G City Ltd.

June 30, 2024

Research Update

Outlook Revised To Stable On Improved Liquidity Profile; ‘ilA-’ Issuer Rating Affirmed; ‘ilA’ Rating Assigned To New Bond Series Secured By Real Estate Assets

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Rating Action Overview

- Since the last rating report we published in June 2023, G City Ltd. ("G City" or “the Company") has continued implementing its asset sale plan, as part of its policy to deleverage and strengthen liquidity, and has sold assets for about NIS 1.5 billion that supported its liquidity.
- In addition, the yields on the Company's bonds decreased, and in recent quarters the Company completed several successful bond issuances for a total of about NIS 1.9 billion. The Company carried out additional liquidity-supporting moves such as extending its committed credit facilities. We therefore estimate that the Company’s liquidity profile and its access to the capital market have improved, and we now assess its liquidity to be ‘adequate’.
- Despite the continued implementation of the asset sale plan, the Company's leverage remains high and its adjusted debt to debt and equity ratio was about 71.7% at the end of the first quarter of 2024, almost identical to its level in the corresponding quarter last year. This is mainly due to negative revaluations, capital losses due to asset sales (mainly in Russia) and the pace of investments. However, we estimate that the continued sale of assets will support deleveraging as early as in the coming year and will continue to support liquidity. The Company’s EBITDA interest coverage remained about 1.2x in the 12 months ended in March 2024, the same as in the previous 12 months.
- The Company's asset portfolio continued to present solid operating performance, including about 9% growth in like-for-like NOI in the first quarter of 2024 compared to the corresponding quarter last year, an average increase of about 7% in tenant revenue, a stable occupancy rate of about 95% on average and continued geographical and asset diversification.
- Consequently, on June 30, 2024, we affirmed our ‘ilA-/ilA-2’ ratings on G City Ltd., and revised the outlook to stable from negative. We also affirmed our 'ilA-' rating on the Company's unsecured bond series, and our 'ilA' rating on its bond series secured by real estate assets. We also assigned our ‘ilA’ rating on Series 20 secured bonds the Company intends to issue in the near future, of up to NIS 690 million p.v.

- The stable outlook reflects our assessment that in the next 12 months, G City will maintain "adequate" liquidity, alongside adequate operating performance of its asset portfolio, continued successful implementation of its asset sale plan in a way that will lead to deleveraging, and continued maintenance of its EBITDA interest coverage.

Rating Action Rationale

The business characteristics of the Company's operation and continued solid operating performance of its asset portfolio support our business risk assessment. G City's asset portfolio continued to present solid operating performance in the first quarter of 2024, including about 9% growth in like-for-like NOI compared to the corresponding quarter last year, an average increase of about 7% in tenant revenue, a stable occupancy rate of about 95% on average and continued geographical and asset diversification. At the end of the first quarter of 2024, the Company had 90 assets in 11 countries (including assets in development and land), with a total value of about NIS 35 billion. The asset portfolio is mainly concentrated in major cities, and in recent years the Company endeavored to minimize its operation in high-risk countries, thus divesting from its Russian operations and curtailing its Brazilian operations. Many of the Company's assets are shopping centers with an anchor tenant or with a large share of tenants that are considered essential, and these support the stability of the properties' results even in slowdown periods. The Company has about 6,500 leases, so it is not dependent on any single tenant. However, the rating is constrained due to the fact that a substantial share of the Company's asset portfolio is held indirectly rather than directly.

The Company's liquidity improved over the past year and we now rate it as "adequate". Since the last rating report, G City continued implementing its asset sale plan, as part of its policy to deleverage and strengthen liquidity. Since the publication of its asset sale plan, the Company sold assets for about NIS 4 billion, of which about NIS 2.7 billion since the last rating report, raised about NIS 1.9 billion in the local market through a number of successful bond issuances that indicate an improvement in its access to the capital market, and extended its credit facilities until 2027-2028. These moves supported the Company's liquidity, which we now assess as "adequate". The Company also plans to issue a new bond series, Series 20, which will be secured by a first lien on the Targowek shopping center in Warsaw, in the amount of up to NIS 690 million p.v. We believe this issuance will support the Company's liquidity profile.

The Company's leverage remains high despite the asset sales, and the coverage ratio remains stable and adequate. In the first quarter of 2024, the Company's adjusted debt to debt and equity was about 71.7%, almost identical to its level in the corresponding quarter last year. This was mainly due to negative revaluations, capital losses due to asset sales (mainly in Russia) and the pace of investments in 2023 and in the first quarter of 2024, including the acquisition of the partner's share in Kista Galleria in Stockholm and its consolidation by CTY. The higher leverage in the first quarter was somewhat moderated through capital-enhancing moves such as the capital issuance by CTY and the REIT issuance in Brazil. The conservation of the current level of leverage is reflected in our assessment of the Company's financial policy at this stage. The Company's EBITDA interest coverage remained stable at about 1.2x in the 12 months ended in March 2024. We estimate that the coverage ratio will remain commensurate with the rating, given our expectations for operating performance of the Company's assets and S&P Global Ratings' inflation expectations.

We expect the continued implementation of the asset plan will result in deleveraging in the foreseeable future. In our base case scenario, we estimate that in 2024-2025 the group will sell assets for a total amount of about NIS 4.1 billion - NIS 4.3 billion in accordance with its strategy, including several assets at CTY and the Flora Shopping Center for about NIS 930 million, for which the Company recently signed a letter of intent with a potential buyer. We understand that most of the investments are not binding and management has extensive discretion regarding the timing and pace of their implementation, in accordance with the progress of the asset sale plan and the Company's deleveraging policy. Accordingly, we expect that the successful implementation of the realization plan will lower the leverage below 70% over time.

Outlook

The stable outlook reflects our assessment that G City will maintain 'adequate' liquidity and its business position in the next 12 months. We believe that given the continued implementation of the asset sale plan, the adjusted leverage ratio debt to debt and equity will drop below 70% and EBITDA interest coverage will be about 1.2x, both commensurate with the current rating.

Downside Scenario

We will consider a negative rating action if the Company's liquidity deteriorates, if the implementation of the asset sale plan is slower than we expect, or if the leverage ratio is significantly higher than 70% and the coverage ratio is lower than 1x over time. A deterioration in the Company's operating performance or in the credit quality of its parent company, Norstar Holdings Inc., may also negatively pressure the Rating.

Upside Scenario

We will consider a positive rating action if the Company's leverage drops to about 65% and its coverage ratio is about 1.3x, over time and as part of financial policy, alongside maintaining "adequate" liquidity. A positive rating action is also dependent on an improvement in the credit quality of parent Norstar Holdings Inc.

Company Description

G City, through its held companies, is engaged in the acquisition, development, improvement and management of mixed-use income-producing real estate, including retail, housing and offices, in North America, Brazil, Israel and Northern and Central Europe, focusing on growing urban areas in major cities. Among other things, the Company's operations in Northern Europe, mainly in Finland, Sweden and Norway, are carried out through Citycon Ojy ("CTY", 49.6%, BBB-/Negative/A-3), a public company traded in Helsinki and controlled and consolidated in its reports. G City also operates through fully-owned private companies: G-Europe which operates in Central Europe, mainly in Poland; G Commercial Centers, which operates mainly in Israel and focuses on the acquisition, development and management of commercial centers and recently also develops an office project in Rishon LeTsion; Gazit Brazil which coordinates the acquisition, development and management of commercial centers in Sao Paulo; Gazit Horizons, which is engaged in the acquisition, development and management of commercial centers, mainly in the cities of New York, Miami, Boston, Philadelphia and Tampa, which are characterized by high demographic density; and Gazit Canada (60% in the partnership) which engages in the location, acquisition, development and management of real estate assets, mainly in the city of Toronto.

As of March 31, 2024 the group holds and manages, together with its subsidiaries and partnerships, 90 properties, including development assets and land, covering about 1.8 million square meters of gross leasable area, and valued at about NIS 35 billion.

G City is traded on the Tel Aviv Stock Exchange and is controlled by Norstar Holdings Inc. ("Norstar") which currently owns about 48% of its shares. About 20% are held by institutional investors, about 31% by the public and about 1% by Mr. Chaim Katzman, the Company's CEO and its controlling shareholder (indirectly).

Base Case Scenario

Key Assumptions

- Following are the main indicators of the major countries in which the group operates, according to S&P Global Ratings' forecasts for 2024-2026:

	Real GDP growth			Unemployment rate			Inflation		
	2024	**2025**	**2026**	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
Israel	0.50%	5.00%	3.50%	4.00%	3.80%	3.50%	2.30%	2.00%	2.00%
U.S.A.	2.49%	1.51%	1.70%	3.90%	4.17%	4.24%	2.79%	2.02%	2.35%

	Real GDP growth			Unemployment rate			Inflation		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Brazil	2.00%	2.00%	2.10%	7.60%	8.00%	8.20%	4.20%	3.80%	3.50%
Czechia	1.30%	2.50%	2.30%	2.80%	2.50%	2.50%	3.00%	2.50%	2.00%
Poland	2.80%	3.10%	3.00%	2.70%	2.60%	2.60%	5.00%	4.40%	3.50%
Norway	1.00%	1.70%	1.60%	4.00%	3.80%	3.70%	3.40%	2.40%	2.20%
Finland	(0.30%)	1.60%	1.30%	7.50%	7.00%	6.80%	0.90%	1.30%	1.60%
Sweden	0.30%	2.00%	1.90%	8.30%	8.20%	7.90%	2.50%	2.00%	1.90%

- About 1%-3% NOI growth in 2024, in accordance with S&P Global inflation assumptions for the countries of operation, and considering the contribution of new assets acquired by the group in the first quarter of 2024. In 2025, a decrease of about 4%-6% in NOI as a result of the cessation of the contribution of assets that are not in the core of operations, which the Company is attempting to sell in the second half of 2024. This decrease is somewhat offset by organic growth in rents and due to lease indexation.
- Maintaining the portfolio's business position, including adequate geographic diversification and high tenant diversity with substantial weight for essential businesses. The occupancy rate will be maintained at an average level of about 95%.
- Continued implementation of the Company's strategic asset sale plan. We assume that in 2024-2025 the group will sell assets totaling about NIS 4.1 million - NIS 4.3 billion.
- Investments totaling about NIS 2.1 billion - NIS 2.3 billion in 2024-2025, mainly in development projects and including capital expenditure (capex) in existing assets.
- Capital issuances completed in the first quarter of 2024 in Brazil and in CTY.

Key Metrics

Financial Metric	2023A	2024E	2025E
EBITDA/interest expense	1.2x	1.1x-1.3x	1.1x-1.3x
Debt/debt and equity	72%	69%-71%	68%-70%
Debt/EBITDA	17.7x	17x-19x	17x-19x

A - actual. E – Estimate.

Liquidity

We examine G City’s liquidity profile on an extended stand-alone basis (including fully-owned subsidiaries). We assess its current liquidity as adequate, according to our criteria, based on our assessment that the ratio between the Company's sources and uses in the 12 months beginning April 1, 2024, will exceed 1.2x. We believe that the Company's financial flexibility has improved since our previous rating report, as reflected in its access to the local capital market and in lower yields on its bonds, as well as in the successful issuances the Company completed since our previous rating report, totaling about NIS 1.9 billion.

The Company’s financial flexibility is also supported by its committed credit facilities, which it extended in the past year by about two to three years. In addition, the Company has an adequate amount of unencumbered real estate, the total value of which was about NIS 5.4 billion on March 31, 2024 (of which about NIS 3.9 billion in subsidiary G City Europe, about NIS 0.8 billion in the U.S. and about NIS 0.5 billion in Brazil). Based on the information management provided, we understand that, except for tax payments and compliance with financial covenants, there is no limitation on the transfer of funds between the companies for the purpose of debt repayment.

In our base case scenario we assume the main sources at the Company’s disposal in the 12 months starting April 1, 2024, to be:

- About NIS 772 million in cash.
- About NIS 463 million in unused credit facilities committed for over a year.
- Our assessment of about NIS 170 million - NIS 240 million in cash FFO, based on operating cash flow in the first quarter of 2024 (including dividends from CTY).
- Debt issuance (bonds and bank loans) totaling about NIS 949 million (received).

Our assumptions regarding the Company’s main uses for the same period are:

- About NIS 1.3 billion in debt maturities.
- Minimal annual capital expenditure (capex) on development projects totaling about NIS 150 million - NIS 200 million.
- Bond acquisitions by the Company and other companies in the group totaling about NIS 310 million (completed).

Covenant Analysis

The Company has several covenants vis-a-vis banks, institutional investors and bond holders. We understand that on March 31, 2024, the Company had sufficient headroom on its financial covenants. In addition, some of the Company's credit lines are secured by a lien on subsidiaries’ shares, so the extent of the unused balance may change depending on the fluctuation in the value of the lien, although, according to the Company, it has the option to enhance its collateral, including real estate and other shares.

Environmental, Social, And Governance

ESG factors have an overall neutral influence on our credit analysis of G City Ltd.

Recovery Analysis

Key analytical factors

- We affirm our 'ilA-' issue rating, identical to the issuer credit rating, on G City's unsecured bond series (Series 11, 12, 13, 14 and 17) and on Series 16 and 19 bonds. The recovery rating for these series is '4', reflecting our assessment that in the hypothetical default scenario, the recovery rate would be 30%-50%. Our assessment of the quality of the collateral for Series 16 and 19 leads to these series' status in a hypothetical default scenario being the same as the status of the unsecured series.

- We are affirming our 'ilA' rating, one notch above the issuer rating, on G City's secured bonds (Series 15 and 18). The recovery rating for these series is '2', reflecting our assessment that in the case of a hypothetical default, the recovery rate would be 70%-90%. Our recovery expectations are based, among other things, on the value and type of specific collaterals. In addition, the recovery rating on the secured bond series takes into account the fact that there are limitations in these series' debentures, including on the maximum LTV ratio.

- In addition, we assign our 'ilA' rating, one notch above the issuer rating, on a new bond series, Series 20, in the amount of up to NIS 690 million p.v., which the Company intends to issue and which will be secured by a first lien on the Targowek commercial complex in Warsaw and on the shares of its holding company. The recovery rating for this series is '2', reflecting our assessment that in the case of a hypothetical default, the recovery rate would be 70%-90%. Our recovery expectations are based, among other things, on the value and type of the specific collateral and on its geographic location. In addition, the recovery rating on this series takes into account the fact that there is a limitation on the LTV ratio in this series' debentures, as well as limitations on issuing new debt.

Simulated default assumptions

- Simulated year of default: 2027
- A deep recession in the countries of operation will be reflected, among other things, by a sharp drop in private consumption. At the same time, competitive pressures in the retail industry will

increase significantly, mainly due to e-commerce, and demand for physical commercial space will decrease. In addition, inflationary pressures will increase and the interest rate environment will remain high over time. These changes will lead to lower rents and occupancy rates and to a material decrease in asset value, as well as to more limited access to financing sources.

- The Company will continue to operate as a going concern and will not be liquidated by its creditors, an assessment supported by the locations of its assets which would enable it to refinance and repay part of its obligations.
- The value of the assets held directly by the Company will decrease by about 40%, taking into account the quality of the assets, competitive pressure in the retail industry and the need for quick disposal.
- The value of investments in CTY and G Europe will decrease by 60%, taking into account the wide geographical spread, subsidiaries' quality, stock tradability and the expected volatility during a recession.
- During the hypothetical deterioration in the Company's situation, we assume utilization of 85% of the committed credit facilities, which are mainly secured by liens on reporting companies shares held by G City.

Simplified Waterfall

- Gross enterprise value according to DAV method: about NIS 9.7 billion
- Administrative costs: 3%
- Enterprise value available for entire debt: about NIS 9.45 billion
- Total senior bank and institutional investor debt: about NIS 4.16 billion (including credit line utilization).
- Enterprise value available for secured debt (Series 15), considering the value of the specific collateral and its share of enterprise value available to cover unsecured debt: about NIS 404 million
- Total secured debt (Series 15): about NIS 466 million
- Enterprise value available for secured debt (Series 18), considering the value of the specific collateral after repayment of senior bank loans and its share of enterprise value available to cover unsecured debt: about NIS 358 million
- Total secured debt (Series 18): about NIS 421 million
- Enterprise value available for secured debt (Series 20), considering the value of the specific collateral and its share of enterprise value available to cover unsecured debt: about NIS 592 million
- Total secured debt (Series 20): about NIS 707 million

- Secured debt recovery expectations (Series 15, 18, and proposed Series 20): 70%-90%
- Recovery rating for unsecured debt (1 to 6): 2
- Enterprise value available for unsecured debt: about NIS 3.8 billion
- Total unsecured debt (series 11, 12, 13, 14, 16, 17 and 19 and the remaining balance of series 15, 18 and 20 that was not covered by specific collaterals): about NIS 8 billion
- Unsecured debt recovery expectation: 30%-50%
- Unsecured recovery rating (1 to 6): 4

All debt amounts include six months' prepetition interest.

Mapping Recovery Percentages To Recovery Ratings

Recovery expectations (%)	Description	Recovery rating	Notching above/below issuer rating
100%	Full recovery	1+	+3 notches
90%-100%	Very high recovery	1	+2 notches
70%-90%	Substantial recovery	2	+1 notch
50%-70%	Meaningful recovery	3	0 notches
30%-50%	Average recovery	4	0 notches
10%-30%	Modest recovery	5	-1 notch
0%-10%	Negligible recovery	6	-2 notches

Recovery ratings are capped in certain countries to adjust for reduced creditor recovery prospects in these jurisdictions. Recovery ratings on unsecured debt issues are generally also subject to caps (see Step 6, paragraphs 90-98 of Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016, for further detail). ICR--Issuer credit rating.

Modifiers

Diversification/portfolio effect: Neutral

Capital structure: Neutral

Liquidity: Neutral

Financial policy: Negative impact

Management and governance: Neutral

Comparable ratings analysis: Negative impact

Related Criteria And Research

- Principles Of Credit Ratings, February 16, 2011
- Methodology: Industry Risk, November 19, 2013
- Country Risk Assessment Methodology And Assumptions, November 19, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, December 16, 2014

- Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Key Credit Factors For The Real Estate Industry, February 26, 2018
- Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Group Rating Methodology, July 1, 2019
- Environmental, Social, And Governance Principles In Credit Ratings, October 10, 2021
- Methodology For National And Regional Scale Credit Ratings, June 8, 2023
- Corporate Methodology, January 7, 2024
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, January 7, 2024
- S&P Global Ratings Definitions, June 9, 2023

Ratings List

G City Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
Issuer rating(s)			
Short term	ilA-2	23/07/2018	29/06/2023
Long term	ilA-/Stable	11/11/2001	29/06/2023
Issue rating(s)			
<u>Senior Secured Debt</u>			
Series 15	ilA	07/10/2020	29/06/2023
Series 18	ilA	26/12/2023	26/12/2023
Series 20	ilA	30/06/2024	30/06/2024
<u>Senior Unsecured Debt</u>			
Series 16	ilA-	08/08/2021	29/06/2023
Series 11	ilA-	02/08/2011	29/06/2023
Series 12	ilA-	24/12/2013	29/06/2023
Series 13	ilA-	25/01/2018	29/06/2023
Series 14	ilA-	26/12/2019	29/06/2023
Series 17	ilA-	04/07/2023	04/07/2023
Series 19	ilA-	21/03/2024	21/03/2024
Issuer Credit Rating history			
<u>Long term</u>			
June 30, 2024	ilA-/Stable		
November 24, 2022	ilA-/Negative		
June 30, 2022	ilA+/Negative		
January 20, 2022	ilA+/Stable		
August 08, 2021	ilAA-/Watch Neg		
July 19, 2020	ilAA-/Negative		
June 03, 2013	ilAA-/Stable		
June 17, 2012	ilA+/Stable		
August 02, 2011	ilA+/Positive		
July 11, 2010	ilA+/Stable		
May 04, 2009	ilA+/Negative		
April 16, 2009	ilAA-		
February 12, 2009	ilAA-/Negative		
August 03, 2008	ilAA-/Stable		
December 19, 2007	ilAA/Watch Pos		
February 28, 2007	ilAA/Stable		
November 21, 2006	ilAA/Negative		
April 17, 2005	ilAA		
January 21, 2004	ilAA-		
November 11, 2001	ilA+		
<u>Short term</u>			
November 24, 2022	ilA-2		
January 20, 2022	ilA-1		
August 08, 2021	ilA-1+/Watch Neg		
July 23, 2018	ilA-1+		

Additional details	
Time of the event	30/06/2024 12:18
Time when the event was learned of	30/06/2024 12:18
Rating requested by	Issuer