FitchRatings

Corporates

Property/Real Estate / Brazil

Cyrela Commercial Properties S.A. Empreendimentos e Participacoes

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	B+

Local Currency

Long-Term IDR	B+

National

Long-Term Rating	BBB+(bra)
Debentures	BBB+(bra)

Rating Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative
National Long-Term Rating	Negative

Financial Data

Cyrela Commercial Properties S.A. Empreendimentos e Participacoes

(BRL Mil.)	2016	2015
Revenue	363	368
Adjusted EBITDA	207	238
Adjusted EBITDA Margin (%)	56.9	64.7
FFO	47	26
FCF	(157)	(241)
Cash and Marketable Securities	413	566
Total Debt	2,462	2,488
Total Debt/Adjusted EBITDA (x)	10.1	8.5
FFO-Adjusted Leverage (x)	9.8	11.0
Adjusted EBITDA/ Interest Paid (x)	1.0	1.1

Related Research

Fitch Affirms CCP's IDR at 'B+'; Downgrades National Scale to 'BBB+(bra)'; Outlook Negative (March 2017)

2017 Outlook: Latin America Real Estate (Operational Resilience Remains Tested) (December 2016)

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Key Rating Drivers

Cash Flow to Remain Pressured: The ratings reflect Cyrela Commercial Properties S.A. Empreendimentos e Participacoes' (CCP) still-weak cash flow generation, pressured by highly unfavorable macroeconomic conditions and sizable operational cash burn due to high financial expenses. The sale of 33% equity interest in the companies that own the CCP corporate offices portfolio will also negatively affect cash flow. High volume of lease contracts expiring or with market alignment expected in the short term also presents challenges for CCP.

High Leverage Not Sustainable: Net leverage is very high and is not expected to significantly reduce in the next two years without a sale of assets and/or capital increase. Fitch Ratings projects CCP's net leverage to decline to about 7.0x by year-end 2018. Notwithstanding an equity injection and sale of assets, net debt remained stable at BRL2.0 billion in 2016 and is expected to fall to BRL1.6 billion following the transaction with the Canada Pension Plan Investment Board (CPPIB) and Prologis Inc.

Satisfactory Liquidity: CCP's liquidity is satisfactory for debt maturities due in the short term, but Fitch expects cash burn to remain high in 2017. CCP has adequate financial flexibility from its unencumbered assets. Interest coverage deteriorated since 2013 and is not expected to recover in the short term.

Vacancy Rates a Concern: Fitch expects vacancy rates to remain high and lease spreads in rental contracts to be below inflation in 2017, pressuring cash flow.

Diversified Portfolio: CCP is one of the largest companies in investment, lease and commercialization of commercial properties in Brazil, with a diversified and high-quality portfolio. The diversification of revenues from shopping centers, office buildings, industrial warehouses and services adds flexibility.

Negative Outlook: The Negative Outlook reflects CCP's challenge to improve its credit metrics to more conservative levels in less favorable economic conditions. CCP's credit metrics are weak for the rating level. Fitch believes additional measures to significantly reduce CCP's indebtedness and leverage are necessary to reduce pressures for new negative rating actions.

Rating Sensitivities

Negative Action: Developments that could lead to a negative rating action include net leverage consistently above 7.0x without expectation of reduction in the coming years; EBITDA/gross interest expense coverage ratio consistently below 0.7x; and liquidity falling to levels that considerably weaken short-term debt coverage. A sale of assets that results in a weaker portfolio of properties, with a significant reduction of CCP's cash flow capacity not followed by a strong leverage reduction, could also result in a rating downgrade.

Revision of the Outlook to Stable: Developments that could result in a revision of the rating Outlook include significant improvement in the company's cash flow following the end of its investment cycle; and additional proactive steps by CCP to materially bolster its capital structure in the absence of stronger operating cash flow.

Financial Overview

Liquidity and Debt Structure

CCP's liquidity is satisfactory for debt maturities due in the short term and the expected cash burn. As of Dec. 31, 2016, cash and marketable securities totaled BRL413 million and total debt was BRL2.5 billion. The company has BRL415 million of debt maturing in 2017 and BRL387 million in 2018, of which BRL177 million and BRL236 million, respectively, consisted of corporate debt. In November 2016, the company issued BRL200 million debentures to extend its debt maturity profile.

Fitch considered the expected proceeds from the sale of assets, totaling BRL450 million–BRL500 million, to be received in the coming months. The proceeds are associated with the proposal to sell and exchange assets with CPPIB and Prologis, which was announced in January 2017. The expected sale of assets should allow the company to reduce debt during 2017, although it is expected to remain high, as FCF is projected to remain highly pressured by weak operational cash generation and high financial expenses, despite lower investments.

Fitch projects CCP's net leverage to decline to about 7.0x by year-end 2018. Notwithstanding the equity injection and sale of assets, net debt remained stable at BRL2.0 billion in 2016 and is expected to fall to BRL1.6 billion following the transaction with CPPIB and Prologis. In Fitch's opinion, the company's leveraged capital structure should not significantly improve in the short term without a relevant sale of assets and/or capital increase.

CCP reported net debt/adjusted EBITDA (including dividends received) of 8.4x in 2016, compared with 6.6x in 2015. FFO-adjusted net leverage was 8.1x due to weak FFO. Relative to the value of the company's property portfolio, net loan-to-value ratio was 44% at December 2016.

CCP has adequate financial flexibility, which has been tested and remains preserved based on its continued access to new credit lines in an environment of restricted credit. This positive access limited refinancing risk. In the last three years, the company received BRL400 million of capital increase from shareholders and BRL220 million from the sale of assets.

As of Dec. 31, 2016, unencumbered assets had an estimated market value of BRL1.5 billion, which may be available for sale or to serve as collateral for a secured financing, if needed. The estimated value of unencumbered assets covered about 1.5x corporate debt of BRL955 million.

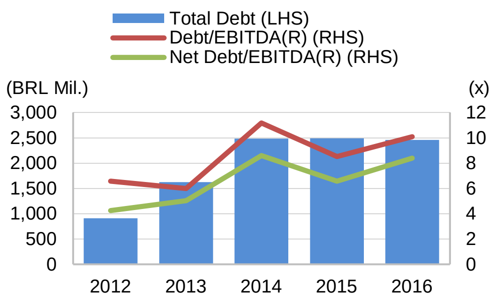
Debt Maturities and Liquidity

(BRL Mil., As of Dec. 31, 2016)

2017	415
2018	387
2019	474
2020	256
2021	175
After	756
Cash Flow from Operations	34
Cash	413
Undrawn Committed Facilities	0

Source: Company, Fitch.

Total Adj. Debt and Leverage Ratios



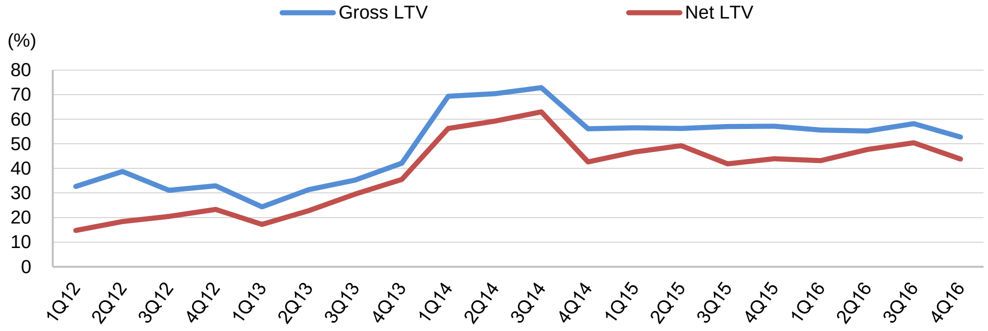
Source: Company, Fitch.

Related Criteria

Criteria for Rating Non-Financial Corporates (March 2017)

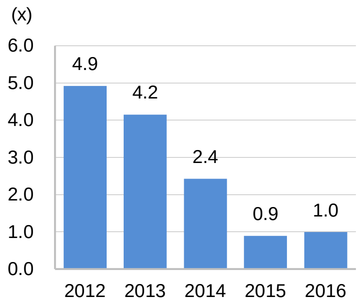
National Scale Ratings Criteria (March 2017)

Loan to Value



Source: Company, Fitch.

FFO Interest Coverage



Source: Company, Fitch.

Cash Flow Analysis

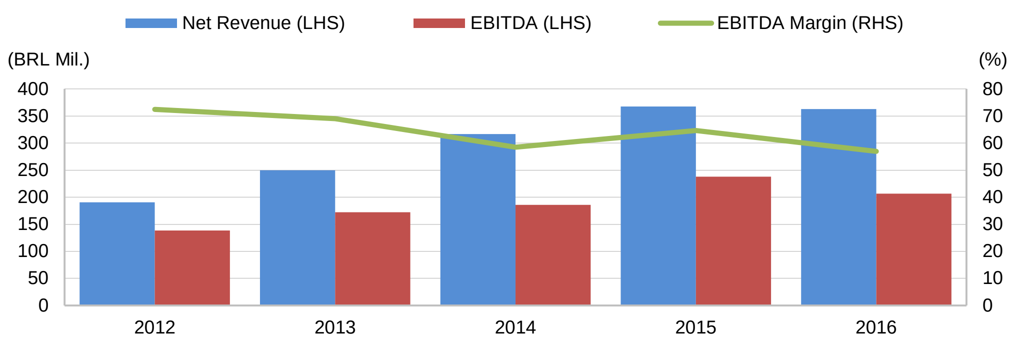
CCP's cash flow will continue to be affected by negative business conditions. Fitch expects vacancy rates to remain high and lease spreads low, as demand for commercial properties is directly related to Brazil's economic conditions. Additional pressure is expected in CCP's lease agreements, as a high 61% of contracts (by revenues) have market alignment scheduled for 2017 and 2018, while 16% of the office and warehouse contracts and 40% of shopping contracts will expire in the period.

In 2016, the company generated BRL207 million of EBITDA. Fitch projects EBITDA of around BRL175 million in 2017. Fitch's base case scenario considers vacancy rates between 10% and 20% for office and warehouse segments and leasing spreads below the inflation rate. Fitch excludes gain/loss from the sale of assets from EBITDA calculations.

High interest expenses should continue to pressure CCP's cash flow. In 2016, the company's cash flow from operations totaled BRL34 million and FCF was negative BRL157 million as a result of investments of BRL186 million and dividends of BRL6 million. During the year, CCP received about BRL207 million from asset sales. Fitch expects FCF to remain negative in 2017.

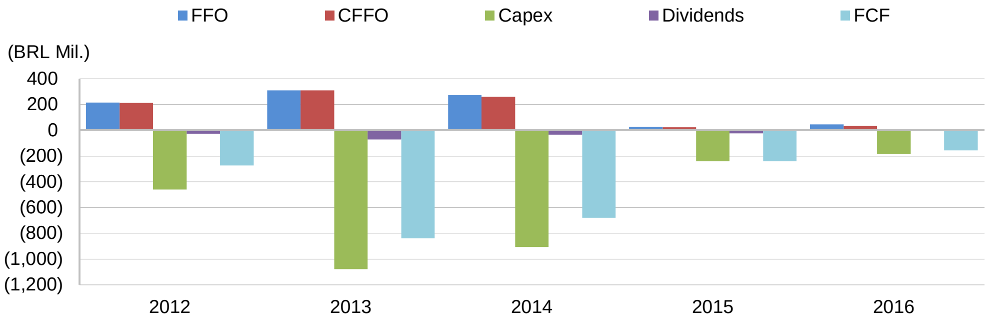
Interest coverage deteriorated since 2013 and is not expected to recover in the short term. In 2016, EBITDA/interest and FFO interest coverage ratios were 1.0x. These compared with 1.1x and 0.9x, respectively, in 2015. Fitch expects interest coverage close to 0.8 during 2017.

Financial Performance — Annually



Source: Company, Fitch.

Cash Flow Performance



CFFO – Cash flow from operations.
Source: Company, Fitch.

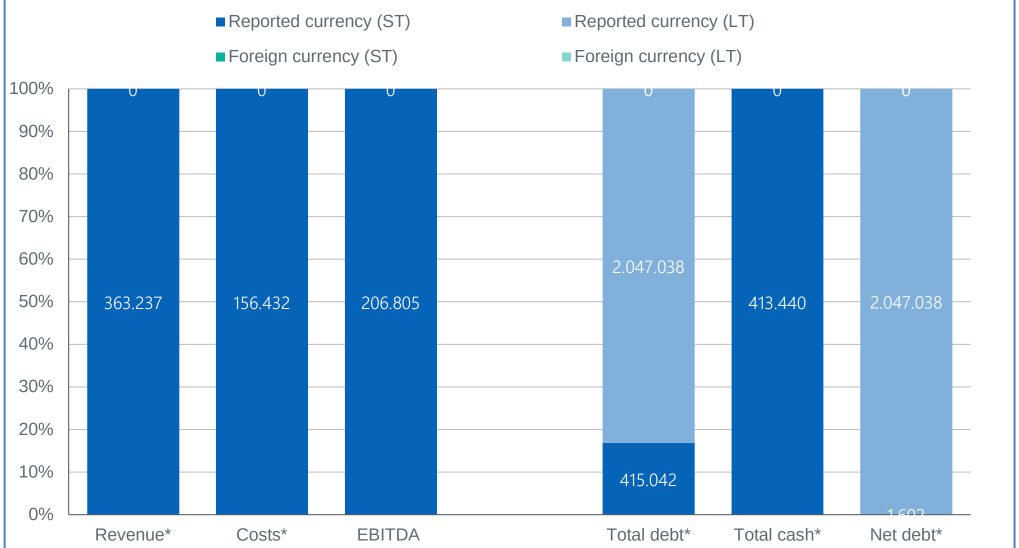
FX Screener

The *Fitch FX Screener* chart shows Fitch's estimates of the foreign currency (FC) and local currency split between CCP's debt, sales and operating costs. It illustrates the relative proportions rather than specific figures, thereby acknowledging the limitations of calculating the currency splits for a given financial year.

Fitch analysts make estimates, sometimes with information from management, as to the actual FC receipts or FC-linked income relative to costs. Within the screener's debt columns, the short-term FC debt, usually in U.S. dollars, is highlighted because, in a volatile currency market, this debt has to be physically repaid with FC using cash or accommodative refinancing in the bond or bank market.

CCP has no FX risk exposure. The company has no debt in foreign currency debt and 100% of revenues and costs are in local currency.

Fitch FX Screener
(Cyrela Commercial Properties S.A. Empreendimentos e Participacoes — B+/Negative, dez-yy, BRLth)



*Post hedge, absolute figures displayed are Fitch's analytical estimates, based on publicly available information
Source: Fitch

Peer and Sector Analysis

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
April 29, 2011	BB	Stable
April 18, 2012	BB	Stable
April 17, 2013	BB+	Stable
April 17, 2014	BB+	Stable
April 13, 2015	BB	Negative
April 6, 2016	B+	Negative
March 23, 2017	B+	Negative

LT IDR – Long-term Issuer Default Rating. FC – Foreign currency.
Source: Fitch.

Peer Group Analysis

(BRL Mil.)	Cyrela Commercial Properties S.A. Empreendimentos e Participacoes	BR Properties S.A.	BR Malls Participações S.A.	Iguatemi Empresa de Shopping Centers S.A.
LTM As of	12/31/16	12/31/16	9/30/16	12/31/16
Long-Term IDR/National Scale Rating	B+/BBB+(bra)	BB–/A(bra)	BB+/AA+(bra)	AA+(bra)
Outlook	Negative	Negative	Negative/Stable	Stable
Financial Statistics				
Revenue	363	466	1,386	668
Revenue Growth (%)	(1.2)	(34.9)	(4.2)	5.0
Operating EBITDA	207	336	1,066	520
Operating EBITDA Margin (%)	56.9	72.2	76.9	77.9
FCF	(157)	(507)	(17)	190
Total Adjusted Debt with Equity Credit	2,462	3,787	4,927	2,240
Readily Available Cash and Equivalents	413	966	406	557
FFO	47	(160)	400	373
Capex	(186)	(337)	(292)	(109)
Credit Metrics (x)				
Operating EBITDA/Interest Paid	1.0	0.8	2.0	2.2
FFO Fixed-Charge Coverage	1.0	0.3	1.6	2.2
Total Adjusted Net Debt/EBITDAR	8.4	8.4	4.6	3.2
FFO Interest Coverage	1.0	0.3	1.6	2.2

IDR – Issuer Default Rating.
Source: Fitch.

Company Profile

CCP is one of the largest companies in investment, lease and commercialization of commercial properties in Brazil, with a diversified and high-quality portfolio. The diversification of revenues from shopping centers, office buildings, industrial warehouses and services adds flexibility. In the last few years, shopping centers gained additional importance in the company's portfolio and represented about 45% of CCP's recurring revenues in 2016, followed by office buildings (29%), services including parking lot (20%), industrial warehouses (1%), and others (5%).

At year-end 2016, the company owned 31 commercial properties in operation with an estimated market value of BRL4.4 billion and gross leasable area (GLA) of 451,552 square meters, excluding developments. Currently, CCP has two projects in development that are expected to add 55,808 square meters of GLA to its portfolio.

Operational Portfolio

	2014	2015	2016
Number of Properties			
Office	14	13	12
Warehouse	7	7	10
Shopping	6	7	8
Others	2	1	1
Development	16	5	2
Total	**45**	**33**	**33**
Properties In Operation by GLA (000 sqm)			
Office	107,829	105,126	85,604
Warehouse	139,522	139,529	149,073
Shopping	118,006	134,888	199,376
Others	18,741	17,499	17,499
Total	**384,098**	**397,042**	**451,552**
Properties In Development by GLA (000 sqm)			
Office	8,478	8,145	16,289
Warehouse	384,433	164,032	39,519
Shopping	34,413	16,737	—
Total	**427,324**	**188,914**	**55,808**
Properties by Gross Revenues (BRL Mil.)			
Office	124	117	114
Warehouse	10	8	4
Shopping	125	163	177
Services and Others	74	104	96
Total	**334**	**391**	**391**

GLA – Gross leasable area. Sqm – Square meters.
Source: Company, Fitch.

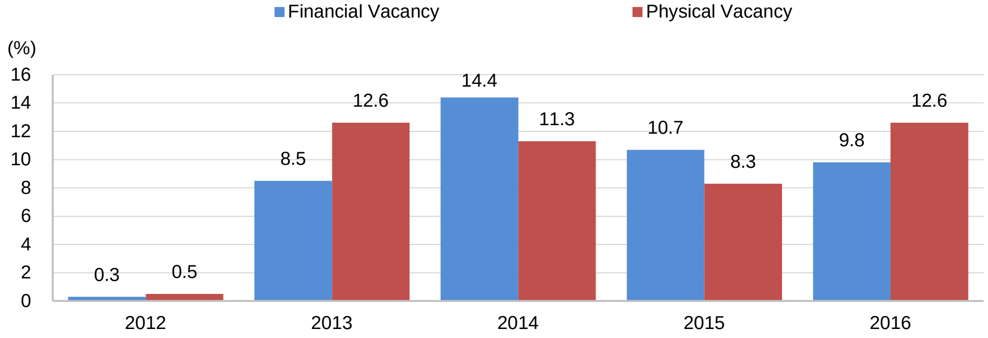
Tenant Distribution

CCP has a presence in five Brazilian states. However, the company's activities are concentrated in São Paulo, which accounts for 81% of total GLA, and in Rio de Janeiro, representing 10% of GLA. CCP has a concentration of tenants, with the 10 largest representing 57% of revenues in 2016. This risk is partially mitigated by the high quality of its tenants and its property portfolio.

Vacancy

Vacancy should remain high, pressured by the adverse business environment. As of Dec. 31, 2016, the financial vacancy rate was 9.8% and physical vacancy was 12.6%, compared with 10.7% and 8.3%, respectively, in 2015. In 2016, average rent for office buildings declined about 9%, while average rent for the warehouse segment fell 10%, pressured by depressed macroeconomic conditions and by lease contracts that went through revisions during the year.

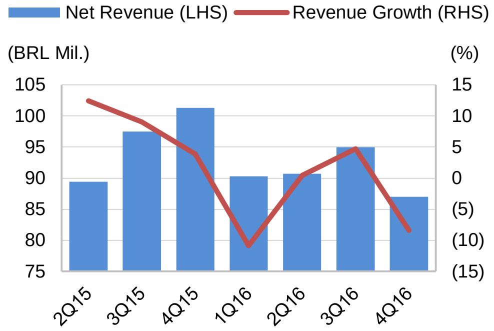
Vacancy Rates



Source: Company, Fitch.

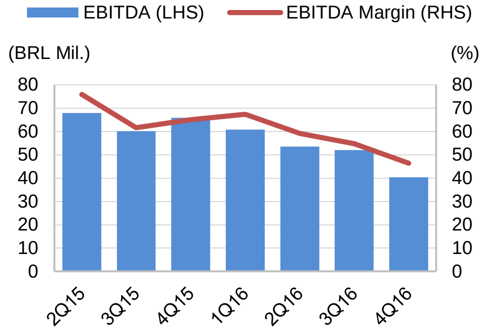
Business Trends

Revenue Trends



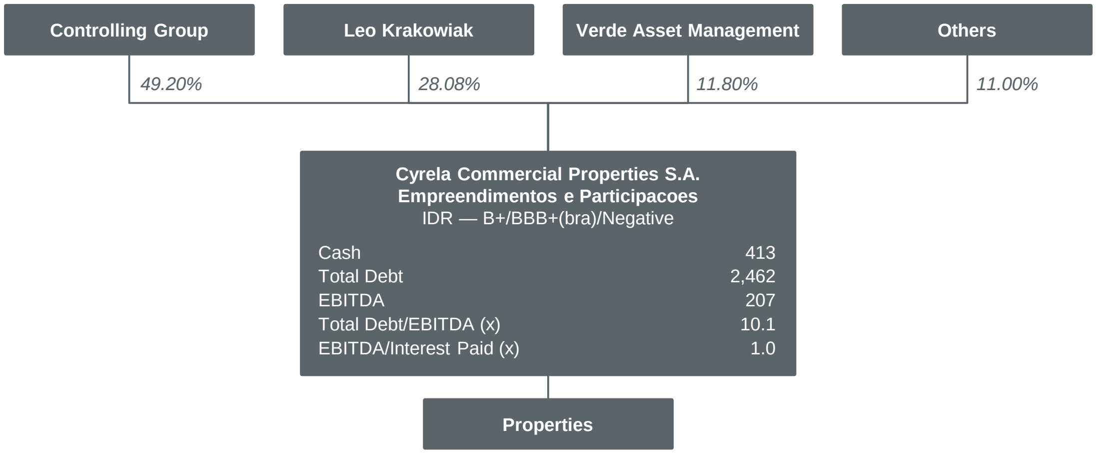
Source: Company, Fitch.

EBITDA Trends



Source: Company, Fitch.

Organizational Structure — Cyrela Commercial Properties S.A. Empreendimentos e Participacoes
(BRL Mil., As of Dec. 31, 2016)



IDR – Issuer Default Rating.
Source: Company, Fitch.

Key Forecast Assumptions

Key Fitch forecast assumptions include:

- Vacancy rates between 10% and 20% for office and warehouse and 8% for shopping in 2017;
- Reduction in average rent up to 10% in 2017;
- Closure of transaction with CPPIB and Prologis, with 33% reduction in gross leasable area for office in 2017;
- Net leverage below 7.0x by the end of 2018;
- Low investments of BRL65 million in 2017 and 2018. Investments in the joint venture with CPPIB are not considered.

Forecast Summary — Cyrela Commercial Properties S.A. Empreendimentos e Participacoes

	Historical		Fitch Forecast		
(BRL 000, As of Dec. 31)	2015	2016	2017	2018	2019
Summary Income Statement					
Gross Revenue	367,748	363,237	362,519	395,093	417,918
Revenue Growth (%)	16.0	(1.2)	(0.2)	9.0	5.8
Operating EBITDA	237,771	206,805	175,093	202,840	220,868
Operating EBITDA Margin (%)	64.7	56.9	48.3	51.3	52.9
Operating EBITDAR	237,771	206,805	175,093	202,840	220,868
Operating EBITDAR Margin (%)	64.7	56.9	48.3	51.3	52.9
Operating EBIT	211,822	175,010	165,724	192,496	210,108
Operating EBIT Margin (%)	57.6	48.2	45.7	48.7	50.3
Gross Interest Expense	(278,463)	(298,131)	(250,686)	(216,523)	(198,507)
Pretax Income	84,055	44,872	(69,962)	(9,027)	26,602
Summary Balance Sheet					
Readily Available Cash	566,073	413,440	404,592	236,325	156,383
Total Debt with Equity Credit	2,488,444	2,462,080	2,047,038	1,860,517	1,736,796
Total Adjusted Debt with Equity Credit	2,488,444	2,462,080	2,047,038	1,860,517	1,736,796
Net Debt	1,922,371	2,048,640	1,642,446	1,624,192	1,580,413
Summary Cash Flow Statement					
Operating EBITDA	237,771	206,805	175,093	202,840	220,868
Recurring Associate Dividends Less Distributions to NCI	53,983	37,448	35,000	35,000	35,000
Cash Interest Paid	(255,299)	(253,679)	(250,686)	(216,523)	(198,507)
Implied Interest Cost %	10.3	10.2	11.1	11.1	11.0
Cash Interest Received	—	—	15,000	15,000	15,000
Cash Tax	(31,034)	(31,093)	18,890	2,437	(7,182)
Other Items Before FFO	20,690	87,301	0	0	0
Funds Flow from Operations	26,111	46,782	(6,704)	38,754	65,179
FFO Margin (%)	7.1	12.9	(1.8)	9.8	15.6
Change in Working Capital	(3,280)	(12,398)	117	(5,305)	(3,717)
Cash Flow from Operations (Fitch Defined)	22,831	34,384	(6,587)	33,449	61,462
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capex	(241,018)	(186,016)	—	—	—
Capital Intensity (Capex/Revenue) (%)	65.5	51.2	—	—	—
Common Dividends	(23,266)	(5,535)	—	—	—
Net Acquisitions and Divestitures	11,060	207,448	—	—	—
Capex, Dividends, Acquisitions and Other Items Before FCF	(253,224)	15,897	412,781	(15,196)	(17,683)
FCF After Acquisitions and Divestitures	(230,393)	50,281	406,194	18,253	43,779
FCF Margin (After Net Acquisitions) (%)	(62.6)	13.8	112.0	4.6	10.5
Other Investing and Financing Cash Flow Items	(150,417)	(135,070)	0	0	0
Net Debt Proceeds	(26,117)	(67,844)	(415,042)	(186,521)	(123,721)
Net Equity Proceeds	400,000	—	0	0	0
Total Change in Cash	(6,927)	(152,633)	(8,848)	(168,268)	(79,942)
Coverage Ratios (x)					
FFO Interest Coverage	0.9	1.0	0.9	1.1	1.3
FFO Fixed-Charge Coverage	0.9	1.0	0.9	1.1	1.3
Operating EBITDAR/Interest Paid + Rents[a]	1.1	1.0	0.8	1.1	1.3
Operating EBITDA/Interest Paid[a]	1.1	1.0	0.8	1.1	1.3
Leverage Ratios (x)					
Total Adjusted Debt/Operating EBITDAR[a]	8.5	10.1	9.7	7.8	6.8
Total Adjusted Net Debt/Operating EBITDAR[a]	6.6	8.4	7.8	6.8	6.2
Total Debt with Equity Credit/Operating EBITDA[a]	8.5	10.1	9.7	7.8	6.8
FFO-Adjusted Leverage	11.0	9.8	8.9	7.7	7.0
FFO-Adjusted Net Leverage	8.5	8.1	7.2	6.8	6.4

[a]EBITDA/R after dividends to associates and minorities. NCI – Noncontrolling interests.

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Source: Company, Fitch.

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