S&P Global Ratings

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Impact Developer & Contractor SA

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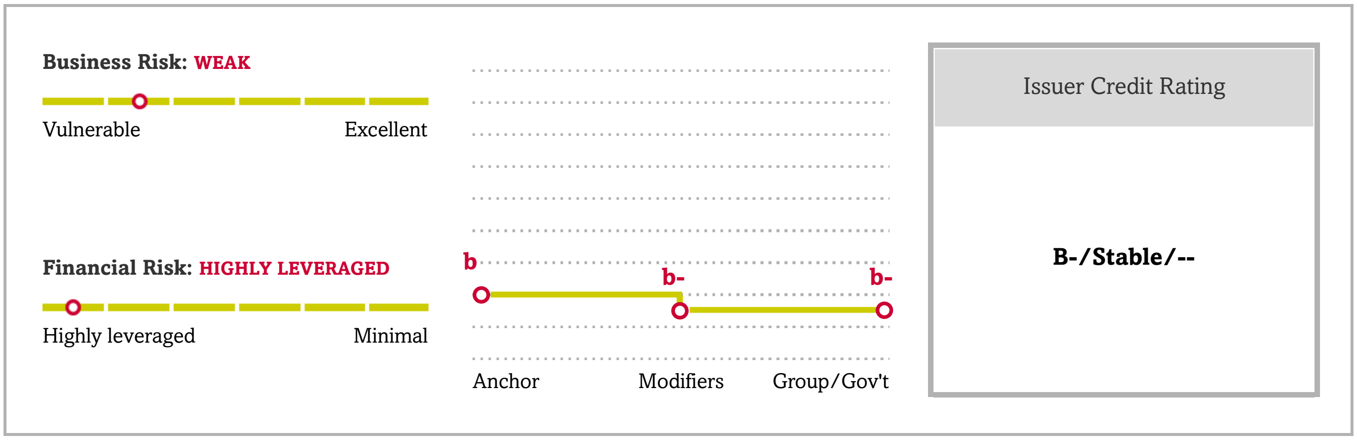


Credit Highlights

Overview

Key strengths	Key risks
Established residential real estate developer in Bucharest, Romania, with a long operational track record of about 30 years.	Small scale of operations and EBITDA base of about RON45 million in 2019, which could create volatility in ratios in event of market turmoil or a steep recession.
A sizable, well-located, land bank, which is sufficient for at least six-to-eight years of residential developments.	Full exposure to the Romanian housing market, which is highly cyclical and fragmented, with high dependence on Bucharest and two major projects: Greenfield and Luxuria, combined accounting for 90%-95% of the company's revenue in 2020-2021.
Good average EBITDA margin of 26%-27%, supported by pre-sales business model. The company recorded 27% of presales in the first six months of 2020.	High working capital needs inherent to the industry and the company's strategy to expand to other markets of Romania like IASI and Constanta.
	Weak operating performance in first-half (H1) 2020 as revenue declined by about 17% due to delay in deliveries for Luxuria. This weakened credit metrics: Debt to EBITDA reached close to 6.3x and EBITDA interest coverage ratio fell to 4.7x as of June 2020 (versus 4.3x and 7.7x, respectively, as of December 2019).

The Romanian government's lockdown measures affected Impact's operating performance in first-half (H1) 2020, although good presales in the Luxuria and Greenfield project should support credit metrics for 2020. In line with economies across globe, Romania implemented lockdown restrictions to contain the spread of COVID-19 starting mid-March 2020. This translated into a deep descent for demand for newly built housing in second-quarter 2020 but we understand it recovered a bit in third-quarter. Major restrictions were eased on May 15, 2020, but S&P Global Ratings believes the expected economic disruption caused by the pandemic could weigh on consumer confidence and purchasing power. We now expect the GDP growth for the Romania to decline by 5.5%-6.0% in 2020, and the unemployment rate to reach to 7.0%. Impact's operating performance suffered in H1 2020 due to COVID1-9 restrictions as construction sites, including the Luxuria project (55% of revenue), were delayed, so the company recorded lower revenue (Romanian leu [RON] 65.8 million as of June 30, 2020, compared with RON79.2 million over the same period in 2019). We understand that Impact's presales from its two largest projects, Greenfield and Luxuria, should provide some resilience because major deliveries started for Luxuria toward the end of H1 2020. This is further supported by the company achieving presales of 27% of total sales in H1 2020. We also see some product and customer diversity. The Greenfield project consists of midprice dwellings targeting higher-middle-class Romanians, while the high-end Luxuria project targets upper class families and a few professional investors, which could suffer from the pandemic in the near term. Nevertheless, we expect some delays in deliveries and price volatility will continue affecting Impact's operations and profitability in 2020, in line with our expectation for the sector.

Luxuria contributing an increasing share of Impact's revenue should affect the company's profitability, although credit metrics should remain well commensurate with the rating. Impact has a high dependence on two major projects--Greenfield and Luxuria. Combined, they represented 90%-95% of revenue in 2020 and we estimate this to decrease to about 85% in 2021 and 79% in 2022 as the residential project in Constanta will start generating revenue from 2021. We expect Luxuria's (lower-margin) contribution to Impact's overall revenue to increase to about 55% in 2020 and 75% in 2021, and Greenfield's (higher-margin) contribution to decrease as the project phase 3 is completed and phase 4 is in the permitting process, which will affect Impact's EBITDA margin. Accordingly, we expect the EBITDA margin to move toward 25%-26% from 29% in 2019 and S&P Global Ratings-adjusted debt to EBITDA close to 5.0x over the next 12-24 months.

Upcoming near-term bond maturities should affect cash flow, but Impact's liquidity remains supported by project deliveries. The company has a Credit Value Investments Sp. z o.o (CVI) bond of €12 million and Bucharest Stock Exchange (BSE) bonds of €12.06 million maturing in 2021-2022. In addition, the company has €25 million of loans maturing when Luxuria completes phases 1 and 2 in the next 12 months as of June 30, 2020. Nevertheless, we believe these project finance maturities will be repaid ahead of those mostly from customer receivables. In addition, the €20 million-€25 million proceeds from the deliveries of Greenfield and Luxuria in the next 12-24 months, along with the €8.2 million of available working capital facilities, will support further cash calls from investments and support the overall liquidity over next 12 months.

Outlook: Stable

The stable outlook reflects our expectation that COVID-19's effect on Impact's revenue should remain supported by presales and a diversified customer base. Therefore, we expect the company to post EBITDA interest coverage above 3.5x, and debt to EBITDA of close to 5.0x at least for the next 12 months.

Downside scenario

We could lower the rating if Impact's liquidity cushion materially deteriorates. We would also take a negative rating action if Impact's debt-funded expansion becomes larger than we expect or its apartment sales in the next two years are substantially below our expectations, translating into EBITDA interest coverage lower than 2x.

Upside scenario

We could take a positive rating action most likely following a significantly larger and more stable EBITDA base. Alternatively, we could raise the rating if the company runs its business with a more disciplined financial policy, such that debt to EBITDA is well below 4x sustainably.

Our Base-Case Scenario

We believe the pandemic, and the related subdued purchasing power, is likely to weigh on the housing market in Romania especially because of the negative effect on the main housebuilding market factors, including consumer confidence, GDP growth, and mortgage rates. We expect some slowdown in construction activity in 2020 from lockdown measures and presales to be subject to the pace of recovery in consumer confidence. Subsequently, Bucharest's residential market might see a price decline in the near term to support sales volume, because we understand mortgage lending conditions have tightened.

Assumptions

- Romania's GDP to fall by 5.5% in 2020, with a recovery of 3.0%-4.0% in 2021-2022.
- Consumer price index inflation of 2.5% in 2020, with gradual recovery of 3.5%-3.7% in 2021-2022.
- Impact's continued reliance on sales from Greenfield and Luxuria over the next two years, although we expect some delays and price fluctuations due to the pandemic.
- Revenue of RON180 million-RON200 million in 2020 and RON225 million-RON250 million in 2021, increase from RON156.7 million in 2019, supported by the delivery of apartments in Greenfield phases III and IV and Luxuria phases I and II.
- EBITDA margin to moderately decline to 25%-26% in 2020-2021 from 29.1% in 2019, where economies of scale (fixed cost structure) and the low-cost land bank should be offset by the revenue contribution from Luxuria, which has lower margins than Greenfield and other projects.
- Working capital outflow of RON40 million-RON60 million in the next 12 months to support the construction of Luxuria phases II and III.
- Nominal capital expenditure of about RON50 million in 2020-2021, mainly for land purchases for future developments.

Key metrics

Impact Developer & Contractor SA--Key Metrics*

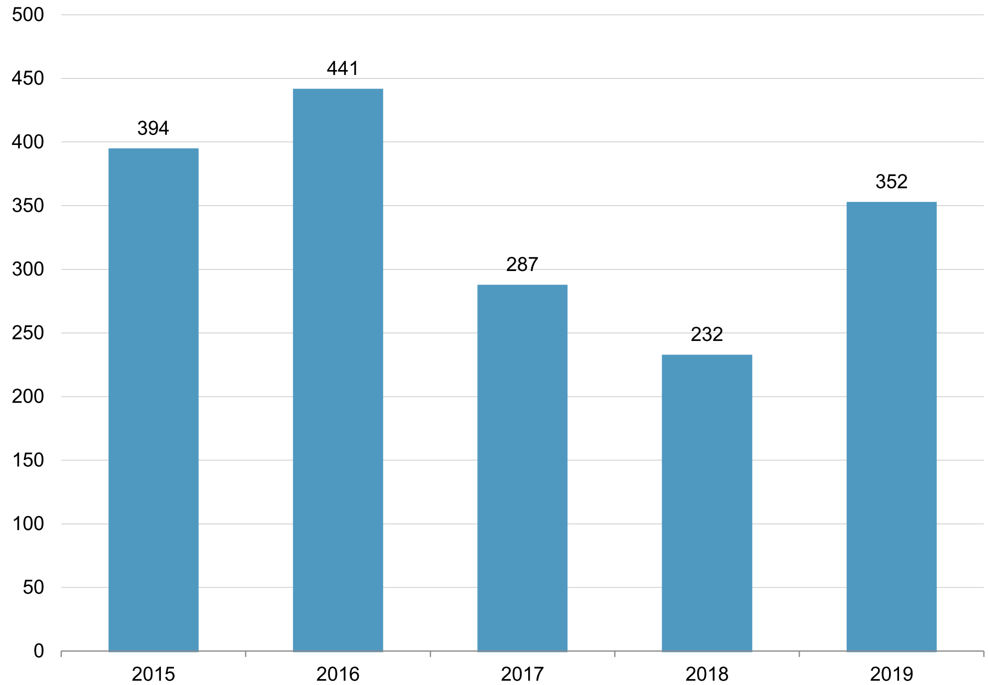
	--Fiscal year ended--				
(Mil. €)	**2018a**	**2019a**	**2020e**	**2021f**	**2022f**
EBITDA margin (%)	18.8	29.1	25-26	25-26	25-28
Debt to EBITDA (x)	7.8	4.3	4.5-5.0	4.5-5.0	4.0-5.0
EBITDA interest coverage (x)	3.2	7.7	4.0-5.0	4.0-5.0	4.0-5.0

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

Credit metrics deteriorated in H1 2020, but we expect them to start rebounding by the end of the year. Revenue declined by close to 17% due to delays in project deliveries, which led to higher leverage. S&P Global Ratings-adjusted debt to EBITDA increased to 6.3x as of June 30, 2020, from 4.3x in December 2019; EBITDA interest coverage ratio fell to 4.7x from 7.7x. We believe the deterioration is temporary, and mainly linked to delay in deliveries of Luxuria units. Moreover, we understand that the company started delivering units from Luxuria's phase II toward the end of H1 2020 (see chart 1 for sales of unit by year), which we expect will contribute RON60 million-RON70 million in revenue for second-half 2020. Taking this into account, we anticipate S&P Global Ratings-adjusted debt to EBITDA to stay near 4.5-5.0x in 2020 and EBITDA interest coverage of 4x-5x, which remains within our expectations for the rating level.

Chart 1

Impact Developer & Contractor SA--Number Of Dwellings Sold By Year



Source: S&P Global Ratings.

Company Description

Founded in 1991, Impact is one of the oldest established residential real estate developers in Bucharest. Since its founding, the company has completed 16 small and midsize projects, comprising over 4,500 residences and 500,000 square meters of build area. As of June 30, 2020, Impact has ongoing residential developments in four Romanian cities; the main projects are Greenfield Residence Baneasa and Luxuria, both in Bucharest.

The company has been listed on the BSE since 1996 and as of August 2020 has a market capitalization of RON406 million. The biggest shareholder is Gheorghe Iaciu, with an approximately 57% share as of June 30, 2020, followed by Adrian Andrici with 15%, and other shareholders accounting for the remaining 28%.

Peer Comparison

Table 1

Impact Developer & Contractor SA--Peer Comparison

Industry sector: Homebuilders and real estate developers

	Impact Developer & Contractor SA	Miller Homes Group Holdings PLC	Consus Real Estate AG	Etalon LenSpetsSMU JSC	Damac Real Estate Development Ltd.
Ratings as of Oct. 1, 2020	B-/Stable/--	B+/Negative/--	B-/Watch Pos/--	B-/Stable/B	B/Negative/--
	--Fiscal year ended Dec. 31, 2019--				
(Mil. RON)					
Revenue	156.7	4,751.9	3,109.4	3,600.9	5,104.8
EBITDA	45.6	944.3	1,142.2	436.5	553.9
Funds from operations (FFO)	37.2	764.7	(284.0)	93.4	202.6
Interest expense	5.9	181.3	1,084.8	297.9	337.7
Cash interest paid	2.5	132.2	1,382.9	133.0	351.4
Cash flow from operations	1.8	240.0	(1,721.5)	909.6	(545.0)
Capital expenditure	15.9	4.0	447.2	21.6	13.2
Free operating cash flow (FOCF)	(14.1)	236.1	(2,168.6)	887.9	(558.2)
Discretionary cash flow (DCF)	(31.4)	236.1	(2,234.6)	332.6	(558.2)
Cash and short-term investments	45.1	789.5	53.6	1,452.0	1,408.5
Debt	197.6	2,314.4	14,039.6	1,306.5	3,217.4
Equity	583.9	2,617.7	5,093.4	2,830.8	16,327.9
Debt and equity	781.6	4,932.0	19,133.0	4,137.3	19,545.3
Adjusted ratios					
Annual revenue growth (%)	54.3	12.6	43.5	(1.1)	(28.3)
EBITDA margin (%)	29.1	19.9	36.7	12.1	10.9
Return on capital (%)	6.5	20.5	6.9	12.3	1.5
EBITDA interest coverage (x)	7.7	5.2	1.1	1.5	1.6
FFO cash interest coverage (x)	15.8	6.8	0.8	1.7	1.6
Debt/EBITDA (x)	4.3	2.5	12.3	3.0	5.8
FFO/debt (%)	18.8	33.0	(2.0)	7.2	6.3

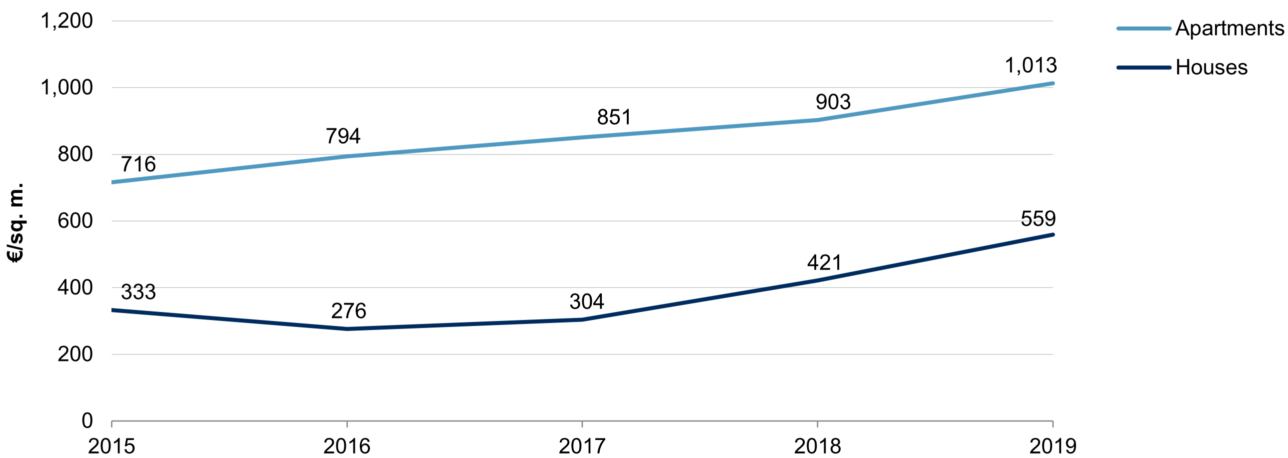
RON--Romanian leu.

Business Risk: Weak

Impact's business risk profile takes into account the high cyclicality and capital intensity of Romania's real estate development industry and the high level of market fragmentation. We believe that homebuilding activity in general is highly volatile and vulnerable to a country's economy, mortgage lending availability, and the cost of construction. In 2009-2014, Romania's real estate market suffered a particularly severe recession. Sales at Impact's projects almost came to a halt and home prices sharply declined (by about 40% on average, according to Imobiliare.ro). The current sales price (see chart 2) has still not reached the peak from the prerecession era (before 2008-2009) and wage growth has been moderate in the past few years.

Chart 2

Impact Developer & Contractor SA--Average Selling Price



Source: S&P Global Ratings. sq. m.--Square meter.

Romania has no regulations on speculative development, leaving the market vulnerable to the risk of oversupply, unlike in France, for instance, where construction is limited legally by a required minimum presales levels. However, we understand that banks in Romania require a certain level of presales before funding project loans to control speculative development to some extent. Moreover, prices for residential houses and apartments have increased in the past four years in Bucharest, mainly supported by healthy demand, but this may change if the pandemic's effects linger.

The pandemic is likely to weigh on Bucharest's residential market, in our view, because weaker consumer confidence and restrictive mortgage lending could affect the demand. Although the outbreak might also affect Impact's operations given high price volatility and weakening margins, we believe the delivery of Luxuria and Greenfield projects should support the company's growth in next 12-24 months. This is further supported by its robust presales and solid standing in Bucharest's residential market.

Impact's presale transactions have gained momentum recently, representing about 27% of total sales in the first six months of 2020. In our opinion, the company will continue to strengthen its presales through its good brand recognition from existing projects. As of June 30, 2020, it has a sizable, well-located, low-cost land bank, which is sufficient to cover at least six to eight years of development. We also see some product and customer diversity. The Greenfield project consists of mid-price dwellings targeting higher-middle-class Romanians, while the high-end Luxuria project targets upper class families and professional investors.

In our view, the company's revenue concentration in Greenfield and Luxuria, combined representing more than 90% of total expected revenue for 2020 and 2021, offers limited mitigation against operating challenges despite some recent diversification efforts. The company has launched three projects aside from Greenfield and Luxuria. Constanta will start contributing to revenue only in 2021, IASI in 2023, and Barbu Vacarescu in 2024 because of the construction timeline (about two years since the launch of project). On the other hand, the lack of project diversity is partially mitigated by the different phases of Greenfield's projects, given that its construction is spread over several independent stages.

Impact has relatively small operations and its EBITDA base is limited. We note the company's absolute EBITDA base for 2019 at about RON45 million (€9 million-€10 million) and forecast the 2020 EBITDA of RON50 million-RON55 million. Its high project and geographic concentration constrain our business risk assessment.

Financial Risk: Highly Leveraged

Our assessment of Impact's financial risk captures the expected high level of debt in our view, at RON250 million-RON300 million (€50 million-€70 million) in 2020-2021, mainly to support working capital requirements related to property development and project constructions. This should result in adjusted debt to EBITDA of close to 5x over the next 12-24 months.

Still, we believe increasing deliveries of the Greenfield and Luxuria projects will support Impact's interest-servicing capacity, such that the company's EBITDA interest coverage should exceed 3.5x over the next two years. We also see inventory as temporarily high relative to sales, and revenue is only recognized at the project's completion. This puts pressure on free cash flow. However, almost half of Impact's inventory consists of land plots under construction and the company will start delivering dwellings in phases.

Financial summary

Table 2

Impact Developer & Contractor SA--Financial Summary			
Industry sector: Homebuilders and real estate developers			
	--Fiscal year ended Dec. 31--		
	2019	**2018**	**2017**
(Mil. RON)			
Revenue	156.7	101.5	111.7
EBITDA	45.6	19.1	22.4
Funds from operations (FFO)	37.2	10.3	19.3

Table 2

Impact Developer & Contractor SA--Financial Summary (cont.)

Industry sector: Homebuilders and real estate developers			
	--Fiscal year ended Dec. 31--		
	2019	**2018**	**2017**
Interest expense	5.9	5.9	4.0
Cash interest paid	2.5	5.5	2.5
Cash flow from operations	1.8	(0.9)	(57.7)
Capital expenditure	15.9	1.5	4.5
Free operating cash flow (FOCF)	(14.1)	(2.3)	(62.2)
Discretionary cash flow (DCF)	(31.4)	(5.7)	(73.4)
Cash and short-term investments	45.1	22.1	47.5
Debt	197.6	149.0	167.1
Equity	583.9	446.8	427.5
Debt and equity	781.6	595.8	594.5
Adjusted ratios			
Annual revenue growth (%)	54.3	(9.1)	(22.9)
EBITDA margin (%)	29.1	18.8	20.0
Return on capital (%)	6.5	3.0	3.6
EBITDA interest coverage (x)	7.7	3.2	5.5
FFO cash interest coverage (x)	15.8	2.9	8.7
Debt/EBITDA (x)	4.3	7.8	7.5
FFO/debt (%)	18.8	6.9	11.5
Cash flow from operations/debt (%)	0.9	(0.6)	(34.5)
FOCF/debt (%)	(7.1)	(1.6)	(37.2)

RON--Romanian leu.

Reconciliation

Table 3

Impact Developer & Contractor SA--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. RON)

Impact Developer & Contractor SA reported amounts			
	EBITDA	**Operating income**	**S&P Global Ratings' adjusted EBITDA**
Reported	45.6	189.3	45.6
S&P Global Ratings' adjustments			
Cash taxes paid	--	--	(5.9)
Cash interest paid	--	--	(2.5)
Nonoperating income (expense)	--	0.2	--
EBITDA: Gain/(loss) on disposals of PP&E	0.0	0.0	--
Depreciation and amortization: Asset valuation gains/(losses)	--	(144.6)	--
Depreciation and amortization: Impairment charges/(reversals)	--	(0.1)	--

Table 3

Impact Developer & Contractor SA--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. RON) (cont.)			
Total adjustments	0.0	(144.4)	(8.4)
S&P Global Ratings' adjusted amounts			
	EBITDA	**EBIT**	**Funds from operations**
Adjusted	45.6	44.9	37.2

RON--Romanian leu.

Liquidity: Less Than Adequate

We assess Impact's liquidity as less than adequate. This is because we anticipate that the company will have sufficient sources of liquidity to cover its working capital needs in the next 12 months while not exceeding a ratio of sources to uses of 1.2x

We link the undrawn project construction loans to working capital needs because Impact would only draw down the facility to fund project construction. The company has no undrawn revolving credit facility or other corporate general facility in place.

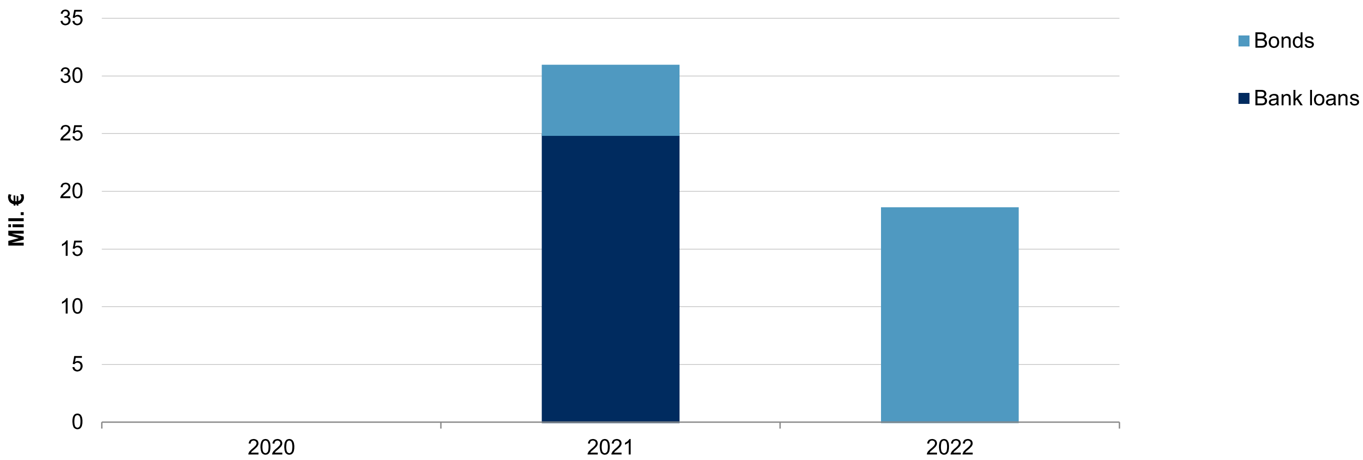
Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash and cash equivalent of about RON31 million, including cash at Impact and its subsidiaries as of June 30, 2020 • Our forecast of cash funds from operations of RON40 million-RON45 million for the next 12 months • Undrawn project loans of RON45 million–RON 50 million to fund working capital needs	• Short-term debt maturities of RON80 million-RON85 million • Working capital requirements of RON50 million-RON80 million for the next 12 months, to fund the construction of new developments • Capital expenditure of RON15 million-RON20 million

Debt maturities

Impact's weighted average debt maturity is less than two years (see chart 3) with major debt maturing in 2021-2022. However, we understand the bank loans are linked with project deliveries and will be repaid from dwellings sold for the related project for which the financing was obtained.

Chart 3

Debt Maturity As Of June 2020



Source: S&P Global Ratings.

Covenant Analysis

Compliance expectations

The company has several financial covenants under its project-financed debt and bonds outstanding, mostly related to loan-to-value, interest coverage, current ratio, and sales of apartments.

We understand that it has adequate headroom (more than 10%) under the covenants and aims to maintain more than 10% headroom in the next 12 months.

Requirements

The company has to comply with following covenants.

Covenants on CVI bonds and their position as of March 31, 2020 include the following:

- Total net debt to total assets: less than 0.5x (0.33x as of March 31);
- Inventories, cash, and cash equivalents to debt and interest: greater than 1.75x (4.53x);
- Sales ratio:
- --Greenfield project: more than 150 units (281);
- --All projects: More than 220 (283); and
- Loan to value: less than 0.67x (0.28x).

Covenants on BSE bonds and their position as of Dec. 31, 2019, include the following:

- Financial Indebtedness to total assets: less than 0.65x (0.22x as of Dec. 31);
- Negative pledge: Free of liens assets to bonds value: greater than 120% (357%); and
- EBITDA to interest expense: greater than 2.50x (16.54x).

Other Credit Considerations

The rating incorporates a one-notch downward adjustment for our comparable rating analysis. This reflects Impact's relative weak positioning within its business risk category. In particular, there is some volatility in the cash flow base, linked to often-unpredictable quarter-on-quarter fluctuations in demand in Impact's main markets. We also view the company's absolute EBITDA base as small, with 2019 EBITDA at about RON45 million (€9 million-€10 million); we forecast the 2020 EBITDA of RON50 million-RON60 million. We think this provides only limited cushion to absorb the impact of any market turmoil or steep recession, which could create temporary spike in working capital.

Ratings Score Snapshot

Issuer Credit Rating

B-/Stable/--

Business risk: Weak

- **Country risk:** Moderately high
- **Industry risk:** Moderately high
- **Competitive position:** Weak

Financial risk: Highly leveraged

- **Cash flow/leverage:** Highly leveraged

Anchor: b

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Less than adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019

- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

	Financial Risk Profile					
Business 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 October 1, 2020)*

Impact Developer & Contractor SA	
Issuer Credit Rating	B-/Stable/--
Issuer Credit Ratings History	
27-Nov-2019	B-/Stable/--

*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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