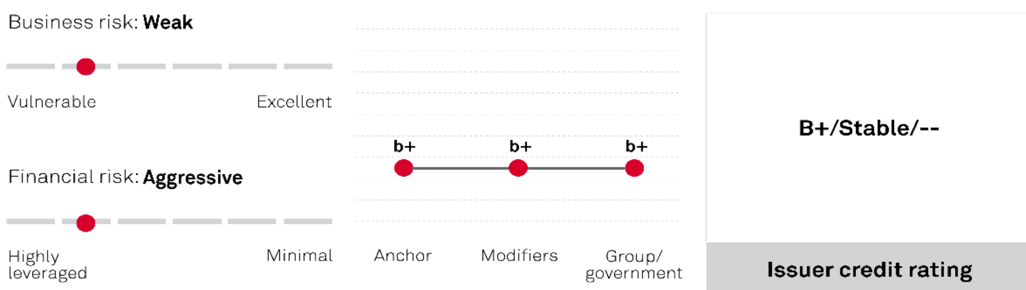
Aedas Homes S.A.

July 18, 2024

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
One of the leading Spanish residential real estate developers with a gross asset value (GAV) of €1.9 billion and a gross development value (GDV) of €5.0 billion as of March 31, 2024.	Single country exposure concentrated in the Spanish housing market resulting in heightened vulnerability to changes in regulation, which could affect demand.
Significant revenue visibility for fiscal year 2024-2025 (ending March 31, 2025), with presales at 67%.	Economic uncertainty and tightening housing affordability, could weigh on the company's margins and profitability.
Lower leverage than other rated Spanish real estate developers, because S&P Global Ratings expects gross debt to EBITDA to remain at about 3x in the coming 12 months.	Private-equity ownership possibly resulting in higher leverage from a more aggressive financial policy or shareholder return maximization to the detriment of creditors.
	Operations in the real estate development industry, which we view as inherently volatile and cyclical and closely tied to economic cycles.

We expect the structural undersupply in the Spanish new housing market to result in resilient house prices despite lower economic growth. Despite the first signs of market normalization following the strong post-pandemic recovery, we think market fundamentals remain sound. Although tightening credit conditions and economic uncertainty continue to weigh on real estate prices, we expect only moderate price corrections on new units given persistent supply-and-demand imbalances for housing in the regions where Aedas is present. Higher-for-longer interest rates will keep hurting affordability, but low household indebtedness coupled with resilient employment levels and still-supportive credit availability should partially mitigate market headwinds.

We expect Aedas' profitability to progressively recover on the back of higher selling prices and a normalization of input costs. Its margins will likely remain depressed this year as units to be delivered started construction in 2022, when cost inflation was highest. Margins should recover toward 20% thereafter as construction costs ease and build-to-sell (BTS) deliveries benefit from supportive price dynamics. We understand that Aedas' BTS deliveries will carry higher unit prices over the next 24 months of around €400,000 (from about 360,000 in fiscal 2023-2024), as its order book shows. Its geographic mix is supportive, with most orders concentrated in central Spain, as is the structural undersupply in the Spanish housing market. These factors should help to partially offset the softening in demand as funding costs remain elevated for buyers. Moreover, the normalization in construction costs will eventually help Aedas' profitability as current year deliveries still include some of the rapid increase in raw materials that took place during construction. Therefore, we still expect some slight margin contraction over fiscal 2024-2025 to about 17% and a recovery thereafter toward 20% in fiscal 2025-2026.

We anticipate Aedas' EBITDA interest-coverage ratio will remain above 3.0x over the coming 12 months, consistent with our threshold for the current 'B+' rating. Based on the expected number of deliveries and the secured orderbook, we expect a highly visible EBITDA base of €180-200 million (from about €210 million in fiscal year 2023-24), which should support cash flow generation and debt service coverage. We expect the company to maintain sufficient headroom above its 2.0x downside threshold on its 58% fixed-rate capital structure as of March 31, 2024 and 52% pro forma for the €70 million bond repurchase completed in April. Also, the predictable cash flow and prudent financial policy should limit debt usage to finance Aedas' land procurement strategy. As a result, we expect debt to EBITDA to remain close to 3.0x in the next 12-24 months, assuming a sustained level of deliveries and a secured orderbook.

We expect positive free operating cash flow (FOCF) generation for the year ending March 31, 2025, underpinned by significant deliveries and limited working capital swings. Our forecast of S&P Global Ratings-adjusted FOCF of more than €70 million over the next 24 months translates into FOCF to debt of about 15%-20%, supported by significant planned deliveries and limited working capital swings. As of March 31, 2024, Aedas' order book was valued at about €1.24 billion, and it has presold 67% of its target deliveries for fiscal 2024. About 24% of the expected units are already complete with the rest under construction, supporting revenue and cash flow visibility for the year. Presales are lower at 37% for fiscal year 2025 ending March 31, 2026.

The company's current landbank would allow the construction of about 14,200 units. We view positively that most of the landbank has full permits and is ready to build on, because this significantly reduces execution risk. Additionally, we understand the company will keep acquiring land plots to feed its development projects opportunistically, since the current landbank already supports five years of deliveries. Stable FOCF generation should limit risks related to temporary swings in the company's operating performance due to changes in the product mix.

Outlook

The stable outlook reflects our view that Aedas' revenue should remain supported in the coming 12 months by high presales and resilient demand for newly built residential units on the outskirts of Spain's main metropolitan areas, despite rising interest rates. We estimate that the company will maintain S&P Global Ratings-adjusted debt to EBITDA of about 3x over the next 12 months, with EBITDA interest coverage above 3x.

Downside scenario

We could lower our rating if Aedas' operating performance deteriorates, for example owing to a market downturn, with a significant decline in demand for or prices of the company's units, and we see:

- Debt to EBITDA increasing toward 5x;
- EBITDA interest coverage falling below 2x; and
- Liquidity deteriorating significantly.

At the same time, if Castlelake's approach toward Aedas becomes more aggressive, this would also prompt us to lower our rating. This could happen if, for example, Aedas increases its dividend payouts materially such that its credit metrics deteriorate significantly.

Upside scenario

An upgrade is unlikely. However, a positive rating action could follow a significant change in Aedas' shareholding structure whereby Castlelake relinquishes control in the medium term. A positive rating action would also depend on Aedas keeping its current prudent financial policy resulting in credit metrics remaining in line with our base-case scenario.

Our Base-Case Scenario

Assumptions

- We forecast real GDP in Spain to rise 1.8% in 2024 and 1.9% in 2025 following 2.5% growth in 2023, supported by net exports, good investment activity, and lower unemployment supporting private consumption. We forecast unemployment will reduce to about 11.5% in 2024 and 11.4% in 2025, from 12.1% in 2023. Inflation is expected to be about 3.0% in 2024 and about 2% in 2025, from 3.4% in 2023.
- Total revenue of about €1 billion in the fiscal year ending March 31, 2025, assuming the delivery of about 2,700 units (including BTS and BTR), supported by high presales (67% and 37% for 2024 and 2025) and advanced construction progress for the upcoming year.
- EBITDA margin expected to remain relatively stable at about 17%-18%, slightly pressured from construction cost inflation and wage increases.
- Total dividend distributions of about €100 million-€110 million in fiscal 2024-2025, in line with the company's distribution policy.
- Average cost of debt expected to remain about 4.9% in the next 12 months before it tapers down gradually to about 4.0%-4.5% following the expected decrease in EURIBOR.

Key metrics

Aedas Homes S.A.--Forecast summary

Period ending	Mar-31-2021	Mar-31-2022	Mar-31-2023	Mar-31-2024	Mar-31-2025	Mar-31-2026	Mar-31-2027
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	672	766	920	1,145	1,000-1,100	1,000-1,100	1,000-1,100
EBITDA	148	163	185	209	180-200	180-200	180-200
Funds from operations (FFO)	134	134	137	153	110-120	120-130	130-140
Interest expense	27	32	46	53	50-55	50-55	50-55
Free operating cash flow (FOCF)	(56)	7	(26)	235	>50	>50	>50
Dividends	--	98	103	147	100-110	100-110	100-110
Debt	358	472	508	562	530-540	530-540	530-550
Adjusted ratios							
Debt/EBITDA (x)	2.4	2.9	2.7	2.7	2.8-3	2.8-3	2.8-3
EBITDA interest coverage (x)	5.4	5.1	4.0	3.9	3.4- 3.7	3.4- 3.7	3.4- 3.7
EBITDA margin (%)	22.0	21.3	20.1	18.2	17-18	18-19	18-19

Company Description

Aedas is one of the largest residential real estate developers in Spain. The company delivered 2,839 units in fiscal 2023-2024 (2,456 BTS and 383 build-to-rent [BTR]), with an average sale price of €334,000 (BTS price: €358,000; BTR price: €184,000) and 99 under its co-investment platform. The company targets a run-rate of deliveries generating over €1 billion in revenue per year.

Aedas owns land with a total GAV of about €1.89 billion and GDV of about €5 billion. Its landbank would allow the construction of approximately 14,200 units and is spread across central Spain, mainly Madrid (28%), East Spain and Baleares (24%), Catalonia and Aragon (15%), Andalusia and the Canary Islands (19%), Costa del Sol (11%), and North Spain (4%).

Aedas is listed on the Spanish Stock Exchange and its main shareholders are funds managed by Castlelake (79.02% stake), and T. Rowe Price Associates Inc. (4.93%). The remaining stake is 14.72% free float and 1.33% is held as treasury shares.

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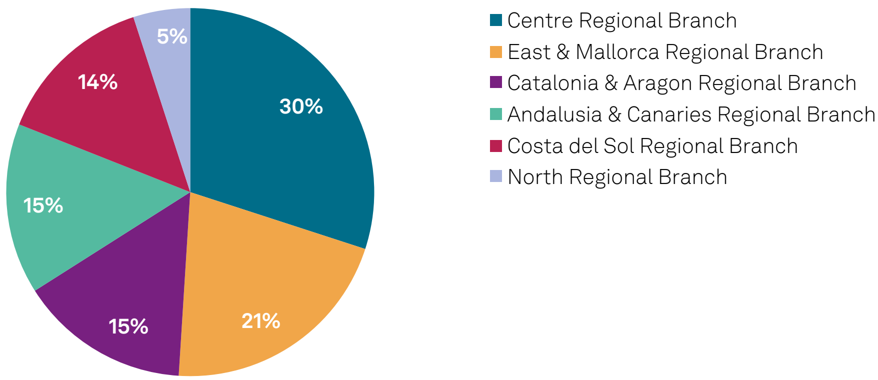
AedasHomes S.A. geographic distribution of landbank

As of March 31, 2024



Source: AedasHomes

Peer Comparison

Aedas Homes S.A.--Peer Comparisons

	Aedas Homes S.A.	Via Celere	Miller Homes Group (Finco) PLC	Altareit SCA
Foreign currency issuer credit rating	B+/Stable/--	B/Stable/--	B/Stable/--	BBB-/Negative/--
Local currency issuer credit rating	B+/Stable/--	B/Stable/--	B/Stable/--	BBB-/Negative/--
Period	Annual	Annual	Annual	Annual
Period ending	2024-03-31	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	1,145	361	1,171	2,414
EBITDA	209	46	184	65
Funds from operations (FFO)	153	11	87	6
Interest	53	36	93	25
Debt	562	401	929	394
EBITDA margin (%)	18.2	12.8	15.7	2.7
EBITDA interest coverage (x)	3.9	1.3	2.0	2.6
Debt/EBITDA (x)	2.7	8.7	5.0	6.0

Business Risk

Our rating on Aedas' incorporates the inherent volatility and cyclicality of the real estate development industry in the highly fragmented Spanish residential property market. However, despite relatively high interest rates and softer economic growth, demand for new housing remained resilient in fiscal 2023-2024. Aedas' market position, focusing on the medium- and high-end segments with an average price per unit of about €350,000-400,000, and concentrated on large Spanish metropolitan and attractive tourist areas, supports its market resilience and profitability versus affordable housing developers whose target market has suffered more from persistent high inflation.

Aedas is among the largest residential real estate developers in Spain, with a total GAV of €1.9 billion and a GDV of €5.0 billion in the year ended March 31, 2024, along with Neinor Homes S.A. (not rated) with a total GAV of €1.5 billion and Via Celere Desarrollos Inmobiliarios S.A. (B/Stable/--) with a GAV of €1.3 billion and a GDV of €4.0 billion. Nevertheless, the market remains highly fragmented with many small players and no entity representing more than 3%-5% of the market. As a result, Aedas remains small compared with leading European homebuilders such as Altareit, Taylor Wimpey PLC, and Barratt Developments, which delivered over 8,000, 10,000, and 17,000 units, respectively, in 2023. In line with most industry peers, Aedas' geographic concentration makes it vulnerable to changes in Spanish regulation and tax incentives, mortgage availability, and economic downturns.

The company owns land with a GAV about €1.9 billion and GDV of €5.0 billion. Its landbank would allow the construction of about 14,200 units, enough for the next four-to-five years. We think Aedas develops good-quality properties that typically incorporate communal spaces and are well adapted to the Spanish market and underlying demographic trends. Projects are normally on the outskirts of cities with good transport links to the center, and customers typically use them as primary residences. We view positively that most of its landbank has full permits, and is ready to build on, because this significantly reduces execution risk for planned deliveries. Aedas has set up an off-balance-sheet land-sourcing vehicle with its main shareholder, Castlelake, to buy strategic land to feed its development pipeline. Its sizable landbank supports its competitive position given the current scarcity of ready-to-build land in areas of higher demand, and provides an additional revenue source from the disposal of non-strategic land plots.

As of March 31, 2024, Aedas' order book was valued at about €1.24 billion, and it has presold 67% of its target deliveries for fiscal 2024 ending on March 31, 2025. About 24% of the expected units are already complete with the rest under construction, supporting revenue and cash flow visibility for the year. Presales are lower for fiscal 2025-2026 (37%). Despite our expectation of softening sales and absorption rates given still-high interest rates, the structurally low supply of new units in Spain (about 86,000 delivered per year over the past five years) and persistent demand from new households will support prices over the medium term. Also, the increasing regulatory requirements in light of energy-efficiency rules and increasing renovation costs should benefit demand for new buildings that comply with the latest environmental requirements.

Aedas is also a player in the BTR space, and while we understand these activities are opportunistic, we expect the company to prudently continue producing a BTR offer, although on a forward-sale basis. This supports cash flow visibility and reduces vulnerability to unexpected market shocks that could weigh on investor demand at delivery. This is because projects take up to four years to complete. We understand it will keep its BTR segment as a defensive product supporting its BTS segment during adverse times.

Financial Risk

Aedas continues to exhibit lower leverage than other rated Spanish real estate developers. We forecast gross debt to EBITDA to remain at about 3.0x over the next 2 months (2.7x as of March 31, 2024) with sufficient rating headroom above our downside trigger of 5.0x. The company’s large orderbook, with a large number of presales, and the secured development pipeline support revenue visibility and partially mitigate market headwinds. In addition, we value the company's prudent approach to its balance sheet, with target leverage that will allow a maximum reported net loan to value (LTV) of 20.0% (16.3% on March 31, 2024).

Nevertheless, we expect debt service coverage ratios to remain 3.4x-3.7x for the next 12-24 months (3.9x as of March 31, 2024) given still-high interest rates and expected lower EBITDA on the back of lower deliveries and EBITDA margins still being affected by high construction costs. We expect average cost of debt to remain stable at around 4.5%-5.0%. The company enjoys diversified funding sources but is sensitive to interest rate movements given that only about 58% of its total gross financial debt is fixed rate as of March 31, 2024. Aedas' developer loans, forming about 28% of the debt structure, usually have a long-dated maturity schedule of 25 years, and the company has limited debt maturities with 15% of gross debt as of 31 March 2024 maturing in fiscal 2024-25 and the next large maturity occurring in 2026. The latter is its currently outstanding €255 million bond, which represents 52% of its total debt stock. We expect its debt service capacity to remain comfortably above the 2.0x downside rating threshold over the next 12-24 months.

Our rating factors in Castlelake's controlling stake in Aedas, which could lead to a more aggressive financial policy. The company's main shareholders are funds managed by Castlelake. On the board of directors, four out of seven are independent directors. We understand that Castlelake has no plans to relinquish control in the next couple of years and that its stake would give it the right, among others, to take control of the board of directors. Although not our base case, we believe that having a financial sponsor as its main shareholder with a 79% ownership as of March 31, 2024, could push Aedas to adopt a more aggressive financial strategy, undermining its credit metrics. Still, the company has a track record of prudent financial policy, it maintains lower leverage levels than industry peers and is committed to a prudent capital structure.

Debt maturities

Aedas' development loans typically have a maturity of 25 years and the company repays them at project delivery once it receives cash from clients. The next big maturity will come in August 2026, when the senior secured bond is due.

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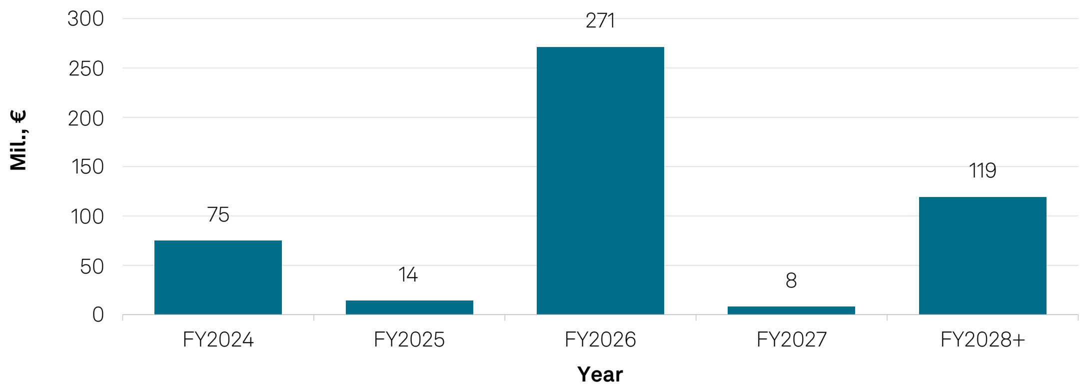
Debt maturity profile
As of March 31, 2024



Source: AedasHomes

Period ending	**Dec-31-2019**	**Mar-31-2021**	**Mar-31-2022**	**Mar-31-2023**	**Mar-31-2024**
Reporting period	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR
Revenues	312	672	766	920	1,145
EBITDA	68	148	163	185	209
Funds from operations (FFO)	62	134	134	137	153
Interest expense	20	27	32	46	53
Operating cash flow (OCF)	(114)	(54)	10	(20)	236
Free operating cash flow (FOCF)	(116)	(56)	7	(26)	235
Discretionary cash flow (DCF)	(148)	(80)	(105)	(139)	83
Debt	313	358	472	508	562
Adjusted ratios					
EBITDA margin (%)	21.7	22.0	21.3	20.1	18.2
EBITDA interest coverage (x)	3.3	5.4	5.1	4.0	3.9
Debt/EBITDA (x)	4.6	2.4	2.9	2.7	2.7

Reconciliation Of Aedas Homes S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

		Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Mar-31-2024										
Company reported amounts		556	931	1,145	173	171	26	209	236	147	1
Cash taxes paid		-	-	-	-	-	-	(29)	-	-	-
Cash interest paid		-	-	-	-	-	-	(27)	-	-	-
Lease liabilities		3	-	-	-	-	-	-	-	-	-

Reconciliation Of Aedas Homes S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Postretirement benefit obligations/ deferred compensation	3	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	27	27	27	-	-	-	-
Share-based compensation expense	-	-	-	7	-	-	-	-	-	-
Dividends from equity investments	-	-	-	2	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	2	-	-	-	-	-
Noncontrolling/ minority interest	-	1	-	-	-	-	-	-	-	-
Total adjustments	6	1	-	36	29	27	(56)	-	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	562	931	1,145	209	200	53	153	236	147	1

Liquidity

We view Aedas' liquidity as adequate, with a ratio of liquidity sources to uses of above 1.2x for the 12 months from April 1, 2024. Our assessment is supported by the company's undrawn revolving credit facility (RCF), cash flow from its development projects, and limited debt maturities at the corporate level over the next 12 months. Additionally, Aedas has an additional €443 million available under committed development loans as well as €50 million of restricted cash, as of March 31, 2024, which is earmarked to finance projects under development.

Principal liquidity sources

- Close to €240 million of unrestricted cash and cash equivalents;
- €55 million available under the undrawn RCF maturing in more than 12 months; and
- Our forecast of €100 million-€120 million of funds from operations.

Principal liquidity uses

- €75 million of contractual debt payments, which are linked to commercial paper and corporate debt; and
- Our expectation of dividend distributions of €100 million-€110 million, in line with the company's distribution policy.

Covenant Analysis

Requirements

Aedas' RCF carries a springing covenant applicable when more than 40% of the facility is used. The financial covenant is set at a maximum LTV of 40%. The RCF was fully undrawn as of March 31, 2024, and remains undrawn as of today. The documentation for the senior secured bond incorporates incurrence covenants. These stipulate a fixed-charge coverage ratio of at least 2x and a maximum net secured LTV of 35%.

Compliance expectations

At March 31, 2024, Aedas had significant headroom (more than 30%) under its financial covenants. We expect that the company will maintain at least adequate headroom (more than 15%).

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Aedas Homes. This is mainly because increasing industry-wide requirements to comply with environmental regulations, such as restrictions on land usage and carbon emissions, could weigh on margins. Additionally, we see social factors as having a neutral consideration in our credit rating analysis.

Governance factors are a moderately negative consideration. The company is owned by Castlelake, a global alternative investor, which holds 79% of the share capital, which heightens the risk that a less-prudent financial policy is adopted that turns toward more aggressive leverage or redeployment of sales proceeds, for example. We view financial sponsor-owned companies with highly leveraged financial risk profiles as demonstrating corporate decision-making that prioritizes the interests of the controlling owners. This also reflects the generally finite holding periods and a focus on maximizing shareholder returns. That said, our governance assessment recognizes the significant minority interests and composition of the board, which largely includes independent members.

Issue Ratings--Recovery Analysis

Key analytical factors

- Aedas' €255 million senior secured bond due in 2026, issued by its fully owned subsidiary, Aedas Homes Opco S.L.U., has a 'BB-' issue rating and a '2' recovery rating, indicating our expectation of substantial recovery (70%-90%; rounded estimate: 85%) in the event of a default.
- Our ratings reflect the company's solid asset base and commensurate LTV, but are constrained by the weak security package, which mainly includes a pledge over the share capital of the issuer.
- Bondholders will benefit from a significant asset base in Spain, mainly covering a good-quality landbank and work-in-progress residential development projects on the outskirts of Spain's main metropolitan areas. Still, the documentation allows a maximum net secured LTV

of 35%, which gives the company significant flexibility to increase prior-ranking debt from existing levels.

- Under our hypothetical default scenario, we assume a severe economic downturn in Spain that translates into significant delays in Aedas' scheduled deliveries and drying credit supply as well as increased competition. We value Aedas using a distressed asset valuation.
- We value the company on a going-concern basis, given its brand name, track record, and leading position in the Spanish residential real estate market.

Simulated default assumptions

- Simulated year of default: 2028
- Jurisdiction: Spain

Simplified waterfall

- Net enterprise value at default (after 5% administrative costs): €723.5 million
- First-lien debt, mainly including development loans and Aedas' new super senior RCF: €218.7 million
- Value available for second-lien claims: €504.8 million
- Second-lien debt, including Aedas' €325 million bond: €343.2 million
- --Recovery expectations: 70%-90% (rounded estimate: 85%)

All debt amounts include six months of prepetition interest. We assume that 85% of the RCF is drawn at default.

Rating Component Scores

Foreign currency issuer credit rating	**B+/Stable/--**
Local currency issuer credit rating	**B+/Stable/--**
Business risk	**Weak**
Country risk	Intermediate
Industry risk	Moderately High
Competitive position	Weak
Financial risk	**Aggressive**
Cash flow/leverage	Aggressive
Anchor	**b+**
Diversification/portfolio effect	Neutral/Undiversified (no impact)
Capital structure	Neutral (no impact)
Financial policy	FS-5 (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**b+**

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- 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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

Related Research

- Industry Credit Outlook 2024: Homebuilders and Developers, Jan. 9, 2024
- Bulletin: Aedas Homes' Proposed Partial Buyback Of Senior Noted Will Help It Rein In Leverage, March 27, 2024
- Aedas Homes S.A. July 18, 2023

Ratings Detail (as of July 18, 2024)*	
Aedas Homes S.A.	
Issuer Credit Rating	B+/Stable/--
Issuer Credit Ratings History	
20-May-2021	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.