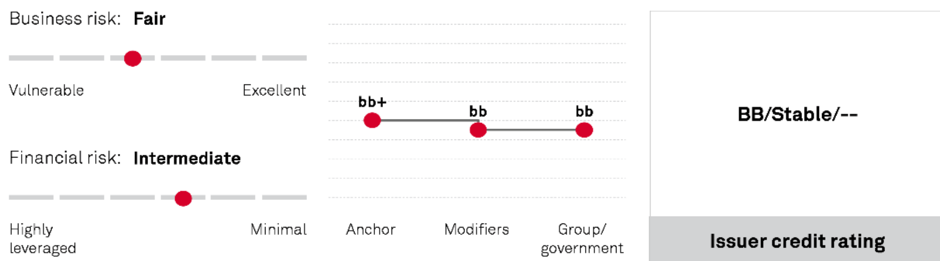
Vivion Investments S.a.r.l.

November 2, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Long average lease maturities with over 11 years and inflation-linked fixed leases for both, its hotel and office assets, supporting rental income growth in the current inflationary environment.	Market uncertainties could put pressure on occupancy levels and valuations for its U.K. hotel and German office properties. These segments are affected by macroeconomic growth prospects, such as household consumption, tourism trends, geopolitical issues, and currency movements.
Moderate portfolio size of about €3.7 billion as of June 30, 2022, with good asset localization, mainly in or close to metropolitan areas, where demand is more favorable compared with regional or rural hubs.	Relatively short average debt maturity of around 2.7 years as of June 30, 2022, which we expect to improve in the short term as the company is currently under process to refinance the 2023 maturities and prolong its average debt maturity profile.
Relatively low leverage as of June 30, 2022, with debt to debt plus equity of 36.4%, supported by significant equity contributions	A financial policy that allows the loan-to-value (LTV) ratio to increase to 60%.

from its shareholders in the past and asset disposals.

We understand that Vivion has settled almost all outstanding positions with Aggregate Holding S.A. In 2021, Vivion sold assets to Aggregate and part of the sale was settled in traded and non-traded bonds. Considering the subsequent fragile financial situation of Aggregate, timing and amount of the financial receivables became uncertain for Vivion. We understand that in March 2022, Vivion managed to dispose the outstanding position of nontraded bonds to a Europe-based asset manager with a small discount (about €11 million) against a total consideration of €321 million (book value of around €332 million) and received an immediate cash payment of about €112 million. The remaining amount of €209 million is deferred until year-end 2022 with an annual interest of 2.0% and we expect no further delay in closing the deferrals. The traded bond transaction (nominal value €220 million) settled through the acquisition of two assets of Quartier Heidestrasse (QH Core and QH Spring) from Aggregate (both noncash) with a net asset value of €220 million (adjusted for related outstanding debt), and located in Central Berlin. The assets are newly built and income producing with gross asset value of about €456 million and an initial yield of about 3.0%. Although the transaction did not deteriorate Vivion's operational performance, nor its credit metrics, and it was backed by a security package, we do not regard such transactions, resulting in settlement with financial assets, deferred payments, and financial receivables, as best market practices and believe they could raise questions as to the company's corporate policies.

Vivion has re-invested part of its disposal proceeds to acquire mostly office assets in Germany, and still has a large cash position. Vivion acquired assets in Berlin worth €338 million (100% consolidated) during the first half of 2022, which we believe will contribute around €11 million of annualized rent, and most of the assets are good quality and located close to city center. We understand that the company plans to reinvest the cash proceeds in good-quality, income-generating assets, mainly offices in Germany, which we expect would grow its absolute EBITDA and cash flow base, and part for debt repayment. Our base case incorporates the acquisition of up to €500 million of assets during the 2023 and around €300 million in 2024. Although, we have included acquisitions in our base case, we remain uncertain around the timing and manner of the execution because the overall macroeconomic environment is weakening, which increases uncertainty on asset pricing and its long-term profitability.

We expect Vivion's operating performance to remain stable, despite economic pressure, benefiting from a resilient tenant base, long-term leases, and inflation-linked rental contracts. In the first half of 2022, Vivion's revenue grew by 12% year over year, mainly supported by new rental agreements in the German portfolio, indexation of existing leases and new acquisitions. The occupancy for German assets declined slightly to 90% from 91% as of June 30, 2021, but hotel occupancy remained stable at 100%. The rent collection also continues to improve with 90% for the first half of 2022 versus 87% during 2021. All of U.K. leases and over 90% of German leases are either inflation indexed or having step-up rent components; therefore, we forecast a positive like-for-like rental growth of about 2.0%-3.0% in 2022 and 2.0%-2.5% in 2023, assuming stable occupancy for the overall portfolio. We believe its long-term office leases (weighted average 7.0 years) with public and blue-chip companies and hotels (weighted average 13.4 years) and with well-known operators enable stable and predictable cash flow generation. However, a potential economic recession, combined with cost-saving initiatives and potential reduction of required office space, represents a higher threat for further operational growth for office real estate landlords, and slowing demand could impact occupancy levels and rental income over the next two to three years. REITs might also invest less in asset acquisitions, partially driven by increasing costs for construction raw materials and energy supply prices, leading to lower profitability and flat-to-negative asset valuations in future.

We expect Vivion's credit metrics to remain well within the rating thresholds, despite our expectations of some negative revaluation in 2023. As of June 30, 2022, Vivion's debt to debt plus equity stood at 36.4%, excluding financial assets of about €209 million. We forecast that this ratio will remain around 40% as the company converts these financial assets into cash to fund its acquisition pipeline; hence, we don't expect Vivion's gross debt to increase significantly in next 12-24 months. The overall portfolio valuation was flat as of June 30, 2022, and we expect the same for full-year 2022, turning somewhat negative around negative 2% to negative 5% for 2023, due to widening capitalization rates, which partially mitigated by positive cash flow generation from indexed rental growth. We also expect Vivion's EBITDA interest coverage to remain around 2.2x-2.4x in the next 12-24 months (2.3x in first-half 2022) as we assume that the company would grow its cash flow base with acquisitions, balanced by higher interest costs for refinancing upcoming maturing debt. At the same time, we expect Vivion's net debt to EBITDA to increase between 10x and 11x in the next 12-18 months from 8.7x as of June 30, 2022, as the company utilizes cash for asset acquisitions. That said, we recognize that our forecasts for Vivion's credit metrics could deviate from our base case if the company delays or modifies the execution of its acquisition pipeline. We further note that its average debt maturity of around 2.7 years as of June 2022 is relatively low and may put pressure on its rating in the coming months if the company is not able to address 2023 and 2024 maturities in a timely manner. Vivion's liquidity remains good, as the company has strong cash and cash equivalents of €722 million as of the second quarter of 2022, which would be more than sufficient to cover the next 18 months' maturities (about €4.0 million in fourth-quarter 2022 and about €323 million in 2023).

Outlook

Our stable outlook indicates our expectation that Vivion's operational performance should remain stable, thanks to its inflation linked rental contracts for most of its leases. At the same time, we expect that Vivion will deploy the cash and proceeds from the asset disposals to increase its German property portfolio over the next 12-24 months. Our outlook also reflects the headroom in Vivion's credit metrics at the current rating.

Downside scenario

We would downgrade Vivion if, on a prolonged basis:

- EBITDA interest coverage did not remain above 1.8x;
- Debt to debt plus equity did not remain below 60%;
- Liquidity deteriorated due to the company signing up to acquisitions that it did not fully back with committed funding sources; or
- Vivion's operating performance, including occupancy rates, rental growth, and asset values, deteriorated materially because of ongoing effects from the weakening economic environment.

Upside scenario

We would upgrade Vivion, if, on a prolonged basis:

- EBITDA interest coverage improved above 2.4x;
- Debt to debt plus equity remained below 50%; and
- Vivion adopted a more conservative financial policy consistent with these ratios.

We could also consider a positive rating action if Vivion:

- Increased the scale, balance, and diversity of its property portfolio significantly; and built a track record under its newly established corporate structure of delivering robust operating performance and increased occupancy levels in the German portfolio.

Our Base-Case Scenario

Assumptions

- Real GDP of 3.2% in the U.K. and 1.5% in Germany in 2022, followed by growth of 1% in the U.K. and contraction of 0.3% in Germany in 2023. We forecast the consumer price index (CPI) inflation at about 8.7% in 2022 and 4.8% in 2023 in the U.K., and at 8.4% in 2022 and 7% in 2023 in Germany.
- We expect a positive like-for-like rental growth of 2.0%-3.0% in 2022 and 2.0%-2.5% in 2023, supported by broadly stable occupancy rates and inflation linked rental contracts.
- We estimate that overall occupancy will remain stable around 95%-96%.
- We assume a flat portfolio valuation for 2022 and slightly negative around negative 2% to negative 5% in 2023.
- We expect stable EBITDA margins around 81%-82% in the next few years, benefiting from Vivion's triple-net leases in its hotel portfolio and double-net leases in German portfolio could mitigate some of the operational costs arising out of inflation.
- We assume a capex of around €25 million-€30 million in 2022 and around €40 million-€50 million thereafter.

- We expect Vivion to be a net buyer, given the company's plan to further grow and its significant cash reserves.
- We don't assume any dividend distributions in the next 12-24 months.
- Cost of debt gradually increasing to 3.0%-3.5% over the next 12-24 months assuming any new funding or refinancing at higher interest rates of 4.0%-5.0%.

Key metrics

Vivion Investments S.a.r.l. --Key Metrics*

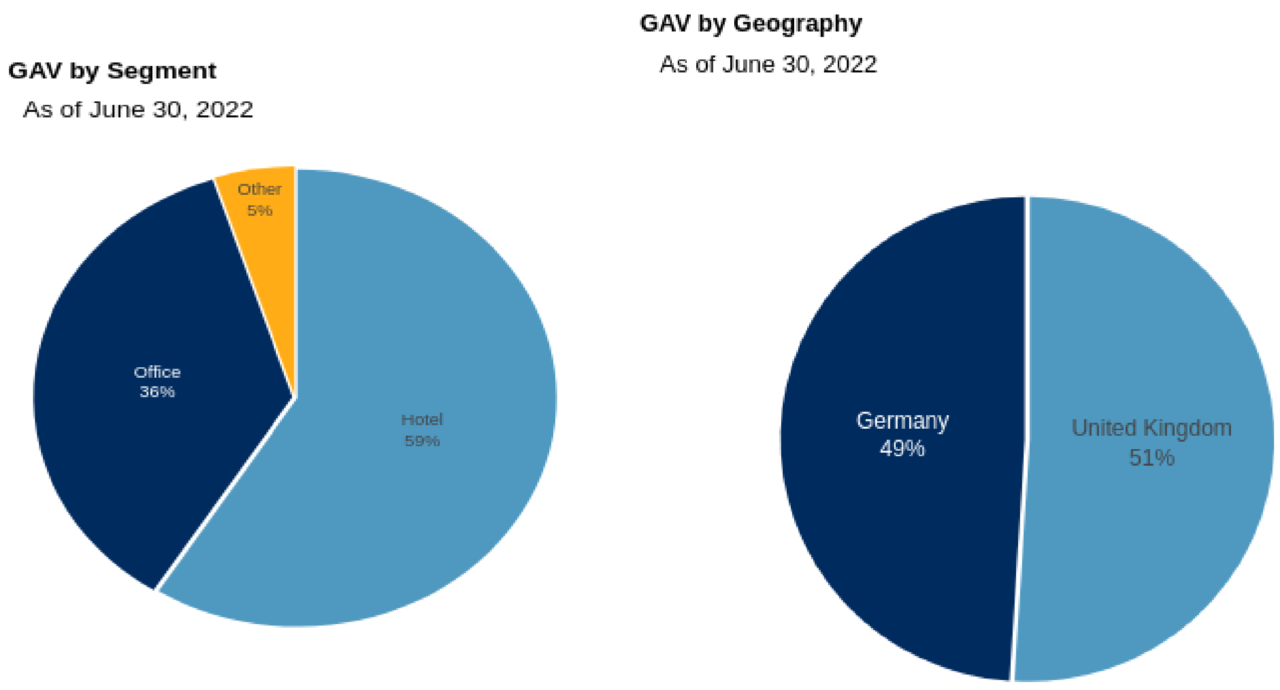
Mil. €	2020a	2021a	2022e	2023f	2024f
EBITDA (million)	127.2	162.1	170-180	195-205	205-215
Debt (million)	1,758.9	1,547.3	1,800-1,900	1,800-1,900	1,900-2,000
EBITDA interest coverage (x)	1.8	2.1	2.1-2.3	2.3-2.4	2.4 -2.5
Debt to EBITDA (x)	13.8	9.5	10.0-11.0	9.0-10.0	9.0-10.0
Debt to Debt plus Equity (%)	42.3	37.4	39-40	39-40	40-41

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

We exclude Vivion's shareholder loans from our adjusted debt figure. Vivion's capital structure includes shareholder loans, both at the Vivion level as well as the Golden Capital Partners level. As of June 30, 2022, Vivion reported an aggregated amount of loans of €1.4 billion, which we view as equity owing to the strong equity components in the documentation.

Company Description

Vivion is a private Luxembourg-registered commercial real estate company with a portfolio of about €3.6 billion as of June 30, 2022 (€5.4 billion of total assets), located in the U.K. (51% of total gross asset value [GAV]) and Germany (49% of total GAV). Vivion's portfolio mainly comprises U.K. hotel assets (€1.9 billion of the total GAV) and German commercial real estate assets (€1.7 billion of the total GAV). Around 45% of its U.K. hotel assets are located in or around London. Most of its German office assets are located in or near German metropolitan cities, such as Berlin and the Brandenburg area (42%) and the Rhein-Ruhr (44%).



Source: S&P Global Ratings. Company Data

Vivion is ultimately owned by Amir Dayan, a businessman, who indirectly owns around 70% of Vivion Holdings S.a.r.l. Vivion holds its German portfolio under its subsidiary Golden Capital Partners. Vivion owns 51.5% of Golden Capital Partners and a pool of institutional investors owns the remaining stake.

Peer Comparison

	Vivion Investment S.a.r.l	Pinewood Group Limited#	DIC Asset AG	Befimmo SA
Issuer credit rating as of Nov. 2, 2022	BB/Stable/--	BB-/Negative/--	BB+/Negative/--	BB+/Stable/--
Business risk profile	Fair	Fair	Fair	Satisfactory
Financial risk profile	Intermediate	Aggressive	Significant	Significant

Portfolio value (mil €)	3,705*^	2,499.2	4,494 (and 9,754 of AUM under its institutional business)	2,894.2*
Asset diversity	Hotel - 59% Office - 36% Other - 5%	100% Studios and Stages	Logistics-39%, Office - 34% Retail - 15% Mixed use - 7% Others - 5%	100% Office
Geographic diversity	U.K. - 51% Germany - 49%	Above 95% U.K., rest in Canada and Dominican Republic-,	Germany - 100%	Belgium-94% Luxembourg City -6%,
Occupancy (%)	95	95	95.8	95.2
WALT (Years)	10.9	NA	5.7	9.1
Top 10 tenants	Office properties top seven tenants 24.7% of total net leasable area	Three tenants occupy 100% of space, (Netflix, Disney and Amazon Prime)	27.8% share of rental income	Public Sector tenants account for 56.3% and Top 5 private sector account for 19.9%

All data as of June 30, 2022.*Excluding assets held for sale. ^Includes pre-payment for asset acquisition.

Vivion Investments S.a.r.l.--Peer Comparisons

	Vivion Investments S.a.r.l.	Pinewood Group Limited	DIC Asset AG	Befimmo S.A.
Foreign currency issuer credit rating	BB/Stable/--	BB-/Negative/--	BB+/Negative/--	BB+/Stable/B
Local currency issuer credit rating	BB/Stable/--	BB-/Negative/--	BB+/Negative/--	BB+/Stable/B
Period (rolling twelve months)	June 2022	June 2022	June 2022	June 2022
Period ending	6/30/2022	6/30/2022	6/30/2022	6/30/2022
Revenue	212	125	207	128
EBITDA	176	80	147	70
Funds from operations (FFO)	80	36	77	52
Interest expense	78	37	54	15
Operating cash flow (OCF)	62	26	113	34
Capital expenditure	24	160	27	127
Dividends paid	0	0	44	50
Cash and short-term investments	722	544	453	3
Debt	1,538	1,227	2,951	1,255
Equity	2,682	218	2,059	1,741
Valuation of investment property	3,705	2,499	4,489	2,931
Adjusted Ratios				
EBITDA margin (%)	82.9	64.2	71.0	54.6

EBITDA interest coverage (x)	2.3	2.2	2.7	4.7
FFO cash interest coverage (x)	2.1	1.9	2.9	4.2
Debt/EBITDA (x)	8.7	15.3	20.1	17.9
Debt/debt and equity (%)	36.4	84.9	58.9	41.9

Business Risk

Vivion's hotel assets represent about €1.9 billion of the GAV and are located in the U.K.'s capital cities and regional hubs, with a concentration in Greater London, which accounts for around 45% of the total GAV for U.K. hotels. In general, we view the hotel segment as more dependent on economic developments and therefore less resilient than other real estate segments, such as residential.

Vivion benefits from very long leases in its hotel portfolio. It has a weighted average unexpired lease term (WALT) of 13.4 years and fixed rents that do not depend on hotel operators' performance. This compares positively with other hotel landlords we rate, such as Covivio Hotels (BBB+/Stable/--), which has a significant part of its revenue dependent on its hotels' turnover. However, hotel landlords usually do not benefit from tenant diversification in comparison with commercial or residential landlords. Vivion's portfolio is concentrated on four well-known hotel brands: Holiday Inn (41% of hotel keys), Hilton (28%), Best Western (22%), Crowne Plaza (9%), and two self-owned branded hotel Sanderson and SML. The concentration risk is partly mitigated by the inflation-linked, triple-net structure of its long leases; the rolling guarantees from the operators' parent entities (which are in place for around 34 months); and the option Vivion has to take control of a hotel's operations if the operator is not able to pay its rent. Rent collection in Vivion's hotels is strong, and this compares positively with rated peers that operate hotel assets themselves or that have rents linked directly to the performance of the operator. Vivion's rent collection stood at 88% until the third quarter of 2022 and 93% of 2020 and 2021 rents have been collected. Uncollected rent is deferred, not waived, and the company expects the outstanding amount to be received by first half of 2023. We understand that the company did not invoke any of the rental guarantees for its hotel assets.

Vivion benefits from the historical solidity of the German commercial real estate market, especially the office segment, which represents 78% of the total German GAV, or about €1.37 billion. The company enjoys robust tenant demand and vacancy rates in line with other rated German office peers. Vivion also benefits from double-net, index-linked long leases with a WALT of 7 years and good tenant diversity in its German portfolio. The portfolio is well spread across more than 150 commercial tenants, of which about 75% are government entities and blue-chip or large corporates. Vivion's largest tenant, which represents 10.8% of its total net leasable area of the German portfolio, is EON (Former Innogy SE), a large utility provider. The German assets sit at Vivion's subsidiary, Golden Capital Partners, in which Vivion owns a 51.5% stake.

Vivion's office assets are more concentrated in a single city, Berlin (around 42% of the portfolio), than other German office players we rate, such as Alstria Office REIT AG or Aroundtown S.A. That said, we take a positive view of Vivion's exposure to Berlin, given the city's good market dynamics, low market vacancy rates, and limited new supply. We assess the quality of the company's office assets as average and in line with the overall German office market. We expect the company to benefit from the inflationary environment and expect like-for-like rental income to increase by 2.0%-3.0% in 2022 and 2.0%-2.5% in 2023, as most of its rental contracts are linked to the CPI. However, we remain conservative for our 2023 forecast because we expect a potential mild economic recession may increasingly force corporations to seek cost-saving measures or reduce office space, which could impact office assets occupancy levels and rental income over the medium term.

Vivion acquired around €790 million of Assets (mostly office properties) in Germany in 2022 and maintains a strong pipeline in the German office class, which we continue to view as a solid market as office utilization rate for Germany remains high after the pandemic. It also has around €272 million U.K. hotel assets held for sale which we understand, are currently under negotiations. That said, as the company plans to re-invest most of the proceeds from the asset disposals in good-quality and income-generating assets, mainly offices in Germany, it should restore its exposure to Germany, which we view as a positive factor in our analysis of the company's business.

Financial Risk

Our assessment of Vivion's financial risk profile is supported by its manageable indebtedness. After transaction in 2022, we expect Vivion's total net debt to increase close to €1.8 billion, leading to a debt-to-debt plus equity ratio around 39%-40% in 2022 and remaining broadly stable during the upcoming years. We expect that recent acquisitions will temporary weaken Vivion's debt to EBITDA ratio to around 10.0x-11.0x in the next 12-18 months, lacking full annual cash flow contribution this year; however, we expect the ratios to improve to about 9.5x-10.0x after the asset acquisition in the next 24 months. We forecast EBITDA interest coverage will remain low but stable at about 2.2x-2.4x.

Vivion has no significant debt maturities until the end of 2023 and an average cost of debt of about 3.0% as of June 30, 2022. Of Vivion's total debt, 75% is unsecured and 81% has fixed interest rates (the remaining floating interest risk is also largely hedged). However, as the company reports in euros, there is a significant translation effect for its operations in the U.K. This represents a potential exposure to EBITDA volatility, as it happened in 2020, and is partially burdened by the current variations on the exchange rate of the British pound.

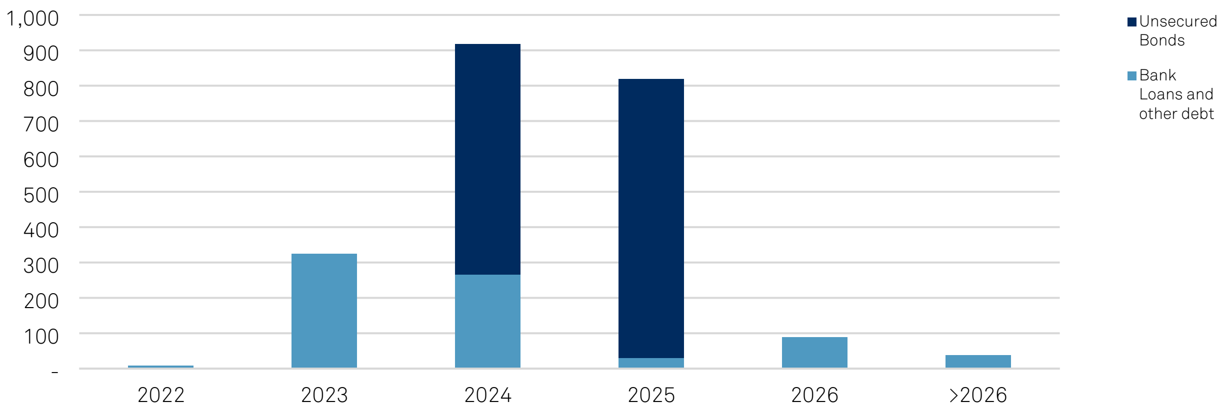
As of June 30, 2022, we treat Vivion's total €1.4 billion shareholder loans as equity, given the fulfilment of multiple requirements under S&P Global Ratings' non-common equity financing criteria, strongly benefiting Vivion's equity position. These, among others, include deep subordination to other instruments in the capital structure, long maturities beyond any of Vivion's outstanding interest-bearing debt, and Vivion's option to convert the loans into common equity at its sole discretion. We considered previous payments of shareholder loans as extraordinary and voluntary actions taken in the context of a substantial liquidity position. During 2022, Bow Street become a long-term shareholder with an equity investment of around €100 million-€105 million along with a €35.6 million of shareholder loan for an 8.01% stake in Vivion. We treat the new shareholder loans as 100% equity under our criteria, because we see the terms and conditions as aligned to the existing shareholder loans in the corporate structure.

Our rating assessment continues to incorporate a one-notch downward adjustment because we understand that Vivion's financial policy allows it to increase leverage to a maximum LTV ratio of 60%. As the company maintains its growth strategy, we factor into our rating the possibility of temporary spikes in leverage once it has deployed the proceeds from the asset disposals. This could lead to our adjusted ratio of debt to debt plus equity rising above 50% in the event of opportunistic acquisitions, or in case of strong portfolio devaluations as a result of further market uncertainty and expansion of capitalization rates, not fully offset by the positive cash flow impact from indexation.

Debt maturities

Debt Maturity Profile (€ Million)

As of June 30, 2022



Source: S&P Global Ratings.

Financial Summary

Vivion Investments S.a.r.l.--Financial Summary

Period ending (rolling twelve months)	RTM Dec 2020	RTM June 2021	RTM Dec 2021	RTM June 2022
Display currency (mil.)	EUR	EUR	EUR	EUR
Revenues	187	188	200	212
EBITDA	127	144	162	176
Funds from operations (FFO)	46	62	71	80
Interest expense	70	76	76	78
Operating cash flow (OCF)	43	45	39	62
Capital expenditure	57	59	49	24
Dividends paid	-	110	108	(2)
Cash and short-term investments	258	423	803	722
Debt	1,759	1,610	1,547	1,538
Common equity	2,395	2,350	2,586	2,682
Valuation of investment property	3,350	3,293	3,668	3,705
Adjusted ratios				
EBITDA margin (%)	67.9	76.6	81.2	82.9
EBITDA interest coverage (x)	1.8	1.9	2.1	2.3
Debt/EBITDA (x)	13.8	11.2	9.5	8.7

Debt/debt and equity (%)	42.3	40.7	37.4	36.4

Reconciliation Of Vivion Investments S.a.r.l. Reported Amounts With S&P Global Ratings' Adjusted Amounts - EUR (Millions)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adj. EBITDA	OCF	Dividends	Capex
Period date	2022-06-30									
Company reported amounts	2,163.7	739.8	212.3	178.1	420.2	136.4	176.0	133.1	(1.9)	24.2
Cash taxes paid	-	-	-	-	-	-	(24.8)	-	-	-
Cash interest paid	-	-	-	-	-	-	(70.9)	-	-	-
Reported lease liabilities	96.7	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(722.4)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	0.0	0.0	0.6	(0.6)	(0.6)	-	(0.6)
Income (expense) of unconsolid. cos.	-	-	-	(19.7)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	9.8	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(70.9)	-	-
Noncontrolling/ minority interest	-	524.5	-	-	-	-	-	-	-	-
Equity: Other	-	1,417.6	-	-	-	-	-	-	-	-
EBITDA: Gain/(loss) on disposals of PP&E	-	-	-	17.6	17.6	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	(242.0)	-	-	-	-	-
Interest: Shareholder loan	-	-	-	-	-	(59.2)	-	-	-	-
Total adjustments	(625.7)	1,942.1	0.0	(2.2)	(214.7)	(58.6)	(96.4)	(71.5)	0.0	(0.6)
S&PGR adjusted	1,538.1	2,681.9	212.3	176.0	205.5	77.8	79.6	61.6	(1.9)	23.6

Liquidity

We anticipate that Vivion's liquidity sources will likely cover its liquidity uses above 1.2x in the 12 months from July 1, 2022. Liquidity is highly supported by the company's current cash reserve of about €722 million. We assess Vivion's liquidity as adequate, factoring in the company's likelihood to use cash for acquisition, limited track record in the capital markets, and high debt amount maturing in 18-24 months.

Principal liquidity sources

- €722 million in available unrestricted cash;
- Our forecast of cash funds from operations of about €100 million-€105 million.
- Equity issuance of €50 million-€55 million from its new investor Bow Street

Principal liquidity uses

- Around €15.8 million of debt maturing in next 12 months;
- Maintenance and development capex of €30 million-€35 million, most of it not committed; and
- Additional bonds repurchase of €84 million.

Covenant Analysis

Requirements

Vivion has fully complied and has adequate headroom under its bond covenants as of June 30, 2022

Compliance expectations

We assume that the company would maintain adequate headroom (above 10%) under all its financial covenants in next 12 months.

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

N/A—Not applicable. 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.

Governance factors are a moderately negative consideration in our credit ratings analysis of Vivion, given that the company is ultimately controlled by one principal shareholder, Amir Dayan (70% stake). The board of managers (board of directors) has five members, including one representative from its minority shareholders. However, all the members at the board of managers level are nonindependent. We understand that Vivion has an advisory board, consisting of three members, including two nonindependent members and one independent member, who recently joined the board. Although about a half of Vivion's portfolio is composed of hotel assets, we believe social factors are an overall neutral consideration, given the fixed lease structure under these assets. This translated into minimal disruption in rent collection as about 88% of third-quarter 2022 and 93% of 2021 rents have been already collected.

Issue Ratings--Recovery Analysis

Key analytical factors

- Vivion has two outstanding senior unsecured bonds: one of €700 million maturing in 2024 with a 3% interest rate, and one of €640 million (€574 million after partial buy-back as of June 30, 2022) maturing in 2025 with a 3.5% interest rate. We rate these bonds 'BB+' with a '2' recovery rating.
- Our ratings reflect the company's robust asset base and the limited amount of prior-ranking debt. The recovery rating reflects our expectation of substantial recovery for Vivion's unsecured lenders (70%-90%; rounded estimate: 85%) in the case of a payment default.
- Although the numerical recovery outcome exceeds 85%, our criteria cap the recovery rating on the notes at '2' due to their unsecured nature. This accounts for the risk that additional prior- or same-ranking debt could be raised on the path to default.
- The bondholders benefit from a significant asset base comprising well-located and stable income-generating properties in the U.K. and Germany. For recovery purposes, we only give value to the 51.5% stake that Vivion owns in Golden Capital Partners, which holds its German assets.
- The bond documentation includes limitations on total indebtedness--a maximum LTV ratio of 60%--and a limitation on prior-ranking debt, with secured debt to total assets restricted to a maximum of 40%.
- Our hypothetical default scenario assumes a severe macroeconomic downturn in Germany and the U.K. that puts pressure on rents, exacerbated by an increase in competition and a material decline in asset values.
- We value the company as a going concern, given its relationships with hotel operators and its solid German property portfolio. We use a distressed asset valuation to reflect Vivion's robust asset base valued at €4 billion.

Simulated default assumptions

- Simulated year of default: 2027
- Jurisdiction: U.K. and Germany

Simplified waterfall

- Consolidated net enterprise value at default (after 5% administrative costs): €2.6 billion.
- First-lien secured debt: €0.18 billion linked to the U.K. portfolio and €0.47 billion linked to the German portfolio.
- Value available for senior unsecured claims, after deducting minority stake claims at Golden Capital Partners: €1.48 billion.
- Senior unsecured debt: €1.5 billion (including the €340 million additional bond tap in July 2021).
- --Recovery expectations: 70%-90%; rounded estimate: 85% capped at '2'.

Rating Component Scores

Foreign currency issuer credit rating	**BB/Stable/--**
Local currency issuer credit rating	**BB/Stable/--**
Business risk	**Fair**
Country risk	Low
Industry risk	Low
Competitive position	Fair
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb**

Related Criteria

- General 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
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Vivion Investments Sarl, Oct. 25, 2021
- ESG Credit Indicator Report Card: Real Estate, Dec. 14, 2021

Ratings Detail (as of November 02, 2022)*

Vivion Investments S.a.r.l.	
Issuer Credit Rating	BB/Stable/--
Senior Unsecured	BB+
Issuer Credit Ratings History	
11-Sep-2019	BB/Stable/--

*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.