FitchRatings

Fitch Upgrades CCP's IDRs to 'BB-'; Outlook Revised to Stable

Fitch Ratings-Rio de Janeiro-07 July 2017: Fitch Ratings has upgraded Cyrela Commercial Properties S.A. Empreendimentos e Participacoes' (CCP) Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) to 'BB-' from 'B+' and its National Long-Term rating to 'A(bra)' from 'BBB+(bra)'. The Rating Outlook for the corporate ratings is revised to Stable from Negative. A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS

The rating upgrades follow the announcement that CCP concluded the transaction to sell and exchange assets with Canada Pension Plan Investment Board (CPPIB) and Prologis, and the material positive impact expected on the company's capital structure. Fitch considered the expected proceeds from the sale of assets, in the amount of BRL1.13 billion, will be used to amortize about BRL1 billion of debt in 2017, reducing leverage to significantly more conservative levels and improving interest coverage ratios. The rating action incorporates Fitch's expectation that CCP will preserve more conservative leverage on a recurring basis, when the transaction is concluded and relevant volume of debt is amortized.

On July 4, 2017, CCP announced two transactions with its partners in the logistics warehouses business. The transactions include: (i) CCP will transfer to CPPIB 33% equity interest in the companies which own the CCP corporate offices portfolio; (ii) In exchange, CPPIB will transfer to CCP its equity interest in the companies which own the logistic warehouses portfolio; (iii) Establish guidelines for the creation of new joint ventures between CCP and CPPIB towards new investments in corporate offices in the amount of up to USD400 million; and (iv) CCP will sell to Prologis 100% of CCP's interest (considering CPPIB transaction) in CCP Logistica Empreendimentos Imobiliarios S.A. (CCP Logistica), for BRL1.2 billion, of which CCP will receive BRL1.13 billion.

CCP's high leverage will significantly reduce following the sale of assets. On a pro forma basis, net debt/adjusted EBITDA (including dividends received) ratio will improve to 5.1x, from 8.9x reported in the latest 12 months (LTM) ended March 2017 and 8.4x in 2016, and incorporates a net debt reduction of about BRL1 billion and lower annual EBITDA generation of about BRL46 million. This compares with the previous expected reduction of net leverage to about 7.0x by the end 2018, during the March 2017 rating review that included the expectation of asset sales close to BRL500 million.

CCP still has the challenge to improve cash flow generation in less favorable macroeconomic conditions. Fitch expects free cash flow (FCF) to remain highly pressured by weak operational cash generation, despite lower cash burn from reduced financial expenses and investments. Vacancy rates should remain high and lease spreads in rental contracts below inflation in 2017, which should continue to limit company's cash flow generation. The sale of 33% equity interest in the companies which own the CCP corporate offices portfolio and the sale of CCP Logistica will also negatively affect cash flow generation. High volume of lease contracts expiring or with market alignment expected in the short term also presents challenges to CCP.

CCP generated BRL235 million of adjusted EBITDA and cash flow from operations (CFFO) was BRL34 million in the LTM ended March 31, 2017, pressured by high financial expenses of about BRL229 million. During this period, total debt/EBITDA and net debt/EBITDA ratios were 10.1x and 8.9x, respectively, and compare with 8.5x and 6.6x in 2015. Interest coverage, measured as EBITDA/interest ratio, was 1x in the LTM ended March 31, 2017, stable compared with 2016.

CCP's ratings continue to benefit from the company's high quality portfolio and adequate financial flexibility, that has been tested and remain preserved based on the company's continued access to new credit lines, in a scenario of restricted credit. This positive access limited refinancing risk. During the last three years, the company received BRL400 million of capital increase from shareholders and BRL220 million from the sale of assets, in addition to the recent announcement.

DERIVATION SUMMARY

CCP is one of the largest companies of 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 more flexibility to the company. Following the conclusion of the transaction, the company will have an estimated market value of properties of BRL3.3 billion (excluding projects under development), with a gross leasable area of 279,278 sqm. As other commercial properties companies in Brazil, CCP's vacancy is high, pressured by negative business environment.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer 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 transactions with CPPIB and Prologis in 2017;
--Net leverage around 5.0x in 2017;
--Low investments of BRL65 million in 2017 and 2018. Investments in the JV with CPPIB are not considered.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action
Positive rating actions are unlikely due to the difficult business environment. However, the following factors could lead to positive rating actions.

--Significant improvement in the company's cash flow generation;
--Net leverage consistently below 5.0x;
--EBITDA to gross interest expense coverage ratio above 1.3x, on a recurring basis.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action
--Net leverage consistently above 6.0x, without the expectation of a reduction trend in the following years;
--EBITDA to gross interest expense coverage ratio consistently below 1x;
--Liquidity falling to levels that considerably weaken short-term debt coverage;
--Sale of assets that results in a weaker portfolio of properties, with a significant reduction of the company's cash flow generation capacity, and not followed by a strong leverage reduction.

LIQUIDITY

CCP's liquidity will improve with the proceeds from the sale of assets and part of the proceeds will be used to prepay about BRL1 billion of debt, materially minimizing the refinancing pressure during the next couple of years. As of March 31, 2017, cash and marketable securities totaled BRL293 million and total debt, BRL2.4 billion. The company has BRL381 million of debt maturing in the short term and BRL306 million from April to December 2018, of which BRL127 million and BRL192 million, respectively, consisted of corporate debt.

FULL LIST OF RATING ACTIONS

Fitch has upgraded the following ratings:
Cyrela Commercial Properties S.A. Empreendimentos e Participacoes
--Long-term Foreign Currency IDR to 'BB-, from' 'B+';
--Long-term Local Currency IDR to 'BB-', from 'B+';
--Long-term National Scale rating to 'A(bra)', from 'BBB+(bra)';
--Fifth debenture issuance, in the amount of BRL200 million, due in 2019, to 'A(bra)', from 'BBB+(bra)';
--Eighth debenture issuance, in the amount of BRL200 million, due in 2020, to 'A(bra)', from 'BBB+(bra)'.
The Rating Outlook for the corporate ratings was revised to Stable, from Negative.

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Summary of Financial Statement Adjustments - Financial statement adjustments that depart materially from those contained in the published financial statements of the relevant rated entity:
Net revenues and Costs: Fitch has adjusted net revenues and costs by excluding the impact from asset sales.

Additional information is available on www.fitchratings.com

Applicable Criteria
Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017)
National Scale Ratings Criteria (pub. 07 Mar 2017)

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