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Research Update:

Netherlands-Based Plaza Centers Downgraded To 'CCC+' On Continued Weak Liquidity, Rating Withdrawn At Issuer's Request

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Overview

- The Netherlands-based real-estate developer Plaza Centers N.V.'s liquidity position continues to be "weak" according to our criteria, due to its high dependency on asset sales to serving its maturities at the end of 2013.
- Since we placed the rating on CreditWatch in December 2012, the company has shown no significant progress in its planned asset sales nor significant operating improvement that would positively affect the visibility of such sales.
- While debt restructuring at Plaza Centers' main shareholder, Elbit Imaging, has reduced the probability of dividend outflow in 2013, we remain uncertain regarding the overall implications of this restructuring.
- We are therefore lowering our long-term corporate credit rating on Plaza Centers to 'CCC+' from 'B-', and removing it from CreditWatch Negative. Subsequently we are withdrawing our global scale rating on Plaza Centers at the issuer's request.
- The negative outlook reflects our view of possible further deterioration of the company's liquidity position due to further delays in asset sales.

Rating Action

On March 21, 2013, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on The Netherlands-based real estate developer, Plaza Centers N.V., to 'CCC+' from 'B-', and at the same time removed the rating from CreditWatch where it was placed on Dec. 27, 2012, with negative implications. We subsequently withdrew the global scale rating at the issuer's request. The outlook at the time of the withdrawal was negative.

Rationale

The downgrade reflects our view that Plaza Centers' liquidity continues to be "weak" under our criteria, as we factor in the reduction in Plaza Centers' financial flexibility, which depends highly on proceeds from asset sales. Plaza Centers primarily develops shopping malls in Central and Eastern Europe (CEE). Its business model is based on developing mainly retail projects up to the fully operational stage, and then selling the developments. With these sales, the company realizes capital gains and generates positive cash flows.

Although its leverage (debt to capital) usually diminishes at the end of each development cycle, the company's liquidity management through the cycle presents a major credit risk, in our opinion.

In our view, the company's current cash position, after the receipt of €26 million from the sale of U.S. investments, will enable it to meet its bond payments due on July 1, 2013, but may be insufficient to meet the next debt amortization payments of €40 million on its Polish and Israeli bonds due, respectively, in November and December 2013.

To meet these debt payments, the company is reliant on divesting at least four of its operating properties. While the company has reached agreement on some of these, they are all dependent on Plaza Centers' satisfying financial or operational conditions, some of which it currently fails to do. Given the current weak macro-economic conditions in the CEE region, where the company's main operations are, we believe it may face further delays regarding these sales. Since we placed the company's rating on CreditWatch Negative in December 2012, the company has failed to show significant progress in its planned asset sales or significant operating improvement, which would positively affect the visibility of such sales. The company is therefore, in our opinion, dependent upon favorable business, financial, and economic conditions to meet its current financial commitments.

In addition, Plaza Center's major shareholder, Elbit Imaging Ltd., is currently restructuring its debt, and while we believe this reduces the probability of dividend outflow from Plaza Centers in 2013, we remain uncertain regarding the overall effect of such restructuring.

Liquidity

We believe that Plaza Centers' liquidity is "weak" under our criteria. We estimate the ratio of liquidity sources to uses over the next 12 months at 0.85x.

We estimate the available sources for 2013 as follows:

- Current balances of cash, and available-for-sale financial assets of €64 million;
- Net cash flows from the realization of its U.S. portfolio of €31 million (of which €26 million has already been received and we anticipate that the remaining due will arrive next month);
- Asset sales, currently in advanced stages of negotiation, of about €20 million, net; and
- Cash flows from operations of existing operating assets, net of general and operating expenses, of about €10 million.

The company plans to sell other assets during 2013, with estimated net proceeds of €65 million. However, we view such sales as uncertain and therefore, according to our criteria, do not include them as liquidity sources. In our base case, we assume that the cash flows from these sales may be forthcoming in 2014 or even later.

We estimate Plaza Centers' liquidity uses for 2013 as follows:

- Total bank loan and bond maturities of €107 million, and
- Interest expenses and capital expenditure needs of about €40 million, though we believe the company has some flexibility in slowing the pace of new projects and capital expenditure, if needed.

Outlook

The negative outlook reflects our view of a possible deterioration in Plaza Centers' liquidity profile due to delays in its planned asset sales and the tight time frame until the maturities of November and December 2013.

We could take negative rating action if asset sales are further postponed or the cash flow visibility decreases due to deterioration in market conditions. We would consider revising the outlook to stable if the company succeeds in significantly lowering the risk of its not being able to meet its upcoming maturities, and in light of positive results from the parent company's debt restructuring which remove the uncertainty regarding the total effect of the restructuring on Plaza Centers.

Related Criteria And Research

- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Withdrawn

	To	To	From
Plaza Centers N.V.			
Corporate Credit Rating	NR	CCC+/Negative/--	B-/Watch Neg/--
Senior Secured	NR	CCC+	B-/Watch Neg

NR--Not rated.

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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