Beat: Business

FITCH AFFIRMS SNI AT AA- OUTLOOK STABLE LONG TERM FOREIGN AND LOCAL CURRNENCY

BY ISSUER DEFAULT IDR

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USPA NEWS - Fitch Ratings has affirmed Societe Nationale Immobiliere's (SNI) Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) at 'AA-' with Stable Outlooks and Short-Term Foreign Currency IDR at 'F1+'.--
Fitch classifies SNI as a credit-linked entity under its public-sector entity rating criteria, due to its 99.99% ownership by Caisse des Depots et Consignations (CDC; AA/Stable/F1+), its strategic and financial integration with CDC, and its key role for CDC and France in the supply of rented social housing. The rating differential - one notch lower than CDC's ratings - takes into account that SNI's intermediate housing activity does not benefit from the same institutional support as does social housing activity.

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Fitch only rates SNI's consolidated division, which focuses on intermediate housing and excludes the core social housing division that comprises social housing entities (SHEs), among others. The consolidated division and the social housing division represent 45.6% and 54.4%, respectively, of SNI group's total stock.
KEY RATING DRIVERS
Legal Status (Midrange)“¨Fully consolidated within CDC, SNI is a semi-public company that is fully controlled by CDC. Social and intermediate housing developments run by SNI are part of CDC's medium-term strategic plan. Every year, a letter of objectives is addressed to SNI Group's CEO to define the policy guidelines, with a strategic and financial plan that establishes shareholder action for the coming year.
Strategic Importance (Midrange)“¨As CDC's general housing subsidiary, SNI is France's largest social landlord and aims to build 100,000 units over 2015-2021. SNI Group plays a strategic role for the French State through the stimulus package of intermediate housing, which is structured in three investment vehicles. The number of units managed by SNI Group would reach 398,950 in 2026 compared with 348,725 units at end-2016.
Control (Midrange)“¨CDC applies its prudential model to SNI, implying tight control. This implies detailed information reporting to CDC, on a quarterly basis for debt and liquidity. CDC's CEO is the chair of SNI Group supervisory board, while SNI Group's CEO is a member of CDC's management committee.
Integration (Stronger)“¨As a shareholder, CDC receives dividends from SNI. The medium- and long-term plan is based on support from CDC, which will translate into an equity increase of EUR900 million over 2016-2021. This equity increase will be realised in cash and dividend restraint. To this end, CDC carried out a capital increase of EUR400 million in May 2017. Fitch believes that in case of need, CDC would be able to provide SNI with further support.
SNI's liquidity is sound, underpinned by strong and predictable cash flows from a recurring rental business. Excluding ADOMA, (SNI's subsidiary which is dedicated to emergency housing) 68% of SNI's rents come from public-sector tenants (with or without a housing reservation agreement). About 80% of the total housing reservation agreements are long-term (exceeding five years). Typical rental leases with third parties are for three, six or nine years, and are renewable. This
constitutes a strong security against the cyclical fluctuations of the housing rental market and global real estate prices, in Fitch's view. Including ADOMA, 85% of SNI's tenants are associated with the organisation's public interest mission. At end-2016, 7.1% of SNI's aggregate housing rents were composed of individual housing benefits paid directly by the French State to SNI. Fitch judges that the cash flow of SNI Group's consolidated division (EUR204 million) in 2020 should be sufficient to cover debt repayment (EUR175.4 million).--
In 2026, SNI expects to comply with the gearing (net debt-to-equity excluding swaps) set out in CDC's financial objectives (below 2.0x), with net debt of EUR3.9 billion (EUR3 billion expected at end-2017). In common with other property companies, SNI Group's consolidated division post high and stable leverage with a gearing ratio, which would reach 1.6x at end-2017 (2016: 1.9x) and net debt, which would represent 5.5x net turnover in 2017 (net rental income plus other revenues; 2016: 5.6x). Fitch estimates that the debt weighted on the value of fixed assets would remain stable, with a loan-to-value ratio of 43% at end-2017 (44% at

end-2016).--
RATING SENSITIVITIES“¨A rating action on CDC would lead to a similar action on SNI. A weakening of the state's institutional and financial support to the affordable housing sector - which Fitch views as unlikely at present - may result in negative rating action.
Source SNI, Caisse Depots

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