Deutsche Konsum REIT-AG
Germany, Real Estate

BB+ STABLE

Corporate profile

Deutsche Konsum REIT-AG (DKR) started operations in 2014 and received REIT (real estate investment trust) status in 2016, making it exempt from income-based tax. The company's objective is to acquire and manage a retail portfolio focused on regional areas and medium-sized cities across Germany.

Key metrics

			Scope estimates	
Scope credit ratios	2019/20	2020/21	2021/22E	2022/23E
Scope-adjusted EBITDA/interest cover	4.9x	4.2x	4.9x	4.3x
Scope-adjusted debt (SaD)/Scope-adjusted EBITDA	12.3x	12.3x	11.6x	12.1x
Scope-adjusted loan/value (LTV) ratio	54%	54%	54%	55%

Rating rationale

The issuer rating of BB+ is supported by the size the company has achieved in the niche market of commercial real estate (CRE) with a focus on non-cyclical retail. Its portfolio is diversified across Germany, with stable occupancy and a weighted average unexpired lease term (WAULT) of over five years, leading to steady, predictable cash flows. Relatively high profitability, implicit caps on leverage and floors on revenue diversification afford good debt protection and moderate leverage.

However, DKR's size also limits the rating, as it is expected to constrain the company's access to capital markets in times of economic turmoil. In addition, DKR's focus on a niche market leads to high concentration and weak diversification in terms of tenants, with the top three tenants accounting for 34% of net rental income (NRI). Furthermore, we see high downside volatility for the property portfolio due to relatively small ticket sizes and weak macro locations, which both result in limited fungibility. Finally, our overall assessment of DKR's financial risk profile is negatively affected by its growth plans for the next few years.

Outlook and rating change drivers

The Outlook is Stable and incorporates our expectation that DKR's asset base will grow due to around EUR 100m in net expansion capex for FY 2021/22, leading to annualised rental income of EUR 82m-86m by end-September 2022. We anticipate further expansion to be financed with equal amounts of debt and equity. This will keep the Scope-adjusted LTV ratio below 55% in the medium term, while debt protection, as measured by Scope-adjusted EBITDA interest cover, is expected to remain above 4x.

A negative rating action is possible if the Scope-adjusted LTV ratio rose above 55% on a sustained basis, leading to DKR losing its tax-exempt G-REIT status. This could happen if property prices dropped and DKR could not address the increased LTV ratio via asset disposals or equity issuances (due to the main shareholder being less willing and able to support capital increases either actively or passively).

A positive action would require further growth in total assets and gross leasable area, leading to greater diversification by geographies and tenants while keeping credit metrics at current levels.

Ratings & Outlook

Issuer rating	BB+/Stable
Senior unsecured debt rating	BBB-

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Related Methodologies

Corporate Rating Methodology, July 2021

European Real Estate Corporates Rating Methodology January 2022

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Rating drivers

Positive rating drivers	Negative rating drivers
• Largest pure-play CRE company in Germany with a focus on non-cyclical retail, supporting visibility with tenants, investors and vendors • Moderate geographical diversification across Germany • Stable occupancy of around 89% by gross lettable area (GLA) and 95% by EPRA, though no material improvement expected via acquisition strategy • Profitability in line with larger peers • High EBITDA interest cover of above 4x expected to be maintained • LTV ratio expected to remain below 55% in the medium term thanks to G-REIT covenants	• Limited size, but net expansion of portfolio, with asset base to rise to around EUR 1.4bn in FY 2023/24 • Modest diversification across sales formats; exposure to hypermarkets with their negative prospects • Concentrated tenant portfolio, with top three accounting for 34% of NRI, albeit partially mitigated by the majority's good credit quality • Properties' macro locations are expected to lead to higher downside volatility for fair values, but micro locations and limited competition will boost tenant demand and thus stabilise cash flows. • Negative free operating cash flows due to discretionary portfolio expansion and mandatory dividend payments

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Further significant growth by total assets and GLA while maintaining credit metrics	• Scope-adjusted LTV ratio of greater than 55% on a sustained basis, leading to a loss of tax-exempt REIT status

Financial overview

				Scope estimates		
Scope credit ratios	**2019/20**	**2020/21**	**Q1 21/22[1]**	**2021/22E**	**2022/23E**	**2023/24E**
Scope-adjusted EBITDA/interest cover	4.9x	4.2x	4.4x	4.9x	4.3x	4.0x
SaD/Scope-adjusted EBITDA	12.3x	12.3x	11.7x	11.6x	12.1x	12.2x
Scope-adjusted LTV ratio	54%	54%	54%	54%	55%	55%
Scope-adjusted EBITDA in EUR m						
EBITDA	36.2	41.5	43.8	57.8	59.5	64.8
Operating lease payments in respective year	0.5	0.6	0.6	0.6	0.6	0.6
Other[2]	0.7	3.7	3.4	-3.7	0.0	0.0
Scope-adjusted EBITDA	**37.4**	**45.7**	**47.7**	**54.7**	**60.1**	**65.4**
Funds from operations in EUR m						
Scope-adjusted EBITDA	37.4	45.7	47.7	54.7	60.1	65.4
less: (net) cash interest	-7.6	-10.8	-10.8	-11.1	-13.8	-16.3
less: cash tax paid as per cash flow statement	0.0	-0.2	-0.3	-1.0	0.0	0.0
add: associate dividends received	0.1	0.6	0.6	-0.4	0.0	0.0
Funds from operations	**29.9**	**35.4**	**37.3**	**42.1**	**46.2**	**49.1**
Net cash interest paid in EUR m						
Net cash interest as per cash flow statement	-7.4	-10.6	-10.6	-10.9	-13.6	-16.1
add: interest component, operating leases	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Net cash interest paid	**-7.6**	**-10.8**	**-10.8**	**-11.1**	**-13.8**	**-16.3**
Scope-adjusted total assets in EUR m						
Total assets	935.7	1,093.3	1,109.5	1,198.5	1,315.4	1,445.4
less: cash & equivalents	-81.4	-60.2	-69.3	-23.0	-0.2	-1.1
Scope-adjusted total assets	**854.3**	**1,033.1**	**1,040.1**	**1,175.5**	**1,315.2**	**1,444.3**
SaD in EUR m						
Reported gross financial debt	527.7	609.7	615.9	645.6	711.3	782.2
add: finance leases	8.9	9.0	9.0	9.0	9.0	9.0
less: cash equivalents (short-term lending)	-81.2	-59.5	-66.7	-22.0	0.0	0.0
less: cash	-0.2	-0.7	-2.7	-1.0	-0.3	-1.2
add: operating lease obligations	4.0	4.3	4.3	4.3	4.3	4.3
SaD	**459.1**	**562.8**	**559.8**	**635.9**	**724.4**	**794.4**

[1] Last 12 months to end-December 2021
[2] Disposal gains from fixed assets included in EBITDA and adjustments for income and expenses not relating to the period.

Business risk profile: BB+

Industry risk: BB

DKR's industry risk is modest, with an exposure to the highly cyclical real estate industry, its main segments comprising the leasing, management and development of CRE buildings.

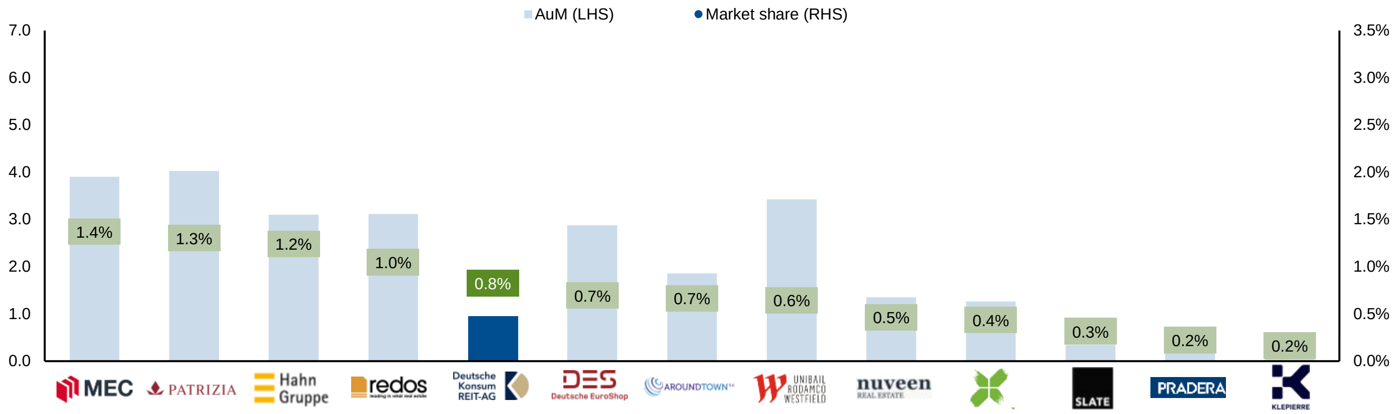
Limited size but strong growth

DKR's asset base has grown rapidly since its inception in 2014. However, it is still a relatively small CRE company, as evidenced by Scope-adjusted total assets of EUR 1,040m at end-December 2021 (up 20% YoY) and Scope-adjusted funds from operations of EUR 37m for the 12 months to end-December 2021 (up 15% YoY). Nevertheless, the pace of expansion, with high double-digit growth rates in GLA, NRI and number of properties since end-September 2017, is evidence of DKR's improving access and visibility on investment markets.

Ongoing improvements in size also supported the company's access to capital markets, evidenced by increasing capital market debt exposure, which stood at EUR 217m (35% of debt as at end-December 2021). At the same time, the share of free-float equity has been almost stable since FY 2017/18. Thus, the company still depends heavily on its main shareholder, Obotritia Kapital KGaA, which provides 29% of equity and a EUR 25m revolving credit facility.

Further growth should support DKR's access to capital markets, enabling it to further diversify its funding sources in the next few years. Nonetheless, Obotritia will likely maintain its majority control over DKR, even if this entails some dilution in its stake. This limits future growth to Obotritia's ability to benefit from access to capital or its willingness to allow its interest to be diluted in the medium term. DKR is expected to allow for a higher share of capital recycling going forward, enabled by a more mature portfolio[3], thus reducing the pace of expansion with an estimated EUR 250m-350m in net expansion capex until FY 2023/24.

Figure 1: DKR and German competitors by AuM[4] (EUR bn) and estimated German market share[5]



Sources: public information, Scope

Largest pure-play commercial property company in Germany with a focus on non-cyclical retail

DKR's market share in German retail is negligible, estimated at 0.7% (up 0.1pp YoY) based on a GLA of 1,023,410 sq m as at end-December 2021. However, we observe that this market is rather fragmented, with the largest companies barely reaching a market share of over 1%. Hence, we focus on the sub-segment of retail parks that is relevant for DKR.

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[3] Notarised disposal of 10 properties valued at EUR 74m in FY 2021/22
[4] AuM = assets under management
[5] Based on each company's share in German retail GLA as at end-December 2021

DKR is the largest German pure-play CRE company focused on retail parks, DIY markets and local retail centres, with a portfolio of 173 properties as at end-December 2021 (market share of 8%[6]). DKR is followed by real estate players x+bricks (more than 200 properties), FCR Immobilien AG (95 properties[7]) and Deutsche Fachmarkt AG (45 properties[8]). With its portfolio size, DKR is also a leader in its fragmented niche, with the largest competitors being fund managers redos real estate GmbH (97 properties) and HAHN-Immobilien-Beteiligungs AG (144) and institutional investors with assets managed by Jones Lang LaSalle or MEC (77).

Hence, we believe the company enjoys visibility among tenants, investors, and vendors, evidenced by a deal pipeline of over EUR 3.5bn in 2021. All of these factors support the reletting of vacant space, property disposals and further portfolio growth, with around 20 properties to be acquired in FY 2021/22 (EUR 100m-150m in investments; 10 properties already acquired since September 2021 at a cost of around EUR 44m and a net initial yield[9] of around 8.5%).

Moderate geographical diversification with property portfolio spread across Germany

DKR's retail portfolio is moderately diversified across Germany with a focus on the former East German federal states (72% of annualised rent as at end-December 2021). We believe DKR's geographical diversification can mitigate cyclical swings to a certain extent as these federal states follow slightly different demand patterns, influenced by different industry exposures[10].

As a result of the economic recovery of these states, the population stopped declining in 2011 and has since been almost stable. This development should enhance prospects for the majority of DKR's tenants, supporting the development of NRI and occupancy rates in the next few years.

Since October 2019, DKR has established a significant foothold in North Rhine-Westphalia (10% of annualised rent as at end-December 2021), Lower Saxony (8%) and Bavaria (4%). We believe the exposure to three out of four[11] of Germany's strongest regional economies should help to further stabilise rental cash flows.

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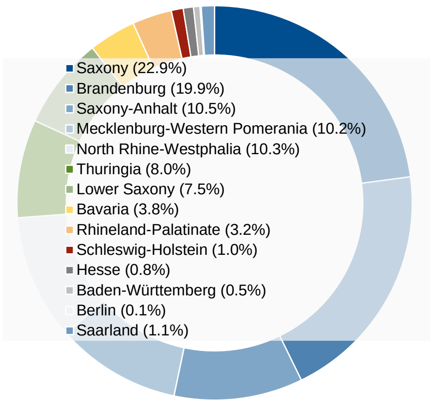
[6] 393 retail parks in Germany with GLA of above 10,000 sq m (Bulwien Gesa 2015); DKR holds 29 properties, with GLA of above 10,000 sq m as at end-December 2020.
[7] As at June 2021
[8] As at September 2021
[9] Net initial yield = net rental income of property at day one following acquisition divided by the purchase price
[10] Saxony, automotive; Mecklenburg-Western Pomerania, food; Saxony-Anhalt, chemicals; Brandenburg, metal production and metal processing, plastics and chemicals; Thuringia, automotive/capital goods
[11] North Rhine-Westphalia (21% of German GDP in 2020), Lower Saxony (9%), Bavaria (18%)

Figure 2: Geographical diversification by NRI

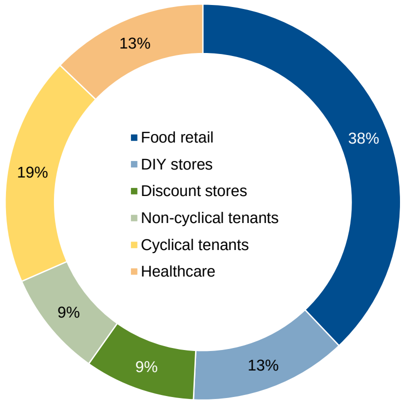


Sources: DKR, Scope

Figure 3: Property type by GLA (inner ribbon) and NRI (outer ribbon)

Sources: DKR, Scope

Figure 4: Pro-forma NRI by tenant industry



Sources: DKR, Scope

Modest diversification across sales formats; exposure to hypermarkets' negative prospects

DKR's diversification by property types is modest. The dominant exposures are to retail parks (32% of pro-forma NRI as of February 2022), local retail centres (23%) and hypermarkets (24%[12]). These three property types are heavily linked to food retail, which also leads to weak tenant industry diversification (food retail: 38% of pro-forma NRI as of February 2022). Hypermarkets especially are facing declining consumer demand. Thus, we expect a long-term negative impact on DKR's cash flows due to the sub-segment's higher expected capex needs and declining revenues.

Weak tenant industry diversification

Weak tenant industry diversification is mitigated by the importance of food products to consumers, the recurring nature of purchases and the segment's macro resilience. DKR's large exposure to non-cyclical retail industries, at around 72% of NRI[13], is credit-supportive.

Concentrated tenant portfolio

DKR's portfolio and industry exposures are also reflected in weak tenant diversification, with the top three tenants accounting for 33.5% (down 1.3pp YoY) and the top 10 tenants accounting for 47.8% (down 8.8pp) of pro forma NRI as of February 2022. This leaves the company very vulnerable to a single tenant's default and/or restructuring driven by ongoing changes in the German retail landscape. Weak tenant diversification is partially mitigated by the investment-grade character of tenants. These represent 38% (down 3pp) of NRI, including the top three (Edeka Group, Schwarz Group and Rewe Group). The food-anchored nature of DKR's portfolio also helps mitigate its weak tenant diversification.

The pandemic has shown DKR's portfolio to be quite resilient. Tenant bankruptcies have been limited as the pandemic has had no impact on food retailers, and large retail chains (such as DIY retailers and discounters) have benefitted from financial headroom, financial support or insolvency moratoriums. In addition, small tenants, which have been hit the hardest, contribute only a small fraction of DKR's rental income.

We believe the worst of the pandemic's impacts occurred in 2020 and 2021 and the economy is now back on a growth path. Furthermore, DKR's exposure to essential retail somewhat protects its cash flow against any new lockdowns and/or tenant defaults. Consequently, we forecast rental cash flow (from rent abatements or impairments) to drop by only 0% to 5% against contractually agreed rents for FY 2021/22.

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[12] According to our definition, only 8% of GLA qualifies as hypermarket (retail agglomerations in excess of 5,000 sq m with the main tenant operating in food retail or wholesale and occupying more than 50% of GLA)

[13] Non-cyclical includes food retail, DIY, drugstores, bakeries and healthcare

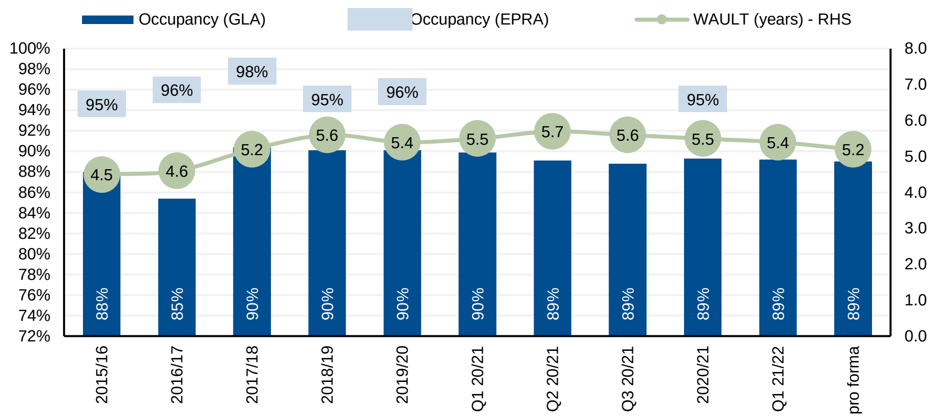
Properties' macro locations expected to lead to higher downside volatility of fair values

We grade the largest part of DKR's portfolio at 'D' (95% of GLA as at end-December 2021), but this is only valid for investors. Hence, the liquidity of these markets is weak. This is amplified by low ticket sizes (around EUR 5.7m on average) that attract fewer investors than properties valued at above EUR 20m (eleven as at end-December 2021). The locations of DKR's portfolio appeal[14] to tenants, especially the retail parks and local retail centres, which benefit from limited competition with strict rules for zoning and planning. This ensures existing food retail locations remain viable.

Occupancy expected to remain around 90% due to acquisition strategy

DKR has benefited from a relatively stable occupancy rate of above 85% (based on GLA) since its inception in 2014. That figure improved to around 90%[15] at the end of June 2018 following the refurbishment of retail space and more stable (higher occupancy) portfolio additions. We expect no material reduction in vacancy rates going forward, given that DKR's acquisition strategy focuses on properties with significant vacancies. Occupancy will therefore remain at around 90%. This is based on our expectation of vacancy reductions due to new leases from newly refurbished properties and new area concepts, offset by higher vacancies from acquisitions, unless DKR changes its aggressive growth policy. Nevertheless, we believe the current occupancy rate can ensure the future stability of rental income, supported by the improving weighted average unexpired lease term (WAULT) of 5.4 years as at end-December 2021.

Figure 5: KPIs of DKR's portfolio



Sources: DKR, Scope

Profitability in line with peers, benefiting from economies of scale

Profitability is stable and high, with past Scope-adjusted EBITDA margins close to 70%. These high levels are due to economies of scale, with small overheads justified by larger lot sizes compared to, for example, residential properties. The Scope-adjusted EBITDA margin was stable at 65% in FY 2020/21 as a consequence of the pandemic's limited adverse impact on cash flow (rent collection at 98%). However, an improvement in profitability was held back by a strong increase in non-recoverable service charges (up EUR 4.8m YoY) due to adjustments for expenses from prior periods and revised estimates regarding rechargeable costs. These one-off effects are expected to fade in FY 2021/22 according to the company. However, we estimate profitability, as measured by the Scope-adjusted EBITDA margin, will remain between 65% and 70% in FY 2021/22 (last 12 months to end-December 2021: 66%). This follows our understanding of a growing cost base meeting more sluggish portfolio growth. Nevertheless, we expect

[14] Location determined by population, purchasing power, retail centrality in property-related catchment area (drive-time of 5-15 minutes)
[15] Economic occupancy (according to EPRA calculation) at 95% as at end-September 2021; the large gap between GLA based and economic vacancy signals bad surface cuts with poorly accessible areas, likely driven by the portfolio's economic age, meaning increased capex expected

margins to remain stable, reflecting DKR's overall cash flow resilience despite the accelerated transformation of European retail due to the pandemic.

Financial risk profile: BBB-

Debt protection expected to remain strong going forward

The company has benefited from high Scope-adjusted EBITDA interest cover of above 3x since the financial year ending 30 September 2016. The main drivers have been: i) low indebtedness, with SaD of EUR 560m as at end-December 2021 (up 22% YoY); ii) a generally favourable interest rate environment, with the ECB's quantitative easing programme, which started shortly after DKR began operations in late 2014, leading to a low weighted average cost of debt (1.9% as at end-December 2021; unchanged YoY); and iii) an acquisition strategy aimed at properties producing cash yields of around 10% from day one.

Scope-adjusted EBITDA interest cover is unlikely to weaken below 3x despite an anticipated increase in indebtedness to expand the asset base. This is predominantly supported by the company's intention to adhere to regulation-driven caps on LTV ratios (55%) and by stable operating cash flow, which is assured by minimal exposure to income-producing real estate with moderate occupancy and industry-average WAULTs.

Execution of aggressive growth strategy depends on availability of external financing

Since the company's founding, its operating cash flows (including Scope-adjusted EBITDA and Scope-adjusted funds from operations) have increased in line with asset growth. Scope-adjusted free operating cash flow is expected to remain at break-even despite a likely increase in the dividend and capital expenditure (DKR only executes the latter if cash yield exceeds 7%). Nonetheless, we see an increased risk of higher-than-expected capex, due either to the limited opportunities to invest available funds of around EUR 46m as at end-December 2021[16] in high-yielding properties[17] or to aging properties that need significant refurbishment to adapt to a need for more space or higher quality as demanded by tenants' customers.

Inorganic growth, however, has led to acquisition capex burdening cash flow at between EUR 62m and EUR 255m per year. This has been financed externally with EUR 223m in capital increases and EUR 610m in debt issuances (net) from the company's founding until end-December 2021. Given that the company aims to acquire more assets, we expect acquisition capex of between EUR 100m and EUR 150m per year going forward. (Notarised acquisitions – yet to be transferred – account for EUR 44m, and the current acquisition pipeline amounts to between EUR 100m and EUR 150m). We do note, however, that the company could cease acquisitions immediately if access to external financing were to weaken. We believe access to external financing will remain solid based on the low risk of DKR's property types and its expanded access to capital markets with a recent listing on the Johannesburg Stock Exchange. We understand that DKR's main shareholder is willing to dilute its holding to enable new parties to invest in DKR. The company has also taken advantage of the recent narrowing of capitalisation rates to dispose of mature assets, with the proceeds having been used to reinvest according to its investment criteria[18].

Note: G-REIT status allows the company to benefit from tax exemption at the cost of dividend payments that reflect 90% of its German GAAP results. Hence, dividends are not discretionary and are incorporated in DKR's free operating cash flow.

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[16] EUR 7.6m (investments in loans originated by Creditshelf); EUR 66.7m (lent to main shareholder); EUR 10m (loan agreements signed on properties to be transferred); less than EUR 44m in payments due under purchase contracts

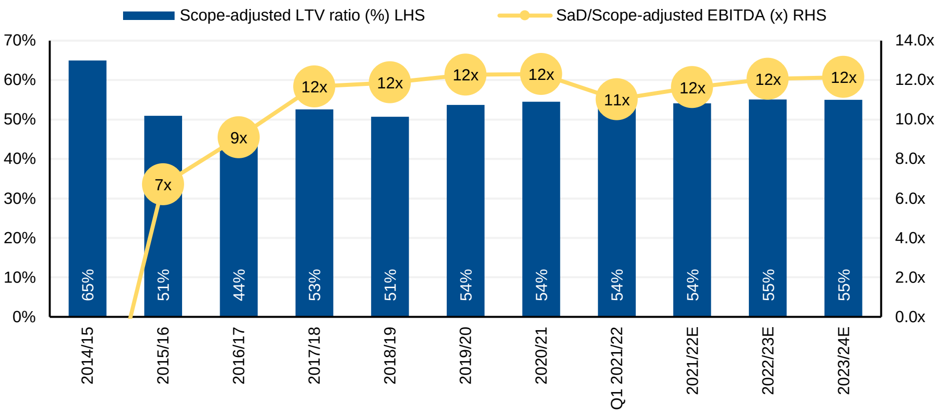
[17] Capitalisation rates for small boxes (supermarkets) are narrowing, leading to scarcity of products in line with DKR's acquisition criteria.

[18] 10 properties (valued at EUR 70m as at end-June 2021 with an exit yield of 5.3% and a portfolio yield of 7.5% as at end-December 2021) have been sold but not transferred yet (cut-off 31 Dec 2021). 10 other properties (EUR 38m) have been acquired until end-December 2021 but have yet to be transferred.

Scope-adjusted LTV ratio expected to remain below 55%; REIT status limits indebtedness

Leverage, as measured by the Scope-adjusted LTV ratio, remained stable at 54% as at end-December 2021 (up 1pp YoY), in line with our expectations. In Europe, the pandemic accelerated the sector's transformation to e-commerce and omni-channel models. As a result, more shops will struggle to survive, and defaults will rise. However, CRE companies with high exposure to tenants selling essential goods will remain relatively resilient in terms of cash flow, rental growth expectations and, thus, property values.

Figure 6: Leverage



Sources: DKR, Scope estimates

Consequently, we anticipate no immediate drop in DKR's property values. Potential increases in the Scope-adjusted LTV ratio due to the company's expansion strategy are expected to be addressed by an increase in either equity, asset disposals or fair value uplifts from improved rental growth prospects.

As G-REIT regulations allow a maximum LTV ratio of 55%, we expect no further deleveraging. The company intends to keep leverage at around 50%, backed by its internal financing capabilities of around EUR 46m as at end-December 2021 and capital increases. The latter will, however, depend on the availability of acquisition targets.

Leverage of around 12x supported by high rental yield of around 10%

The leverage ratio of SaD/Scope-adjusted EBITDA has tended to fluctuate between 9x and 12x (12 months to end-December 2021: 11.7x). This reflects DKR's low indebtedness, with acquisitions financed with around 50% equity, and the acquired assets' high cash yields of around 10%. We believe leverage will remain at 12x but will be somewhat volatile, depending on the timing of acquisitions and the corresponding Scope-adjusted EBITDA contribution.

Adequate liquidity

Liquidity will continue to be burdened by a high share of short-term debt. This will be exacerbated in FY 2021/22 by the mandatory dividend payments for gains on disposals. Nonetheless, sources of liquidity (unrestricted cash of EUR 1m as of 30 September 2021 and Scope-adjusted free operating cash flow forecasted at EUR 69m) fully cover short-term debt of EUR 54m as at end-September 2021, while liquidity will fall below par in 2022/23.

Position in EUR m	2021/22E	end-December '22	2022/23E
Unrestricted cash (t-1)	0.7	2.7	1.0
Open committed credit lines (t-1)	0.0	0.0	0.0
Free operating cash flow[19]	68.8	74.1	-1.8
Short-term debt (t-1)	53.8	118.2	90.9
Coverage	**129%**	**65%**	**negative**

[19] Includes notarised asset disposals.

However, we believe liquidity risk is manageable for DKR in the short-to-medium term due to headroom provided by fully unencumbered investment properties (EUR 55m as at end-December 2021). In addition, DKR benefits from: i) a revolving, undrawn EUR 25m credit facility provided by its main shareholder; ii) EUR 8m of investments in loan facilities (callable at any time, with funds released within 14 days) as at end-December 2021; and iii) a EUR 67m portfolio of short-term loans to associates as at end-December 2021 that can be called at any time. The requirement to keep LTV ratios under 55% to maintain G-REIT status supports access to external financing through the cycle.

Supplementary rating drivers: +/- 0 notches

DKR provides loans to its main shareholder under a credit line with a maximum amount of EUR 95m. The recent utilisation (EUR 67m lent to Obotritia as at end-December 2021) is due to a decline in transaction volumes for German CRE while competition for food retail properties intensified. As a result, DKR has only acquired twelve properties since end-September 2020. Proceeds from a EUR 40m bond issued in March 2020 and a EUR 51m capital increase in May 2020 are mostly unutilised.

We see limited risk related to the current use of lending lines. This follows our understanding that DKR will acquire properties using funds lent to Obotritia as they can be withdrawn at any time. In addition, exposure to operations not related to real estate is limited. According to G-REIT regulations, at least 75% of revenues and total assets (IFRS) must relate to investment properties (DKR: 85% as at end-December 2021). However, we would see increased risk if a significant amount of cash continued to be extracted from this intercompany loan to shore up the credit position of Obotritia or other group companies.

DKR has no dedicated ESG strategy, with most requirements either stemming from or directly implemented in tenants' own ESG strategies. However, we see a need for a more pro-active approach by DKR to address key ESG-related risks ahead: i) risk of stranded assets (especially for aging single-purpose properties); ii) social equity (incorporation of local retail, accessibility of properties, etc.); and iii) regulatory risk (changing requirements for existing stock regarding energy efficiency could lead to higher capex).

Long-term debt ratings

Senior unsecured debt rating: BBB-

Our recovery analysis for senior unsecured debt signals an 'above-average' recovery. This is based on a hypothetical default scenario in FY 2023/24 with a company liquidation value of EUR 728m, including a haircut applied to assets, reflecting a BBB category stress according to our methodology, and liquidation costs of 10% for insolvency proceedings. This compares to EUR 580m of secured financing (forecasted), a fully drawn unsecured credit line of EUR 25m, and EUR 37m in unsecured convertible bonds, EUR 140m in senior unsecured bonds and EUR 30m in Schuldschein loans. DKR's Scope-adjusted unencumbered asset ratio amounts to 1.5x at end-December 2021 but is anticipated to improve back to above 167% following the execution of the already-signed disposals, allowing for an uplift of the debt class rating to the 'BBB category' according to our methodology.

Senior secured bond rating: BBB

DKR issued a EUR 40.0m bond in May 2018 with a six-year term (2018-24) and a coupon of 1.80% (ISIN: DE000A2G8WQ9). This bond benefits from a first-ranking mortgage on 15 properties valued at EUR 95.6m as at June 2021. The structure's over-collateralisation is adequate, with an issue-specific LTV ratio of 42%. This positively influences recovery rates in a default scenario. According to our methodology and based on discounts on assets (as described above), we expect a 'superior' recovery in a default scenario, thus allowing for a two-notch uplift on the issuer rating of BB+.

Appendix: Peer comparison (as at last reporting date)

	Deutsche Konsum REIT-AG	Klépierre S.A.	Unibail-Rodamco-Westfield S.E.	NEPI Rockcastle Plc	Globe Trade Centre S.A.
	BB+/Stable	--/--*	--/--*	--/--*	BBB-/Stable
Last reporting date	31 Dec 2021	31 Dec 2021	31 Dec 2021	31 Dec 2021	30 Sep 2021
Business risk profile					
Scope-adjusted total assets (EUR m)	1,040	21,122	52,220	6,099	2,596
Portfolio yield	5.4%	5.2%	4.2%	6.8%	6.9%
GLA (thousand sq m) [20]	1,023	5,342	9,453	2,014	854
Number of residential units	n/a	n/a	n/a	n/a	n/a
Countries active in	1	12	12	9	6
Top three tenants (%)	33%	6%	n/a	12%	9%
Top 10 tenants (%)	48%	12%	10%	24%	22%
Office (share NRI)	n/a	n/a	3%	1%	65%
Retail (share NRI)	100%	99%	95%	98%	35%
Residential (share NRI)	n/a	n/a	n/a	n/a	n/a
Hotel (share NRI)	n/a	n/a	n/a	n/a	n/a
Logistics (share NRI)	n/a	n/a	n/a	n/a	n/a
Others (share NRI)	n/a	1%	2%	0%	n/a
Property location	'B'	'A' to 'B'	'A'	'B'	'B'
EPRA occupancy rate (%)	95.1%	94.7%	93.0%	96.0%	91%
WAULT (years)	5.4	4.7	5.5	3.6	3.4
Tenant sales growth (%)	n/a	10.0%	6.0%	23.9%	n/a
Like-for-like growth rents (%)	1.7%	6.9%	-1.2%	13.0%	n/a
Occupancy cost ratio (%)	n/a	12.6%	15.5%[21]	13.0%	n/a
Scope-adjusted EBITDA margin	66%	73%	69%	81%	85%
EPRA cost ratio (incl. vacancy)	36.0%	19.9%	25.1%	8.3%	n/a
EPRA cost ratio (excl. vacancy)	32.5%	17.5%	21.4%	8.2%	n/a
Financial risk profile					
Scope-adjusted EBITDA/interest cover	4.4x	6.9x	2.6x	5.8x	3.4x
Scope-adjusted LTV ratio	54%	40%	52%	30%	54%
SaD/Scope-adjusted EBITDA	11.7x	10.4x	17.1x	5.7x	13.5x
Weighted average cost of debt	1.9%	1.2%	2.0%	2.4%	2.1%
Unencumbered asset ratio	147%	> 200%[22]	190%	> 200%	155%
Weighted average maturity	3.3 years	7.0 years	7.6 years	3.7 years	5.0 years

* Subscription ratings available on ScopeOne.

Sources: public information, Scope

[20] Unweighted GLA
[21] As at 31 December 2019
[22] According to Scope calculations

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