S&P Global Ratings

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in'li

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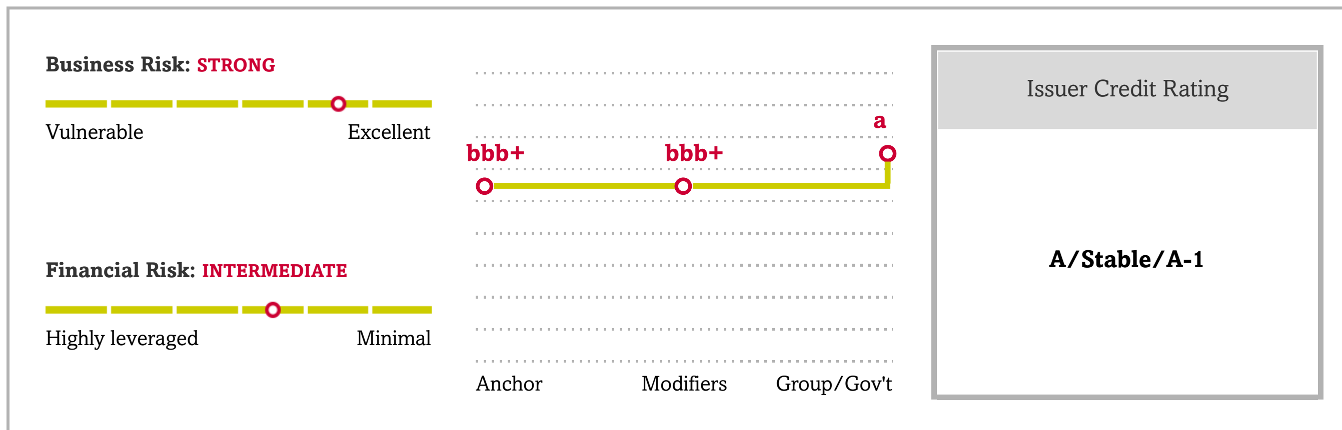
in'li



Credit Highlights

Overview

Key strengths	Key risks
Large portfolio (€8.7 billion end of 2020) of residential assets under the French intermediary housing scheme.	Development risk as part of the strategy to produce new intermediary housing in Ile-de-France region, though limited to 5%-10% of the portfolio value per year.
Leader in the intermediary housing segment in Ile-de-France (Paris region) and good position in France overall, with 38,199 units owned and managed in Ile-de-France at end of June 2021 versus direct competitor CDC Habitat with less than 27,000 units in the region but more than 90,000 in France.	Concentration of assets in one property segment and one French region (residential in Ile-de-France).
Upside potential for rental income, as newly produced assets will enter the portfolio and replace older ones, sold or planned to be, and given that assets are located in undersupplied areas and with rents 15%-20% below market levels--for which demand is structurally strong given rent affordability issues in France.	Relatively weak debt to EBITDA ratio, due to the low yield nature of the business (less than 4%), and to the current development phase during which debt is raised while EBITDA generation is constrained by the construction progress.
Material headroom in credit ratios at the current rating level and under the company’s financial policy, with S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio expected to remain below 30% in the next 24 months.	

in'li demonstrated a strong performance during the pandemic, thanks to the very safe nature of its assets. Intermediary housing assets continued to benefit from high demand throughout the pandemic, given the undersupply of affordable housing in France, especially in the Paris area. Unmet demand for this type of asset, estimated at around 200,000 households in the Ile-de-France region, typically resists economic downturns. In particular, we note that the company's overall collection rate remained relatively stable and high during the year despite the economic downturn (99.1% during H1 2021, compared with 98.5% in H1 2020). The vacancy rate also remained low at 3.3% at the end of June 2021, versus 3.06% in 2019.

We expect in'li's debt-to-debt-plus-equity ratio to remain materially lower than the real estate industry average, but this is partly offset by a weak debt-to-EBITDA ratio. in'li still has significant headroom under its financial policy to maintain a loan-to-value (LTV) ratio of 35%-40%, as it reported a ratio of 21.5% at the end of 2020 (in line with our S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio). We expect this ratio to increase in the coming years, given the company's strategy to produce and deliver 80,000 intermediary housing units by next 10 years, but to remain below 30% at least over the next 24 months. This compares better than most peers with the same financial risk profile assessment. However, asset deliveries and resulting rental generation occur approximately three years after the start of

the construction, thus creating a time-lag between investments and EBITDA contribution. In addition, its intermediary housing assets generally have a relatively low yield (3%-4%). As a result, the company's debt to EBITDA ratio is somewhat weak, at 11.2x at end-2020 and 13-16x in our forecasts for 2021-2023.

Outlook: Stable

The stable outlook reflects our view that in'li's strong business model, under which the company rents out residential assets located in undersupplied areas at below-market rates, should enable the company to generate at least steady revenue in the next 24 months.

We also anticipate the company will maintain moderate leverage, in line with its current financial policy of keeping its reported LTV ratio below 35%-40% over the long term, which translates into the same level of S&P Global Ratings-adjusted debt to debt plus equity.

Furthermore, we expect in'li to remain a strategically important subsidiary for ALI, and that ALI will maintain its current solid creditworthiness.

Downside scenario

We could consider lowering the rating if we saw any indication that ALI would provide in'li less financial support than we currently expect, or if we thought in'li's role within the group had weakened. Such developments would lead us to reassess in'li's status within the group, which could lead us to downgrade in'li.

We could also lower the rating if ALI's creditworthiness were to deteriorate. This could emerge, for example, due to pressure on the group's financial profile through materially deteriorating EBITDA margins, or to reduced quality of its financial disclosures.

Rating pressure could also come from any deterioration of in'li's stand-alone credit profile (SACP), which could result from higher-than-expected leverage or a change of business strategy. This scenario is currently unlikely, in our view.

Upside scenario

Because we cap our rating on in'li at the level of the parent's credit quality, upside potential for our rating on in'li is subject to us seeing an improvement in ALI's credit quality. This would be reflected in our stronger view of ALI's financial profile--including structural deleveraging (with the debt burden structurally below 20x adjusted EBITDA). We view this scenario as unlikely at this stage.

We could revise upward our SACP assessment for in'li if the company displayed a tighter financial policy. This could result from its adjusted debt-to-debt-plus-equity ratio remaining below 35% over the long term and debt to EBITDA staying below 7.5x.

Our Base-Case Scenario

Assumptions

- Like-for-like annual growth in rental income of about 1.5% in 2021-2023. New assets' rents will be set at 15%-20% below market level, as defined by the intermediary housing law. Since rents at market level have increased materially in the past couple of years, new housing units' rents will be materially higher than existing assets. We therefore believe that in'li's portfolio has a material positive reversionary potential in rents, as it will gradually be filled with new assets.
- High and stable occupancy at about 97%, reflecting sustained demand for the types of assets that in'li holds.
- Asset disposals of around €1 billion in 2021. A large part of these disposals had already been completed at the beginning of 2021, with around €900 million of assets sold to the fund Cronos (after tax on capital gains, created by in'li and in which AXA owns a 75% stake. We expect further disposals of less than €100 million and around €150 million in 2022 and 2023, respectively.
- Maintenance capital expenditure (capex) of €55 million-€65 million per year.
- Annual development capex of €660 million-€680 million in 2021 and 2022, and €750 million-€800 million in 2023, as part of in'li's strategy to produce about 80,000 new dwellings in the next 10 years. We understand the development plan will be phased in to match the pace of the company's completed disposals.
- No asset revaluation factored in.
- Annual debt issuances of around €100 million in 2021, and annual additional issuances of €450 million-€500 million over 2022-2023 to fund the ongoing development activity and offset lower planned disposals.
- Annual capital increases from ALI of €60 million-€70 million, as part of the five-year agreement with the French government ("Convention quinquennale").
- Limited annual dividends of less than €20 million.

Key metrics

in'li--Key Metrics*

	--Fiscal year ended December 31--				
	2019a	**2020a**	**2021e**	**2022f**	**2023f**
EBITDA (mil. €)	139.7	156	105-120	130-140	140-160
Capex (mil. €)	494.3	571.2	720 - 750	720 - 750	750 - 850
Debt (mil. €)	1,545.20	1,845.50	1,450-1,550	1,950-2,050	2,350-2,500
Debt to EBITDA (x)	11.1	11.8	13.0-14.0	14.0-15.0	15.5-16.5
EBITDA interest coverage (x)	4.5	4.8	3.2-3.7	4.0-5.0	4.0-4.5
Debt to Debt plus Equity (%)	18.5	21.1	17.0-20.0	22.0-25.0	25.0-30.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Company Description

France-based in'li owns a portfolio worth €8.7 billion as of Dec. 31, 2020 (appraisers' valuation is conservatively based on block rather than unit sales) comprising residential assets almost solely located in the greater Paris region (Ile-de-France). in'li's assets are in the intermediary market segment (logement intermédiaire), defined under French law since 2014, and reserved for households with specific tranches of income. Against a favorable tax regime, French intermediary housing providers offer housing to middle-income households, that is, those with too high an income to access highly subsidized French social housing, but too low to afford free-market rents, especially in high-demand and congested areas such as the greater Paris region. Most of the assets in in'li's portfolio were built before the French law regarding intermediary housing, and therefore do not have the legal status, but they are managed under the same criteria.

in'li is a 99.41%-owned subsidiary of the Action Logement group via ALI, a key player in France's social housing sector. ALI manages about 20% of the French social housing park. We view in'li as a strategically important subsidiary of ALI.

Peer Comparison

Table 1

in'li--Peer Comparison

Industry Sector: Real estate investment trust or company

	in'li	**Grand City Properties S.A.**	**Vesteda Residential Fund FGR**	**Deutsche Wohnen SE**
Ratings as of Dec. 2, 2021	A/Stable/A-1	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2
	Fiscal year ended Dec. 31, 2020			
(Mil. €)				
Stand-alone credit profile	bbb+	bbb+	a-	a-
Financial risk profile	Intermediate	Intermediate	Intermediate	Intermediate
Revenue	402.0	535.4	335.0	1,101.9
EBITDA	156.0	299.8	229.0	694.9
Interest expense	32.6	69.6	41.0	184.2
Capital expenditure	571.2	69.8	138.0	376.8
Cash and short-term investments	140.8	1,691.9	2.0	583.3
Debt	1,845.5	3,216.9	2,062.0	10,966.2
Equity	6,888.9	4,914.4	6,294.0	13,832.8
Adjusted ratios				
EBITDA margin (%)	38.8	56.0	68.4	63.1
Debt/EBITDA (x)	11.8	10.7	9.0	15.8
Debt/debt and equity (%)	21.1	39.6	24.7	44.2

Business Risk: Strong

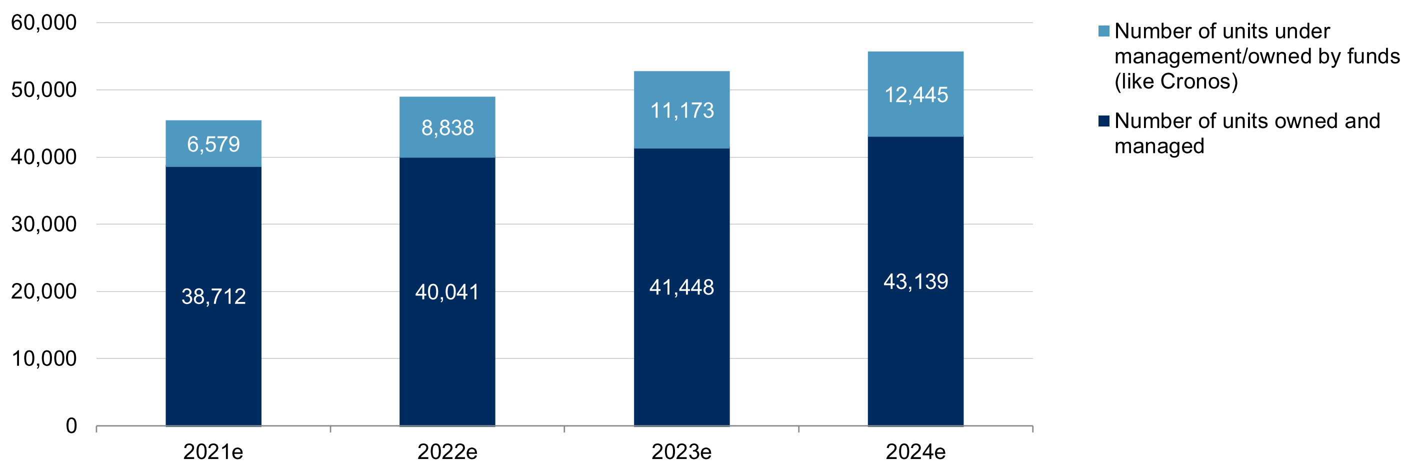
Our assessment of in'li's business risk profile is underpinned by its strong business model, under which the company rents residential assets in undersupplied areas at below-market rents. As defined by law, intermediary housing players' assets need to be in areas the French government specifically defines as being undersupplied. The shortage is the most significant in zones defined as "Zone A bis"--comprising Paris city--and "Zone A"--comprising the outskirts of Paris. More than 98% of in'li's portfolio is concentrated in these two zones. Another requirement for intermediary housing is to offer rents at 15%-20% below market. As a result, we expect a sustained demand for in'li's assets, whose occupancy should remain high at around 97%, providing robust predictability of future cash-flow generation. in'li is already the largest player in the Ile-de-France intermediary housing market, with a large portfolio of 38,199 units at the end of June 2021. At the end of 2020, before the disposals to Cronos, its portfolio was worth €8.7 billion (appraisers' valuation end of 2020, conservatively based on block rather than unit sales). This compares with CDC Habitat, the largest player in France, with more than 90,000 units in the country, but fewer than 27,000 units in Ile-de-France.

To pursue the aims of intermediary housing, in'li plans to cover about 50% of Ile-de-France's unmet needs by producing 80,000 new intermediary housing units for an investment of around €18 billion in the region over the next 10 years. Over the 2018-2023 period, in'li plans to produce 32,000 units of intermediary housing (versus 33,600 units in the company's previous expectations), 60% of which for its own portfolio and 40% for funds created by in'li (versus 51% and 49% in previous expectations) in which it will keep a minority stake (25%) and for which it will manage the assets. To that purpose the company created two funds over 2020 and 2021--Cronos and APEC--whose majority shareholders are respectively AXA IM - Real Assets and Primonial, Midi2i, and PROBTP.

We see the social purpose of in'li's business model as a clear competitive advantage, given that its assets meet the increasing social demand for higher purchasing power in France, especially for housing in a deeply undersupplied market. We think this positioning should protect the company against vacancy and reputational risks.

Chart 1

Evolution Of In'li Portfolio, With Assets Owned And Some Only Under Management



Source: S&P Global Ratings. e--Estimate.

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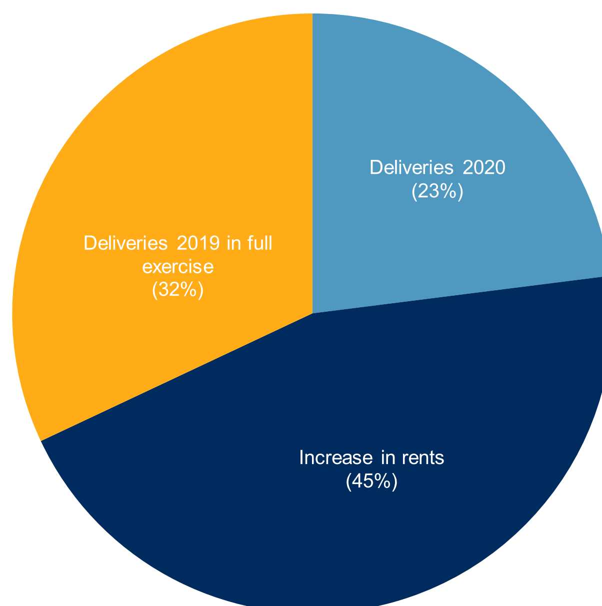
The rejuvenation of in'li's portfolio should result in material upside potential for its rental income generation because rent levels for new housing assets entering the portfolio will likely be materially higher than for existing assets. This is because in'li's production of new housing is partly funded by disposals of existing assets with historically lower rent levels, such as the 6,000 housing units sold to Cronos in 2021.

As required by the intermediary housing law, new housing units' rents will be set at 15%-20% below market. Since average market rents have increased at a rate well above inflation over the past decade, new housing rents will be materially higher than existing assets. As of end of December 2020, the company estimated a reversionary potential of 48% in Zone A and 59% in Zone A bis (including 76% in Paris city).

Chart 2

Rising Rental Revenues In 2020 Versus 2019



Source: S&P Global Ratings.

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Of in'li's progressive investment plan, 80% will be project acquisitions under the French VEFA legal framework ("Vente en l'Etat Futur d'Achèvement", or forward-sale contract), which sets payment schedules throughout the construction phase and protects buyers by means of a final completion guarantee ("garantie financière d'achèvement"), limiting the development risk borne by the company. We also note that in'li benefits from advantageous acquisition prices, partly due to the favorable tax regime for intermediary housing providers, and because block acquisitions allow the company to negotiate discounts with developers compared with individual unit transactions.

We acknowledge these future large investments may create some development risk, especially for the remaining 20% of the development pipeline that will be realized in "Maitrise d'Ouvrage Directe," under which in'li directly supervises the construction process as a property developer. That said, the investment capex would likely be limited to 5%-10% of the total portfolio value per year.

Due to the low rents and yields intrinsic to the intermediary housing segment, and the high proportion of fixed costs, in'li's expected EBITDA margins of below 50% in the coming two years compare negatively with those of rated real estate peers. However, margins should improve thereafter thanks to the company's portfolio rejuvenation strategy, which should result in higher average rents and lower maintenance needs. Moreover, compared with some of its peers with the same business risk assessment, such as Deutsche Wohnen, in'li's portfolio is smaller and more geographically

concentrated. Therefore, we view in'li's business risk profile as being at the lower end of our strong business risk category.

Financial Risk: Intermediate

Our view of in'li's financial risk profile reflects the company's prudent and public financial policy to maintain a reported LTV ratio below 35%-40%, translating into the same level for our S&P Global Ratings-adjusted debt to debt plus equity, and our expectations of EBITDA interest coverage remaining above 3.5x over the next 12-24 months.

The company's S&P Global Ratings-adjusted debt to debt plus equity (fair value adjusted) was 21.1% at end-2020, close to its reported 21.5% LTV. We expect this ratio to remain below 30% over the next 24 months, which is very low compared with the average in the industry (35%-50%). in'li's investment plan will be partly funded (about two-thirds) by additional debt, as well as capital injections from its parent Action Logement Immobilier, and progressive disposals of mature or noncore assets. We understand that this will result in a gradual increase of in'li's debt to debt plus equity in the coming three years, as its financial policy allows a maximum 35%-40% reported LTV ratio. This would still compare positively with most of the company's peers in the same financial risk profile category.

We anticipate that the company's EBITDA interest coverage ratio will temporarily deteriorate from 4.8x to around 3.5x in 2021. This is because its EBITDA will be affected by the material asset disposals to Cronos completed during the year, and because of around €2.7 million in indemnities for early debt repayment. That said, this ratio remains commensurate with our intermediate financial risk assessment and should recover to 4.0x-5.0x from 2022.

However, the good positioning of these two ratios is partly offset by the company's relatively high debt to EBITDA, at 11.8x at end-2020, expected to increase to around 13.0x in 2021, and 14.0-15.0x in 2022. This is because i) the company's core strategy is to produce new dwellings, and the construction period lasts around three years, resulting in EBITDA generation lagging debt usage; and ii) the intermediary housing segment has naturally low rents and yields.

Financial summary

in'li--Financial Summary			
Industry Sector: Real estate investment trust or company			
	--Fiscal year ended Dec. 31--		
	2020	**2019**	**2018**
(Mil. €)			
Revenue	402.0	387.2	352.0
EBITDA	156.0	139.7	137.8
Interest expense	32.6	31.1	25.9
Cash flow from operations	89.4	92.3	107.9
Capital expenditure	571.2	494.3	343.4
Gross available cash and short-term investments	140.8	475.3	380.1
Debt	1,845.5	1,545.2	1,291.1
Equity	6,888.9	6,797.8	6,673.2

in'li--Financial Summary (cont.)

Industry Sector: Real estate investment trust or company			
	--Fiscal year ended Dec. 31--		
	2020	2019	2018
Adjusted ratios			
EBITDA margin (%)	38.8	36.1	39.1
EBITDA interest coverage (x)	4.8	4.5	5.3
Debt/EBITDA (x)	11.8	11.1	9.4
Debt/debt and equity (%)	21.1	18.5	16.2

Reconciliation

in'li--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2020--			
in'li reported amounts (mil. €)				
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**
Reported	1,982.0	1,955.1	173.2	86.3
S&P Global Ratings' adjustments				
Postretirement benefit obligations/deferred compensation	4.3	--	(0.2)	(0.2)
Accessible cash and liquid investments	(140.8)	--	--	--
Nonoperating income (expense)	--	--	--	0.9
Equity: Fair value adjustments	--	4,933.8	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(20.0)	(20.0)
EBITDA: Other	--	--	2.9	2.9
Total adjustments	(136.5)	4,933.8	(17.2)	(16.3)
S&P Global Ratings' adjusted amounts				
	Debt	**Equity**	**EBITDA**	**EBIT**
	1845.5	6888.9	156.0	69.9

Liquidity: Strong

We assess in'li's liquidity as strong. We anticipate that liquidity sources will likely cover uses by more than 1.5x for the 12 months starting Oct. 1, 2021, and by more than 1.0x for the 24 months from the same date. We also anticipate that the company can absorb high-impact, low-probability events without refinancing, that it will maintain solid relationships with banks and generally prudent risk management. The short-term issuer credit rating is 'A-1'.

Principal Liquidity Sources	Principal Liquidity Uses
• €951 million of cash and liquid investments; • €910 million of undrawn bank lines maturing	• About €290 million of debt maturities for the next 12 months;

beyond the next 12 months;

- Our estimate of about €100 million cash funds from operations; and
- Around €50 million capital injection from ALI.

- €700 million-€800 million of development capex, as part of the strategy to produce new housing; and
- €10 million-€15 million dividends.

Debt Maturities

in'li's average debt maturity is nine years.

Covenant Analysis

The syndicated €600 million loan documentation contains the following covenants:

- LTV ratio below 65%; the company reported 21.5% at the end of 2020.
- Interest coverage ratio above 1.5x; the company reported 4.8x at the end of 2020.
- Secured debt ratio (debt secured by mortgage divided by the total real estate portfolio value) below 30%; the company had 10.7% at the end of 2020. This ratio is also the covenant in the bond's documentation.
- Portfolio value above €2.5 billion; the company's portfolio value was €8.7 billion at the end of 2020.

Environmental, Social, And Governance

We believe in'li's operating strategy has a positive social impact on the community. Social factors are a positive consideration to our credit rating analysis of in'li. The company's mission is to provide housing to middle-income households, whose income is too high to access social housing but too low to afford free market rents. in'li's assets fall under the "intermediary housing" scheme ("logement intermédiaire" in French) created by a governmental decree in 2014 to offer reduced rents in areas where housing supply is low and therefore rents are too high for middle-income households. To this end, the company acquires assets in development at a subsidized price and rents them for about 15%-20% below prevailing market levels. This supports our view of in'li's strong competitive position because we believe its assets should meet a sustained demand, especially in the currently severe housing shortage in Paris. From an environmental perspective, given its project to produce 80,000 new intermediary housing in the Paris region over the next 10 years, in'li will heavily invest in new residential assets with much better energy performance than old buildings. The renewal of part of the company's portfolio will therefore improve its energy performance, even though greenfield development results in high land use.

Group Influence

We continue to view in'li as a strategically important subsidiary of Action Logement group via ALI. This underpins our assessment that the group would likely provide financial support to in'li in case of need. We believe ALI is highly unlikely to sell in'li. This is because we understand that, given the nature of in'li's operations, it plays an important role

in meeting one of Action Logement group's key objectives of providing affordable housing solutions for employees across France's most economically dynamic region. We also recognize Action Logement group's commitment to provide in'li with sizable capital injections and long-term, subsidized loans over the coming years, under the terms of Action Logement group's 2018-2022 contract with the French government that aims to correct a market failure in the provision of affordable housing, reflecting significant sector undersupply.

In our view, ALI's multiyear financial planning and strategy should structurally sustain a strong financial profile over the coming years. We also believe that ALI will maintain adequate transparency.

As France's largest social housing group, ALI is a non-asset-holding company that controls 46 social housing providers (SHPs). It is active in traditional social housing activities and manages 984,000 social housing units across France (or around 19% of France's total). ALI owns 99.41% of in'li, the largest of its five companies that provide intermediary housing for middle-income households. In our assessment of ALI's credit quality, we consider, among other factors, the low-risk nature of its social housing assets in all French regions, where demand is particularly high, explaining overall low vacancy.

That said, we believe that in'li, unlike ALI, would likely not receive any exceptional government support. We would expect the French government to provide exceptional support to ALI's social housing activities if needed (on top of ongoing support mechanisms available to all French SHPs), but that ALI's intermediary housing activities (such as in'li) would not benefit from such extraordinary government support. This is because intermediary housing is a competitive sector with private players. As such, our assessment of ALI's group support to in'li incorporates only ALI's intrinsic credit quality, without factoring in extraordinary government support.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of June 30, 2021, in'li's capital structure comprises bank and bond debt with 57% of total debt being unsecured.

Analytical conclusions

We rate in'li's senior unsecured bond of €599 million in line with the issuer credit rating. This is because the proportion of the company's secured debt that could create structural subordination for senior unsecured debtholders is about 10%, well below our 40% threshold for notching issue ratings downward from issuer credit ratings.

Ratings Score Snapshot

Issuer Credit Rating

A/Stable/A-1

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- EMEA Real Estate (REITs) Paving The Way For Renewed Growth, July 16, 2021

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	**a-/bbb+**	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of December 2, 2021)*

in'li	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Issuer Credit Ratings History	
05-Mar-2020	A/Stable/A-1
31-Jan-2020	A/Stable/--
14-Nov-2019	A-/Stable/--
22-May-2019	BBB+/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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