

Fitch Affirms Iguatemi's National Long-term Rating at 'AA+(bra)'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed Iguatemi Empresa de Shopping Centers SA's (Iguatemi) ratings as follows

--National Long-term ratings at 'AA+ (bra)';--BRL450 million unsecured debentures at 'AA+ (bra)'.

The Rating Outlook is Stable.

Iguatemi's credit ratings incorporate the company's stable and predictable cash flow generation, solid liquidity, low net leverage, and diversified property revenue base. Working capital requirements are low, as tenants are responsible for most of the maintenance expenses. The ratings take into consideration Iguatemi's organic growth strategy and aggressive capital expenditure (capex) plan for 2013 through 2014 that should result in the company having negative free cash flow (FCF) generation and a modest increase in net leverage. Iguatemi's solid liquidity position and large pool of unencumbered assets should ensure adequate funding for the capex plan.

Key rating drivers include the development of the Brazilian macroeconomic environment in which the company operates. The Stable Outlook reflects Fitch's expectation that Iguatemi will complete its capex plan as scheduled and reach annual EBITDA levels around BRL450 million by the end of 2014. The Stable Outlook also incorporates the view that the company's liquidity will remain solid, with a cash position around BRL1 billion during 2014, and that its net leverage will remain below 2.5x during the next 24 months ended September 2015.

The ratings also consider a positive medium- to long-term view of the Brazilian mall industry based on its fundamentals. The sector has demonstrated resilience to past slowdowns due to its revenue and rent-contract structures that incorporate fixed- and inflation-adjusted components, which reduce the volatility in revenues and cash flow generation.

KEY RATING DRIVERS:

Diversification and Operational Trend Incorporated:

The ratings of Iguatemi also reflect its business position and property diversification in the Brazilian shopping center market with participations in 16 shopping centers and three office towers. The company manages a total gross leasable area (GLA) of 556 thousand square meters (m²) and owns 340 thousand m² of gross leaseable area (GLA) as of Sept. 30, 2013.

The company's operational metrics have remained stable. Iguatemi's tenants' sales totaled BRL 6.6 billion during the first nine months of 2013, representing an increase of 16% over the same period in 2012. Iguatemi has maintained high occupancy levels above 96% and default rates below 2% during the last three years. The company's same store rent increased 8.8%, 14.1%, 8.8%, and 8.4% during the last four quarters ended in the third quarter of 2013. In addition, its lease portfolio has staggered lease expiration dates, with approximately 60% of the company's lease portfolio having expiration dates longer than two years. The vast majority of leases coming due in the next two years are expected to be renewed. In addition, the company has a low tenant concentration, as the top 20 tenants account for less than 10% of its revenues.

Predictable Business:

EBITDA margins are expected to remain stable at around 72%. The company's revenues are stable given the characteristics of its lease portfolio, which provide it with a stable base of fixed-rent income and lease expirations. Fixed-rent payments account for about 60% of Iguatemi's net revenues, while tenant reimbursements represent an additional 10% of total net revenues. These tenant payments cover Iguatemi's property management costs and taxes comfortably, resulting in stable EBITDA margins of about 72% during the last three years. Iguatemi's net revenues for the LTM ended Sept. 30, 2013, and fiscals 2012 and 2013 were BRL442 million, BRL411 million, and BRL330 million, respectively. Cash flow generation, as measured by EBITDA, was BRL 329 million during LTM Sept. 30, 2013, representing an increase of 18% versus the same period of 2012 (EBITDA of BRL278 million during the LTM Sept. 30, 2012).

2015 Owned GLA Target of 462 thousand m²:

The company's negative FCF has been driven by its capex plan. For LTM September 2013, the company's FCF was negative BRL488 million as cash flows from operations, capex, and dividends paid were BRL231 million, BRL655 million and BRL65 million, respectively, during the period. The company has an aggressive capex plan that will result in expansions of existing developments, as well as greenfield projects. The company is expected to spend BRL1.1 billion - net of key money - on developments between 2013 and 2015. These investments should lead to the company's own GLA reaching approximately 462 thousand m2 by the end of 2015.

Solid Liquidity, High Level of Unencumbered Assets:

Iguatemi's liquidity is strong as a result of its solid cash position, manageable debt payment schedule, and high levels of unencumbered assets. The company's cash position was BRL1.3 billion as of Sept. 30, 2013, which comfortably covers its scheduled debt payments of BRL180 million and BRL272 million due during the next 12 and 24 months ended in September 2014 and September 2015, respectively. Iguatemi is expected to maintain a cash position of around BRL1 billion during 2014.

The company's owned GLA was 340 thousand m2 as of Sept. 30, 2013, and had a market value of approximately BRL6 billion. Iguatemi maintains a high level of unencumbered assets; approximately 20% of its total owned GLA has been used as collateral for secured debt of BRL237 million by Sept. 30, 2013. The company maintains total GLA of approximately 290 thousand m2 which is unencumbered. These assets provide financial flexibility as they could be used in the future to help access financing, if needed.

Moderate Net Leverage:

As of Sept. 30, 2013, Iguatemi had BRL1.9 billion of total debt, which was composed of local debentures (BRL1.2 billion), BNDES financing (BRL 394 million) and bank loans (BRL 348 million). The company's secured debt, BRL237 million, represents approximately 12.5% of the company's total debt. Iguatemi's total debt is entirely denominated in local currency, which reduces foreign exchange risk as its revenues are also denominated in local currency.

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The company's net leverage, measured as total net debt/EBITDA, has remained stable during LTM September 2013; the ratio was 1.9x as of Sept. 30, 2013 and 1.8x as of Sept. 30, 2012. The ratings incorporate Iguatemi's financial strategy to maintain net leverage levels below 2.5x over the medium term. Positively factored into the ratings is Iguatemi's ability to keep its capital structure stable while growing the business. During LTM Sept. 2013, the company increased its total debt by BRL500 million and completed an equity increase for the total amount of BRL 395 million.

RATING SENSITIVITIES:

Iguatemi's rating could be positively affected by significant improvement - above expectations already incorporated - in its cash flow generation, leverage and liquidity metrics. A negative rating action could result from some combination of the following: lower cash flow generation as measured by EBITDA, and/or significant incremental debt associated with acquisition activity resulting in a deterioration of the company's credit profile.

Additional information is available at www.fitchratings.com.

Applicable Criteria and Related Research:--'Corporate Rating Methodology' (Aug. 5, 2013).

Applicable Criteria and Related Research:Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

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