

Corporate Profile

The French real estate developer S.C.A. Réalités (cons.) was founded in 2003 and is a limited company as a Société en Commandite par Actions (S.C.A.) with board directors and with its headquarters located in Nantes, Saint-Herblain, France. Réalités is a developer of new private residential real estate in the west of France and owns five agencies which are spread from Brittany and Charente Maritime to Pays de la Loire.

Result

Corporate Rating:	BB-
Outlook:	stable
Sector:	Real estate development
Date of rating committee:	May 6 th , 2013
Monitoring:	monitored

Analyst

Matthias Koch	(Lead Analyst)
E-Mail	m.koch@scoperatings.com
Jan-Hein Peek	(Corporate Analyst)
E-Mail	j-h.peek@scoperatings.com

Rating Rationale (Summary)

Scope Ratings evaluates the financial stability of the French real estate developer S.C.A. Réalités (cons.), herein after referred to as Réalités, with a corporate credit rating of BB-. For the execution of the analysis Scope applied its corporate rating methodology which evaluates qualitative and quantitative criteria for the rating assessment. The main weakness of the evaluated group is its financial situation, notably its asset protection, profitability and liquidity. Despite significant growth in turnover (+41%) between 2011 and 2012 the ratio stocks versus turnover worsened between 2011 and 2012 due to significantly increased inventories (+73%) in the same period. Profitability was low. The equity ratio decreased from reasonable 21,9% in 2011 to 17,4% in 2012. The overall liquidity ratios are of medium to low quality. The group has accumulated short-term debt during the evaluated period, which has led to a deteriorating cash ratio. Réalités has nevertheless a strong order backlog of about 73,6 mill. EUR by end 2012, which indicates relative stability of the group in the short-term. The quality of its management structure is very high combined with a strong HR policy, taking into consideration the size of Réalités with 61 employees. To reinforce sales, the group has a well established and innovative marketing strategy with its own subsidiary Réalités.com. The rating outlook is stable due to positive forecasts for the current year that indicate growth in turnover of more than 20% with a positive result.

Rating Drivers (Summary)

Strengths	Weaknesses
High level of order backlog	Weak financial situation with a decreasing tendency
Growth in turnover despite of declining markets	Decline in new housing market in relevant areas
Well documented processes and IT-infrastructure	Profitability is highly dependent on the sales channel
Flexible and strong sales structure and process	Short-term adjustments of strategy bears risks
Well-experienced management	

Financial Indicators

In Thsd. EUR	2011	2012
Shareholders' equity	16.031	19.495
Equity ratio	21,9%	17,4%
Total assets	73.239	112.170
Turnover	29.922	42.120
Return on sales (post tax)	4,2%	1,5%
Return on shareholder equity (post tax)	7,8%	3,2%
Return on total capital employed	2,4%	0,9%
Result from ordinary activities	1.773	618
Extraordinary result	-	-
Cash Flow (operative)	-26.462	-27.496
Cash Flow-Margin	-88,4%	-65,3%
Net income	1.251	623

Rating Rationale

Weak financial situation with a decreasing tendency but strong order backlog

The group's main weakness is its financial situation in terms of asset protection, profitability and liquidity. Scope negatively assesses the company's high capital commitment in stocks. Despite the significant growth in turnover (+41%) since 2011, the ratio stocks versus turnover has worsened over the regarded period, due to significantly increased inventories (+73%) as of December 31st 2012. However, the business model of Réalités requires stock commitments based on current operations, which relativize the related risk evaluated at key date. The company's current stock represents 34 units of various projects and 5 finished apartments which have not been sold as of December 31st 2012. The internal stock forecast shows a reduction to six apartments on stocks by the end of 2013. The important equity ratio decreased from reasonable 21,9% in the previous year to 17,4% in the most recent year 2012 due to the increased balance sheet total resulting from the expansion in stocks. The group possesses a significant turnover growth from 29,9 to 42,1 mill. EUR, but with relatively low profitability. The gross margin decreased from 22,6% in 2011 to 17,3% in the year 2012. Due to the growth in turnover, the cash flow margin improved slightly but still represents an inadequate value, based on the highly negative operative cash flow in both years.

It is noted that the management of Réalités has agreements with all co-investors in their SPVs respectively projects, that the SCCV's capital is reclassified in Réalités' equity. In consequence the equity increased by about 3,5 mill. EUR and the liabilities reduced in the same amount. Furthermore Réalités intends to issue a bond with a volume between 5 to 10 mill. EUR in 2013 and a possible subsequent increase to 11,5 mill. EUR.

The ratios in the category liquidity are of medium to low quality. Due to the significantly increased short term debt, the cash and quick ratio have worsened from 2011 to 2012 and show low values. Nevertheless the high order backlog of about 73,6 mill. EUR on 31st of December 2012 indicates good stability in the short term.

The quantitative analysis is based on the financial statements of the years 2011 and 2012, as of December 31st. After Lexin became shareholder of Réalités the company adjusted its key date in 2010 from April 30th to December 31st.

Strategy

Réalités has a clear strategic approach which is documented in general terms. Due to the adjustment of strategy to a sole real estate developer in 2010 and the highly volatile market, the company has re-adjusted its strategic targets recently. Because of the decline in the relevant market, the objective to develop approximately 1000 units by 2015 has been adjusted to 600 units per year. Scope evaluates the strategic approach as reasonable and positively emphasizes the company's strong focus on targets and short to mid-term goals.

Market dynamics – Decline in new housing market

As described in the previous paragraph, the group generated a significant turnover growth from 2011 to 2012 by 41 percent. With respect to the significant market decline in this segment, Scope positively assesses this aspect. Nevertheless, the decline in the new housing market in Pays de la Loire by 31,7%, in Bretagne by 48,2% and in Poitou

Decreasing and weak French real estate market

Charentes by 27,8% between 2010 and 2012 constitutes a risk. In total the French market recorded a decline of about 27,8% over the same period. The market price fluctuation is moderate in the given industry. In the long-term perspective, the demand is constantly high in western France due to economic and demographic trends (+565 Thsd. inhabitants in Pays de la Loire and 427 Thsd. in Brittany between 2005-2030). Furthermore, customers, especially private property owners respectively first time buyers, could use real estate loans with low rates provided by the state program. Hence there is an existing dependency on political decisions by the French government, especially on provided state programs such as the "Loi Duflot", in which buyers of new private property can make use of tax exemptions of up to 18% of the housing price for a period of nine years.

Processes and IT infrastructure

Réalités has a fully defined, methodical and computerized process organization as well as regular meetings in all departments of the company. All necessary and relevant information are reported and transmitted to the meeting participants. The company has an internal quality management which is well structured and insures the quality management for most of the company's departments. The quality management processes for Réalités, REALITES promotion and REALITES DTO are defined and structured and could be ISO 9001 certified providing a quality advantage against other competitors. For REALITES POINT COM and FONCIERE REALITES the quality management system will be established at the end of 2013. In addition, there is a client satisfaction report as well as a supplier rating to improve the quality of the delivered properties.

The group has a sufficient IT structure using an ERP system (enterprise source planning system) and is based on a reliable and scalable network architecture. The company uses a multitude of software like docalys or easyfolder to control the sales, the development, the accounting, the financial and the marketing processes. Réalités has a good IT security level.

Scope evaluates the processes, quality management and the IT-infrastructure as adequate in view of the company's size.

Sales structure and Marketing

The sales structure is well defined and divided into two main categories which are *bloc sales* (54% of the total sales) and *sales unit by unit* (46% of the total sales). The bloc sales are done for two reasons. First there is a French law obligation to sell a minimum of 20% as social housing. Second, selling the developed houses in blocs is a strategic choice to decrease the sales risk, even if this type of sales is not as profitable as individual sales. The unit by unit sales are more profitable. That's why the group focuses on enhancing these sales channels by choosing a multi-channel strategy. This strategy is based on selling the units internally through the 5 Réalités agencies and the website as well as by external sales partners. In 2012 54% of distributions was carried out by Bloc sales, 28% by internal sales and 18% by partner sales. The turnover is divided into projects sold to investors by 26%, to owners or second housing by 20% and to Bloc sales by 54%. Furthermore the company minimizes its sales and project risk by a ratio of presales of 40% before starting projects respectively constructions.

Documented processes and quality management

Adequate IT structure and good security level

Well defined sales structure, but lack of profitability

Innovative Marketing Strategy

To reinforce sales, the group has a well established marketing strategy with its own subsidiary Réalités point com. This subsidiary is working on innovative publicity and sales channels. As an example for the innovation, Réalités point com created an App for smartphones and tablets in which you can view the developed houses in 3D. This marketing strategy supports the company's stability.

Management, Human Resources policy

Focus on employee development and satisfaction

The company currently has 61 employees which corresponds to a growth rate of 10% from the last regarded year. Thereof 26 employees belong to the management. Réalités regularly provides an internal training to all employees of the company. The employees can discuss their training needs and are supported in the development of their workplace throughout their career with Réalités. The organization of the training programs is documented and organized under a specific internal process. The recruiting process is well organized and documented and the company employs different processes for the recruitment of new employees. The qualitative rating result was positively influenced by the high quality of the management combined with a strong focus on the company's human resources policy, especially with regards to the size of Réalités.

Rating Outlook

The internal figures of the group for the current year 2013 again show a growth in turnover by more than 20% and a positive result. Furthermore the strong order backlog of about 73,6 mill. EUR indicates a good stability in the short-term. These facts indicate a robust short-term development of the group and underline the STABLE outlook.

The issuer (rating object) and its markets

The company Réalités was founded and registered with the trade and companies registry of Nantes in December 2003. The French company Réalités is a company limited by shares as a société en commandite par actions which is a French legal structure with two types of partners (limited partners and general partners) governed by French law and subject to Article L226-1 du Livre II of the French commercial code in respect of its operations. In 2003 Yoann Joubert, Christophe de Brébisson and Jean-Michel Iépinau founded Groupes Réalités as a housing developer who builds and sells properties in the northwest of France.

In 2010 Réalités changed its strategy and stopped the building business being a sole real estate developer with 5 subsidiaries.

The company develops and sells properties in the northwest of France. Réalités is specialized in the realization of properties for collective or individual home ownership. The expertise of the group extends also to the development of residences (tourism, elder people), social housing, second housing and institutional sales. The breakdown of the sales by type of operations shows 82% of the units sold are done with owners and investors, 10% by managed residences and 8% second housing.

Réalités operates only in the northwestern market of France with 5 sales agencies and its headquarters in Nantes. The geographical focus extends from Brittany to Charente Maritime passing by Pays de la Loire. The French real estate market is actually facing economic restrictions with decreasing demand and decreasing prices. There are increasing legal pressures in France to build with new environmental standards that imply higher building costs for promoters. That specific factor has an impact on profitability in the sector.

Methodology

This rating assessment of Scope Ratings is based on the rating agency's corporate credit rating methodology. This methodology is executed by the analysis of quantitative and qualitative criteria. The corporate credit rating methodology is validated on a yearly basis. The weighting between the quantitative and the qualitative assessment is set at 70:30 as standard ratio. The final rating notation follows a scaling according to international standards.

An adjustment in the notation is done by the addition of "+" and "-" to the rating score. In addition, the outlook indicator and rating action indicators can be added according to methodology's description published on the rating agency's website. These adjustments and indicators substantiate the rating results, provide a higher level of diversification and secures the comparability of rating results of miscellaneous rating objects.

The analysis of quantitative input factors is based on annual statements of historical financial years which results in a ratio analysis. The quantitative criteria are divided into asset, earnings and liquidity ratios which lead to a fundamental analysis of the financial stability of the rating object.

The qualitative criteria are based on both external factors such as industry and market position, the regulatory environment as well as internal factors such as strategy, management, staff, organization and processes, planning and control, and financial policy. The qualitative characteristics of the company are determined by using a structured questionnaire. The data acquisition is carried out in form of an interview with the company's management and senior staff. The weighting of each question is predetermined by the methodology and depends on the company's sector.

Finally, the rating score is calculated from the resulting quantitative and qualitative criteria and subjected to a final determination by the rating committee. Deviations with respect to standard weightings are possible only in exceptional cases (ex. restructuring phases or start-up situations) and do also require the consent of the rating committee.



Rating Agency

Company

Scope Ratings GmbH
Lennéstraße 5
D - 10785 Berlin

Phone +49 (0) 30 / 27 89 1-0
Fax +49 (0) 03 / 27 89 1-100

info@scoperatings.com
www.scoperatings.com

Managing Director: Thomas Morgenstern
Charlottenburg District Court HRB 145472
VAT ID Number DE 222618588

Analysts

Primary Analysts

Matthias Koch (Lead Analyst)
E-Mail m.koch@scoperatings.com

Jan-Hein Peek (Corporate Analyst)
E-Mail j-h-peek@scoperatings.com

Committee

Thomas Morgenstern (COO)
Phone +49 (0) 30 / 27 89 1-0
E-Mail t.morgenstern@scoperatings.com

Guido Nölke (Analyst)
E-Mail g.nölke@scoperatings.com

Information sources

- Business plan until 2015
- Terms and Conditions
- Consolidated financial statements 2010-2012
- Selected quality documents and contracts
- Direct information management

Implementation

- The analysis was independently prepared by the Scope Rating GmbH after the assignment.
- The client was allowed to inspect the analysis before the publication and to give an opinion.
- During the implementation of the rating, the analysis was based on the valid rating methodology for corporate ratings of the Scope Ratings.
- The rights of publication are the exclusive property of the Scope Ratings.

Business relations

- At the time of the analysis, there are no shareholdings of Scope Ratings on the client or direct and indirect shareholdings on a client's related company. Likewise, there are no shares of the client and no direct or indirect shares of a client related company on Scope Ratings.
- The analysts involved in the analysis and the management of Scope Ratings do not have any shares of the issuer.
- Neither Scope Ratings nor its affiliates are involved in the procurement of new issues analyzed products or involved in the sale of this product.

Disclaimer

The present document was prepared by the European rating agency Scope Ratings as part of a rating. This document is thereby subject to the provisions of EU Regulation No. 1060/2009 of the European Parliament and of the Council. Based on these regulations Scope Ratings GmbH limits the possible uses of this document by the following provision: the disclosure of the rating documents, including in parts, is only permitted on written authorization from Scope Ratings. All evaluations undertaken in this report are based on statements, documents and information which were made available by the rating object or its milieu. The rating was prepared with the greatest possible care and to the best of Scope's knowledge. The content and result however merely represent an expression of opinion by Scope. No liability is accepted for decisions taken on the basis of the rating report and their possible damages