Research Update:

Citycon Oyj Downgraded To 'BB+' On Still Tight Credit Metrics; Outlook Stable

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Rating Action Overview

- Nordic owner and operator of grocery-anchored shopping centers Citycon Oyj reported an S&P Global Ratings-adjusted debt-to-debt-plus equity ratio of 57.7% in 2024, which is well above our rating downside threshold of 55% for the second consecutive year. This is despite the company disposing of assets of €390 million in 2024, albeit at a price discount. Even though Citycon is committed to reducing leverage through disposals, it struggles to sell assets without a discount on book values. We therefore expect this ratio will remain at or above 55%, which is not commensurate with our 'BBB-' rating.
- We also note that Citycon's interest coverage ratio should remain under pressure and bottom out at a low 1.8x over 2026-2027 as the company continues to renew its balance sheet to more current financing cost.
- We have changed our view of the company's management and governance, which we now assess as moderately negative, from neutral previously. This is because of the recent high turnover in the management team and ambiguous communication, especially in relation to disposals and internal valuation write-ups.
- We therefore lowered our long-term issuer credit rating on Citycon to 'BB+' from 'BBB-', while the issue rating on the senior unsecured notes remains at 'BBB-' (recovery rating of '2', with a substantial prospect of recovery), one notch above. This reflects the reasonable and limited level of secured debt and the valuation of the company's assets under stressed conditions. We also lowered the short-term issuer credit rating to 'B' from 'A-3'. At the same time, we lowered the issue rating on the hybrid notes to 'B+' from 'BB'.
- The stable outlook indicates that we expect Citycon's operating performance will remain sound over the next 12 months, while the company continues to report elevated leverage, with debt to debt plus equity at or above 55% and interest coverage progressively reducing toward 1.8x.

Rating Action Rationale

Citycon's debt to debt plus equity remained elevated at end-2024, despite considerable asset disposals. We expect it will remain at or above 55% over the next 12-24 months, given the company's struggle to sell assets at a price that is in line with its book value. Citycon reported a like-for-like negative valuation effect of about 2.0% on its €3.7 billion portfolio, compared with 2023. Net initial yields from earnings after adjusting for property revaluation increased to 5.5%, from 5.3% in 2023, among rising interest rates. Yet they remain low, compared with those of other European rated peers that are exposed to retail assets. Additionally, the company reported net fair value adjustments of negative €79 million on a disposed €390 million portfolio, which represents a 20.3% discount over book value (15.5% discount, excluding goodwill write-down). A €32.5 million vendor loan increases the discrepancy between value sold and cash received to 28.6%. Citycon's disposal of about 10% of its portfolio in 2024 had therefore limited effects on its debt to debt plus equity, which increased to 57.7% at end-2024, from 56.5% in 2023. Beyond that, the company's cash flow-generating base reduced. We note that Citycon intends to continue its disposal strategy, which, along with the suspension of dividend payments in 2025, should reduce leverage. Yet the decrease will not be substantial enough for its debt to debt plus equity to improve below 55% in our forecasts for the next 12-24 months. This is because we still factor in revaluations of up to negative 2.5% in 2025 and up to negative 1% in 2026, considering the relatively low yields of the portfolio and recent track-record in discounts to book value during disposals. This is also related to our intermediate equity content treatment of the company's hybrid instruments in the limit of 15% of Citycon's capitalization, as per our criteria. As the company incurs valuation losses, its total capitalization reduces, which increases the portion of hybrids exceeding the 15% mark. It therefore loses its 50% equity treatment on this portion. We expect the portion to be treated as full debt will represent €90 million-€110 million out of an approximately €600 million hybrid pocket.

Despite the downgrade of the issuer credit rating to 'BB+', the rating on Citycon's senior unsecured bonds remains at 'BBB-'. In line with our criteria related to recovery for non-investment-grade companies, we apply a one-notch uplift from the issuer credit rating on the back of Citycon's material asset base and moderate level of prior ranking debt.

As the company is actively replacing its debt at a higher cost, we expect its interest coverage ratio will bottom out at 1.8x-2.0x only over 2026-2027. Citycon has refinanced maturing instruments over the past 12 months. These include a €300 million 6.5% green bond issued in March 2024, the exchange transaction on its non-call 2024 hybrid instrument in June 2024, and the issuance of a €350 million 5% green bond in December 2024. We expect the company will use a combination of disposal proceeds and new issuances to address upcoming maturities, such as the €350 million 1.25% eurobond maturing in September 2025 or the €300 million 2.375% eurobond due in January 2027, of which €242.5 million is still outstanding. Given the significant difference between issuance coupon and legacy coupon on the balance sheet, this will weaken its interest coverage ratio, which should bottom out at 1.8x-2.0x over 2026-2027, from 2.0x at end-2024.

We view negatively the increased turnover in the company's management team and the weakening reporting quality. In October 2024, Henrica Ginström stepped down as CEO after just six months. Scott Ball, the CEO from 2019 to 2024, assumed the position of interim CEO, before naming Oleg Zaslavsky as the new CEO, effective in March 2025. In November 2024, the then CFO Sakari Järvelä left after less than a year in this position and was replaced by Eero Sihvonen, who was CFO from 2005 to 2021. Jussi Vyyryläinen, head of leasing, also announced his departure from the company. Although we understand that the overall strategy will not change over the short term, this lack of managerial continuity, especially during such a transformational period, represents a potential risk, in our view. Additionally, management's public communication has deteriorated recently, especially due to ambiguous information. This has materialized through brief and relatively vague press releases regarding the terms associated with disposals closed and recurrent internal positive revaluation during the first three quarters of the year, which were then corrected downward materially by external appraisers at the end of the fiscal period. This happened several years in a row. We have therefore revised downward our management and governance assessment to moderately negative, from neutral previously. Although this does not directly affect the rating at this stage, we will continue to monitor closely future developments as we note that the new management is committed to address these elements.

The stable outlook reflects our view that the operating performance should remain sound. Citycon reported an increase in like-for-like net rental income of 4.6% in 2024, mostly supported by indexation. Retail occupancy remains stable at 95.3%, while footfall is up 1.1% and tenant sales are up 2.5% on a like-for-like basis. The collection rate remains very high at 99% and the relatively low occupancy cost ratio of 9.4% provides room for rental growth. This sound operating performance reflects Citycon's leading market positions of its shopping centers across the Nordics and resilient tenant mix, with a high share of necessity-based tenants. As a result, the company's adjusted debt to EBITDA improved to 11.3x at end-2024, from 12.8x at end-2023, and should remain at 10.0x-11.0x.

Citycon has proactively addressed its upcoming maturities in a timely manner, and we expect it will continue to do so. The company reported a weighted average debt maturity of 3.4 years at end-2024, from 2.7 years in 2023. This was thanks to debt repayments and bond issuances that kept the metric above our three-year minimum requirement for notching down the ratings on real estate companies. We expect the company will remain prudent because it benefited from about €360 million in cash on the balance sheet as of end-2024. Citycon used part of it to repay a €150 million term loan in February 2025, even though it will only mature in 2027. Proceeds from asset disposals should also help maintain this metric at about three years or above.

Outlook

The stable outlook indicates our expectation that, over the next 12 months, Citycon will continue to benefit from solid operating performance, with positive like-for-life rental growth, stable occupancy, and stable EBITDA margins. Overall, we estimate that Citycon's interest coverage ratio will weaken slightly to 1.8x-2.0x over the next 12 months, while debt to EBITDA should remain stable at 10x-11x, and debt to debt plus equity will be about 55%-56%. We also expect the company will manage its upcoming maturities and its resource allocation, such that its weighted average debt maturity remains at least at about three years.

Downside scenario

We could lower the rating if the company's credit metrics deteriorate. This could happen if asset valuations declined further, cash proceeds from asset disposals were materially lower than the book value sold, the amount of assets sold was so significant that it would shrink materially the portfolio size, or if the company shifted to a more aggressive financial leverage policy. This would translate into:

- Debt to debt plus equity surpassing 60%;

- Debt to EBITDA increasing beyond 13x; or
- Interest coverage deteriorating below 1.8x.

We could also lower the rating if Citycon failed to address its upcoming maturities in a timely manner, such that its weighted average maturity would fall below the three-year mark on a sustained basis, or if market conditions worsen and Citycon's operating performance was significantly weaker than we expect. We would also view negatively if the majority shareholder, G City, were to actively increase its stake in Citycon and had more than 50% of voting rights, or if we considered that management and governance concerns put pressure on the rating.

Upside scenario

We could take a positive rating action if Citycon manages to reduce leverage, while preserving the integrity, quality, and diversity of its asset portfolio. An upgrade would also depend on the company's capacity to address its upcoming maturities and sustainably restore its weighted average maturity level above the three-year mark, and provide stability and best practice in terms of management and governance. The upgrade would hinge on the company maintaining credit metrics commensurate with a 'BBB-' rating, such that:

- Debt to debt plus equity reverts to well below 55%;
- Interest coverage remains sustainably above 1.8x; and
- Debt to EBITDA remains below 13x.

Company Description

Citycon is the owner, developer, and manager of urban grocery store-anchored shopping centers in the Nordic and Baltic regions. It managed assets worth approximately €3.7 billion as of end-2024, compared with €4 billion in 2023. Though all the properties of Citycon are in the Nordics, it has a well-diversified portfolio with 28 urban hubs in five countries. Citycon is among the leading shopping center owners in Finland and among the market leaders in Sweden, Estonia, and Norway. Its shopping centers cater to consumers' daily needs.

The majority shareholder, G City, and the wholly owned subsidiary Gazit Europe Netherlands B.V. together held a 49.54% stake in the company as of March 1, 2025. We do not anticipate an increase in this ownership. We note that the share has slightly decreased below 50%, following the €48.2 million equity issuance in February 2024.

Our Base-Case Scenario

Assumptions

- Consumer price index in 2025 of 1.3% in Finland, 2.0% in Sweden, and 2.4% in Norway, normalizing to 1.6%, 1.9%, and 2.1%, respectively, in 2026. GDP growth in 2025 of 1.6% in Finland, 2.0% in Sweden, 1.7% in Norway, and 1.3%, 1.9%, and 1.6%, respectively, in 2026.
- Like-for-like net rental income growth of about 3% in 2025, mainly related to indexation and moderate positive reversion, and 2% in 2026 to account for the high portion of indexed leases in Citycon's portfolio.
- Occupancy rate to stabilize at 95% at end-2025, from 95.3% in March 2025.

- Negative portfolio revaluation of 2.5% in 2025 and 1% in 2026, capturing further yield expansion.
- Stable EBITDA margin of 86%-87% over 2026-2027.
- Annual capital expenditure (capex) of about €20 million-€25 million, mostly for maintenance purposes, following the company's pledge to reduce spending.
- Disposals of €200 million in 2025 and €100 million in 2026, with still lower cash proceeds than book values in both years to account for negotiation margins and potential deferred tax components.
- No dividend distribution in 2025 and €50 million per year, excluding the hybrid coupons, from 2026, which is a 40% reduction compared with previous years.

Key metrics

Citycon Oyj--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. €)	2021a	2022a	2023a	2024a	2025e	2026f	2027f
Revenue	202	204	196	215	205	202	204
EBITDA	179	181	169	186	178	174	176
Funds from operations (FFO)	99	101	105	101	88	71	55
Interest expense	67	67	63	91	89	92	100
Cash flow from operations (CFO)	107	80	111	110	90	72	56
Capital expenditure (capex)	209	165	94	49	25	20	20
Free operating cash flow (FOCF)	(101)	(85)	17	61	66	52	37
Dividends	97	97	98	84	0	52	53
Debt	2,207	2,132	2,164	2,099	1,854	1,769	1,789
Equity	2,115	1,924	1,669	1,538	1,486	1,445	1,450
Adjusted ratios							
Debt/EBITDA (x)	12.3	11.8	12.8	11.3	10.4	10.1	10.1
FFO/debt (%)	4.5	4.7	4.9	4.8	4.8	4.0	3.1
EBITDA interest coverage (x)	2.7	2.7	2.7	2.0	2.0	1.9	1.8
Annual revenue growth (%)	(1.5)	0.6	(3.9)	9.7	(4.4)	(1.8)	1.2
EBITDA margin (%)	88.6	88.7	86.5	86.7	86.5	86.5	86.5
Debt/debt and equity (%)	51.1	52.6	56.5	57.7	55.5	55.0	55.2

Liquidity

We anticipate Citycon's liquidity sources will cover liquidity uses by more than 1.2x over the 12 months from Jan. 1, 2025.

Principal liquidity sources

- Available cash of €352 million as of Dec. 31, 2024;
- Undrawn credit lines totaling €400 million and maturing after 12 months; and
- Funds from operations of €100 million-€110 million.

Principal liquidity uses

- Short-term debt repayments of about €164 million, including €150 million of term loan repayments made in February 2025;
- Committed maintenance capex of €25 million over the next 12 months; and
- No dividend to be paid, as opposed to previous years, as announced by management.

Covenants

Citycon had adequate headroom under all its covenants as of Dec. 31, 2024, with a reported interest coverage ratio of 2.7x for a covenant at greater than 1.8x, net debt to total assets of 0.41x, below the covenant of less than 0.6x, a solvency ratio of 0.42x, below the covenant of less than 0.65x, and a secured solvency ratio of 0.12x, below the covenant of less than 0.25x.

Environmental, Social, And Governance

Environmental, social, and governance factors are neutral for the credit analysis of Citycon. About 83% (as of end-2024) of Citycon's shopping centers are Building Research Establishment Environmental Assessment Method (BREEAM)-certified. This was below its target of 100% with a minimum level of "good" or higher by end-2023. Citycon expects 100% of its assets to be BREEAM-certified and to achieve "very good" or better by 2026. The company targets carbon neutrality by 2030 by reducing its energy consumption and producing more energy in-house. As such, the company aims for all assets to produce renewable or recoverable energy for their own use by end-2025, reduce energy consumption per square meter by 10% from 2022 levels by end-2027, and invest approximately 6% of net rental income yearly for value-enhancing energy investments. This should help attract high-quality occupants since we understand tenants have increased their focus on buildings' sustainability. Citycon continues to develop its shopping centers' sustainable aspects, with 100% of new development projects targeted to obtain a BREEAM certification with a minimum level of "excellent" or equivalent. This compares well with European peers' BREEAM certifications.

In terms of governance, we note that the company's majority shareholder, G City, had an about 49.5% stake in the company as of Feb. 28, 2025. We consider G City has a weaker credit profile than Citycon. We continuously monitor the relationship between Citycon and its main shareholder and may view it negatively if G City's ownership of Citycon increases further, particularly if G City engages in other measures to increase its control over the company. We also view as moderately negative the increased turnover in the company in 2024 when the CEO, CFO, and other high executives in investor relations, leasing, development, and investment left the company. We also note that the level of disclosure and public communication has weakened.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2024, 75% of Citycon's financing consisted of bonds (about €1.6 billion), while secured bank financing represented 24% (€516 million), and commercial paper (CP) accounted for less than 1% (€10 million). Citycon also has €593 million of hybrid bonds on the balance sheet.

Analytical conclusions

We rate Citycon's senior unsecured bonds at 'BBB-', one notch above the company's 'BB+' issuer credit rating, performing our recovery analysis as described below. The company's CP program is rated 'B'.

The subordinated hybrid notes are rated 'B+', three notches below the issuer credit rating, including two notches for subordination and one notch for optional deferability, in line with our criteria. We maintain our assessment of intermediate equity content (50% equity and 50% debt) for the three rated hybrid bonds, in the limit of 15% of Citycon's capitalization, as per our criteria. Following the recent valuation losses, Citycon's total capitalization has reduced, and we estimate the portion to be treated as full debt will represent €90 million-€110 million out of an approximately €600 million hybrid pocket. Given the 'BB+' issuer credit rating on Citycon, its hybrid instruments are eligible for maintaining intermediate equity content, as long as the residual time until its effective maturity exceeds 15 years.

Issue Ratings--Recovery Analysis

Key analytical factors

- The issue rating on Citycon's senior unsecured notes with a combined nominal value of €1.6 billion is 'BBB-', one notch above the 'BB+' issuer credit rating.
- The bondholders will benefit from the issuer's ownership of real assets, consisting exclusively of stabilized income-producing investment properties with sound operating performance.
- The recovery outcome is about 85%, resulting in a recovery rating of '2', in line with our criteria. This is supported by the comfortable headroom in asset valuation and a sound granularity in assets in attractive locations in dynamic countries. This is despite the €360 million in secured debt outstanding that does not materially affect the recovery prospects on the unsecured debt.
- In our hypothetical default scenario assumed for 2029, we envisage a severe macroeconomic downturn in Europe, resulting in market depression and exacerbated competitive pressures.
- We value the group as a going concern. We use a discrete asset value approach to account for the stressed value of Citycon's yielding properties. Recovery prospects for the proposed senior unsecured notes are sensitive to a change in the amount of senior secured debt or any other priority debt outstanding at default.
- The bond documentation includes limitations on additional indebtedness--a maximum consolidated leverage ratio of 65%--and a limitation on prior-ranking debt, with secured debt to total assets restricted to a maximum of 25% (about 12% currently outstanding).

Simulated default assumptions

- Year of default: 2029
- Jurisdiction: Finland

Simplified waterfall

- Gross enterprise value (EV) at emergence: €2,249 million
- Net EV at emergence after administrative costs (5%): €2,137 million
- Estimated priority debt (credit lines, mortgages, and other secured debt): €717 million*
- Net EV available to senior unsecured bondholders: €1,420 million
- Senior unsecured debt claims: €1,600 million
- Recovery rating: 2
- Recovery expectation: 70%-90% (rounded estimate: 85%)

*All debt amounts include six months of prepetition interest and assume 85% of the revolving credit facility (RCF) and credit lines are drawn on default (Citycon's RCF was €400 million as of Dec. 31, 2024).

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB+/Stable/B
Local currency issuer credit rating	BB+/Stable/B
Business risk	Satisfactory
Country risk	Very low risk
Industry risk	Low risk
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Diversification/portfolio effect	Neutral/undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Moderately negative
Comparable rating analysis	Negative
Stand-alone credit profile	bb+

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook 2025: Real Estate, Jan. 14, 2025
- Citycon Oyj's Recent €350 Million Issuance Lengthens Its Weighted Average Maturity, Dec. 5, 2024
- Bulletin: Citycon Makes Progress On Disposals Amid Management Changes And Sound Operating Performance, Nov. 19, 2024
- Industry Credit Outlook Update Europe: Real Estate (REITs), July 18, 2024
- Citycon's Proposed Hybrid Note Under Exchange Offer Assigned 'BB' Rating, May 28, 2024
- Citycon Oyj Outlook Revised To Negative On Tightening Leverage Headroom, Shortening Debt Duration; Affirmed At 'BBB-', March 5, 2024

Ratings List

Ratings list		
Downgraded; Outlook Action		
	To	**From**
Citycon Oyj		

Ratings list		
Issuer Credit Rating	BB+/Stable/B	BBB-/Negative/A-3
Downgraded		
	To	**From**
Citycon Oyj		
Subordinated	B+	BB
Junior Subordinated	B+	BB
Ratings Affirmed; New Recovery Rating		
Citycon Treasury B.V.		
Senior Unsecured	BBB-	
Recovery Rating	2(85%)	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Completeratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings'public website at www.spglobal.com/ratings.

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