.

Figure 12 - Liquidity adj. (x) (%)



Sources: EUROBODEN, Scope Ratings

Figure 13 - Debt Maturity Profile (EURm)



Sources: EUROBODEN and Scope Ratings

Bond

Bond at BB-

Due to the bond's unsecured position, its credit quality is tightly linked to the credit quality and performance of EUROBODEN, which limits the possibility of a strongly enhanced credit quality of the bond compared to the CICR. In view of the hidden reserves disclosed by EUROBODEN and its very well located development portfolio, Scope believes the recovery potential to be well above market average, ultimately allowing for a two-notch uplift from the CICR.

Outlook

Outlook: Stable

The rating Outlook is Stable and is supported by EUROBODEN's high quality development pipeline in the booming core markets of Munich and Berlin.

A positive rating action may be considered if EUROBODEN successfully manages to lower the LTV ratio to a sustainable level around 50% or reduce the share of its top three projects of expected total turnover volume to below 10%. A negative rating action would be considered if the company fails to increase its sustainable adjusted EBITDA margin to above 20 % for its individual projects, or refinance its maturing debt.

Regulatory disclosures

Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

The rating analysis has been prepared by Philipp Wass, Lead Analyst
Responsible for approving the rating: Dr. Stefan Bund, Committee Chair

Rating history of EUROBODEN GmbH

Date	Rating action	Rating	
28.05.2015	Initial Rating	B	Outlook Stable

The rating concerns an entity, which was evaluated for the first time by Scope Ratings AG.
The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

Rating history of EUR 15m unsecured corporate bond (2013/2018) of EUROBODEN GmbH

Date	Rating action	Rating	
28.05.2015	Initial Rating	BB-	Outlook Stable

The rating concerns a financial instrument, which was evaluated for the first time by Scope Ratings AG.
The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but for a fee based on a mandate of the issuer of the investment/the rated entity.
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Key sources of Information for the rating

☒ Prospectus
☒ Valuation reports, other opinions
☒ Current performance record
☒ Annual financial statements
☒ Interview with the rated entity/issuer
☒ Press reports / other public information
☒ Website of the rated entity/issuer
☒ Annual reports/semi-annual reports of the rated entity/issuer
☒ Detailed information provided on request
☒ Data provided by external data providers
☒ External market reports

Scope Ratings considers the quality of the available information on the evaluated company to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodology applicable for this rating (Name of the Methodology) is available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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Rating issued by

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