MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Citycon's ratings to Baa2; stable outlook

Global Credit Research - 30 Jul 2014

London, 30 July 2014 -- Moody's Investors Service has today upgraded to Baa2 from Baa3 the senior unsecured long-term issuer rating of Citycon OYJ and the instrument rating of its EUR500 million 3.75% senior unsecured notes due 2020. The outlook on all ratings is stable.

RATINGS RATIONALE

"The upgrade of Citycon's issuer rating to Baa2 reflects the company's continuing strong operating performance, with positive levels of consumer confidence in the Nordics and an improving level in Estonia, which should support at least modest growth in retailing and, by extension, Citycon's performance in 2014-15", said Lynn Valkenaar, Moody's Vice President and lead analyst on the company. "In addition, Citycon will achieve a significant strengthening of its financial metrics following the application of EUR300 million of the proceeds from its recent equity raisings (in June and July 2014) to reduce indebtedness", adds Ms. Valkenaar.

Citycon's Baa2 rating primarily reflects its recurring rental income with inflation-indexed leases. The company has pursued a successful strategy of investing in and managing shopping centres offering grocery- and necessity-driven retail based in growing urban locations, dominant in their catchment area, close to public transportation and located primarily in Finland, Sweden and Estonia. The company's solid cash flow is supported by high average occupancy rates, reported at 95.7% as of 30 June 2014. Moody's expects that Citycon will maintain high occupancy levels, particularly because the cost of occupancy for its tenants is at affordable levels. This expectation is supported by the positive consumer sentiment indices in the Nordic countries and despite Moody's forecast of sluggish GDP growth for Finland in 2014 (0.2%).

Citycon has more flexibility over the disposition of its cash resources than many industry peers because it is not a real estate investment trust (REIT); cash can be used to manage leverage and capital expenditure rather than pay obligatory dividends according to REIT tax rules. The company has deleveraged over the past four years, with growth being supported by its shareholders. Citycon executed two equity raisings in the first half of 2014, totalling EUR400 million, of which around EUR300 million of the proceeds will reduce indebtedness, thereby improving its financial flexibility, and EUR100 million will fund select acquisitions and redevelopments.

Citycon is somewhat smaller in scale, as measured by gross assets, compared with other Baa2-rated European real estate companies, but its financial metrics are in a similar range. As of the first half (H1) 2014 ending 30 June, the company's effective leverage, as measured by adjusted debt/gross assets, was moderate at 42% (H1 2013: 52%) and fixed charge coverage for the last 12 months to 30 June 2014 was a healthy 2.5x (LTM 30 June 2013:2.3x), as measured by recurring EBITDA/gross interest expense + ground rents (all financial data as adjusted by Moody's).

Citycon exhibits an adequate liquidity profile, underpinned by the steady generation of recurring cash flow and ample availability under its sizeable and long-dated revolving credit facilities (RCFs).

As of 30 June 2014, the company had total cash resources of EUR402.1 million, comprising EUR22.1 million in available cash and cash equivalents and EUR380 million undrawn under its various committed RCFs. Moody's expects that these resources will more than cover cash outflows anticipated over the next 12-18 months. The final maturities of its revolving credit facilities range from 2016 to 2019. and are subject to financial covenant compliance. Moody's considers the current headroom under the company's financial covenants to be comfortable, at 34.1% for the equity ratio and 31% for the interest coverage ratio in the covenant test as at 30 June 2014. Nevertheless, because all four facilities contain repeating material adverse change language (MAC clauses), Moody's regards the reliability of external liquidity sources with caution.

Citycon's near-term debt amortisation profile is amply covered by its cash resources, with only EUR150 million due for repayment in the next 18 months. However, the average debt maturity of 3.8 years is relatively short compared with that of other European real estate peers.

The company manages its currency risk by using natural hedges where possible and its interest rate hedging policy is to fix 70%-90% of its interest rate exposure. As at 30 June 2014, 85.7% of its interest rates were fixed. In addition, all of Citycon's on-balance sheet property assets were unencumbered as of 30 June 2014 (approximately EUR2.7 billion) providing a potential source of alternative liquidity.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook on the ratings reflects Moody's view that (1) the countries in which Citycon operates will experience modest economic growth in 2014, which will support tenant demand for retailing space; and (2) Citycon will maintain high occupancy rates and its inflation-indexed leases will contribute towards growing operating profits; and that (3) the company will maintain an adequate liquidity profile at all times.

WHAT COULD CHANGE THE RATING - UP/DOWN

Positive pressure on the ratings is unlikely in the near term. The ratings are currently constrained by Citycon's moderate size and diversification, with some income concentration risk to its anchor tenants. However, upward rating pressure could start building as the company continues its careful expansion and as a result of an improvement in credit metrics, with reduced leverage maintained in the mid-30s (percent), or lower, and fixed charge coverage rising sustainably above 3.x.

Conversely, downward pressure could result from an adverse deviation in operating performance or other factors that result in a deterioration in fixed charge coverage or leverage metrics, specifically fixed charge coverage trending towards 2.2x or effective leverage rising above 45%. Negative rating pressure could also result if we become concerned about Citycon's liquidity or a deteriorating trend in the company's covenant headroom develops.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was the Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Citycon is a listed real estate company registered in Finland. Citycon's three largest shareholders are Gazit Globe, an Israeli investment company with a 42.2% stake, Canada Pension Plan Investment Board European Holdings with 15% and Ilmarinen Mutual, a Finnish pension fund that owns 7.6%. Citycon reported last 12 months net rental income of EUR170 million and total assets of EUR3.1 billion at 30 June 2014.

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For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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