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Research Update:

Netherlands-Based Plaza Centers N.V. Rating Lowered To 'B-' On Weak Liquidity And Put On CreditWatch Negative

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Table Of Contents

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Overview

- The Netherlands-based company Plaza Centers N.V.'s liquidity has deteriorated to a level we regard as "weak", and is under pressure owing to the weak liquidity of major shareholder, Elbit Imaging.
- The company's decision to delay asset sales has lessened its financial flexibility, which depends highly on the proceeds from such sales.
- We are therefore lowering our long-term corporate credit rating on Plaza Centers to 'B-' from 'B', and placing it on CreditWatch negative.
- We aim to resolve the CreditWatch after closely monitoring developments at Elbit Imaging, and the size and timing of Plaza Centers' dividends, should there be any.

Rating Action

On Dec. 27, 2012, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on The Netherlands-based real estate(or shopping mall developer)company, Plaza Centers N.V., to 'B-' from 'B', and at the same time placed the rating on CreditWatch with negative implications.

Rationale

The downgrade and CreditWatch placement reflects our view that Plaza Centers' liquidity has deteriorated to a level we view as "weak" under our criteria. We also factor in the reduction in Plaza Centers' financial flexibility, which depends highly on proceeds from asset sales, and the increasing threat to the company's business risk profile and liquidity from its major shareholder, Elbit Imaging, which we regard as vulnerable to non-payment over the next 12 months.

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, Plaza Centers' decision to delay planned asset sales in order to increase occupancy rates and potential proceeds from sales, combined with high debt maturities over the next two years, have significantly weakened the company's financial flexibility.

For its upcoming debt amortization payments in July and November 2013, the company depends on the receipt (of about €31 million) of the second part of proceeds from the sale of its U.S. portfolio, which was completed in July 2012. We think the company is highly likely to receive these proceeds in the first half of 2013. Plaza Centers will also rely on the divestment of several of its operating properties. Although the company has reached preliminary sale agreements on some of these, they are still pending financial or operational conditions, and may consequently suffer from further delays.

In addition, we believe that the "weak" liquidity position of Plaza Centers' main shareholder, Elbit Imaging, presents a further challenge to Plaza Centers because it may find itself under pressure to pay aggressive dividends or to pursue sales on terms that it considers less than optimal. We note, though, that an agreement reached between the company and its bondholders in September 2012, limited Plaza Centers' dividend distribution to €30 million annually. This amount would still significantly affect its liquidity, and put pressure on its ability to comfortably serve its debt over the next 24 months, in our view.

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 before dividends. We estimate the available sources for 2013 as follows:

- Current balances of cash, and available-for-sale financial assets of €66 million;
- Cash flows from the realization of the U.S. portfolio of €31.5 million, net;
- Asset sales of about €20 million that are currently in advance stages of negotiation; and
- Cash flows from operations of existing operating assets of €20 million-€25 million.

The company plans to sell other assets during 2013, valued at an estimated €80 million. However, we view such sales in 2013 as uncertain and thus, according to our criteria, we 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 €105 million;
- 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; and
- Dividends of at least €30 million, though the company may distribute no dividends at all.

CreditWatch

We aim to resolve the CreditWatch within three months, after monitoring developments at Elbit Imaging and the size and timing of dividends from Plaza Centers, should there be any.

We may lower the rating if Plaza Centers paid dividends prior to making significant progress with its planned asset sales, and at the expense of its liquidity. We could also lower the rating if we witnessed further delays in asset sales or believed that cash flow visibility has weakened due to deteriorating market conditions.

We could affirm the rating if the company improves its liquidity position, retaining cash levels sufficient for its own needs while striking a balance between the pace of asset sales and shareholder remuneration.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Plaza Centers N.V.		
Corporate Credit Rating	B-/Watch Neg/--	B/Stable/--
Senior Secured	B-/Watch Neg	B

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. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.