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CREDIT OPINION
8 October 2024

New Issue

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RATINGS

MLP Group S.A.

Domicile	Poland
Long Term Rating	Ba2
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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MLP Group S.A.

New Issuer

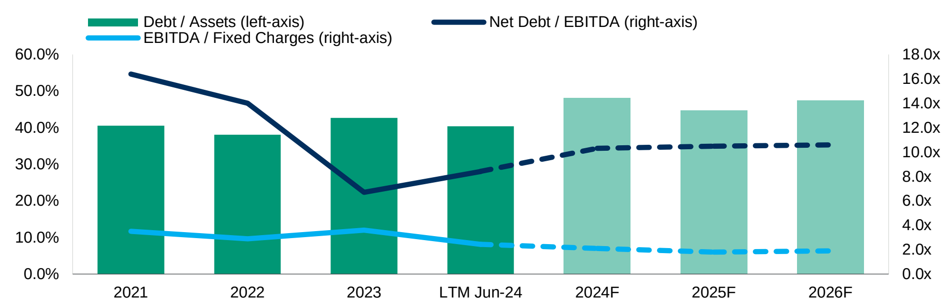
Summary

MLP's Ba2 corporate family rating (CFR) is supported by the company's high-quality portfolio of big box and urban logistics assets located close to large cities or main transport corridors; the good credit quality of its tenant base, which includes a number of international companies that operate in a variety of industries and export outside Central and Eastern Europe (CEE); its high rental income visibility thanks to an average lease length of around seven years to first break; consistently high occupancy levels; a favourable operating environment, supported by robust market fundamentals and structural tailwinds for the industrial and logistics sector; and a prudent financial policy, which targets a net loan-to-value (LTV) ratio of below 40%.

However, the rating also reflects MLP's moderate scale compared with its rated peers with a geographical concentration in Poland and relatively small scale in its other markets; its reliance on secured debt and limited amount of unencumbered properties after its inaugural issuance, though we expect its ratio of unsecured investment properties to unsecured debt to rise above 1.5x as secured debt is refinanced; a rising cost of borrowing combined with increasing funding needs to continue growing the company's scale; and, as a consequence, a relatively weak interest coverage ratio for the Ba2 rating category. Other rating challenges are the company's ambitious growth plans through development activities, balanced by a good track record of delivering solidly leased space (with a minimum target of 80% by project completion date). Non-idiosyncratic challenges include the asset class's vulnerability to a slowdown in economic activity or a deceleration in currently positive structural trends.

The indicative rating factors in our expectation the company will set up a financing structure that favours unsecured debt over secured borrowings.

Exhibit 1
Interest coverage will deteriorate on slightly growing leverage and higher cost of debt
Moody's-adjusted Leverage and Interest coverage ratio



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

» A high-quality portfolio of big box and urban logistics assets situated near major cities or key transport corridors

» The strong credit quality of its tenant base, featuring numerous international companies across diverse industries, many of which export from Central and Eastern Europe (CEE)

» A supportive operating environment, underpinned by solid market fundamentals and structural tailwinds benefiting the industrial and logistics sector

Credit challenges

» Moderate scale when compared to rated peers, with a geographical focus in Poland and smaller operations in other markets.

» Dependence on secured debt and a limited number of unencumbered properties following its initial issuance, although the ratio of unsecured investment properties to unsecured debt is anticipated to exceed 1.5x as secured debt is refinanced

» An increasing cost of borrowing and growing funding needs to expand the company's scale through material development activities

» A relatively low interest coverage ratio for the Ba2 rating category, expected to stay around 2x in the forthcoming years, with potential improvement if the company's business plan is successfully implemented

Rating outlook

The stable outlook reflects our expectation, that despite MLP's rating being initially weakly positioned, the company will continue to increase its earnings and maintain adequate liquidity,while preserving high occupancy levels and a long-dated lease maturity profile. We also expect the company to follow a prudent growth strategy characterised by the total cost of its development pipeline staying below 10% in terms of gross asset value (GAV); good pre-letting ratios; and adherence to its publicly communicated net LTV target of below 40%, supported by no shareholder distributions until 2028.

The outlook also reflects our expectation of the operating environment for the logistics and industrial sectors in Poland and Germany, which are MLP's main countries of operation, will remain at least stable.

Factors that could lead to an upgrade

A rating upgrade is unlikely at this point. It would require the company to continue strengthening its business profile via increased scale and the successful execution of development projects, a solid track record of good operating results, and solid credit metrics. Specifically, we could upgrade the rating if MLP:

» Continues to increase the scale of its portfolio while maintaining a strong operational performance, measured by high like-for-like (LFL) rental income growth and high occupancy and tenant retention in a stable operating environment

» Continues to diversify its funding sources, while maintaining unsecured investmentproperties/unsecured debt well above 2x, with a high-quality asset pool in strong jurisdictions, providing good coverage for unsecured creditors

» Maintains Moody's-adjusted gross debt/assets below 45% and net debt/EBITDA below 9x

» Maintains a Moody's-adjusted fixed charge coverage ratio of more than 2.5x

» Maintains good liquidity and a long-dated, staggered debt maturity profile with financing needs addressed 12-18 months in advance

Factors that could lead to a downgrade

» Failure to diversify funding sources, with the amount and quality of unencumbered assets not improving in the 12-18 months after its inaugural issuance or its unsecured properties/unsecured debt coverage not improving above 1.5x over the same period

» Significant operating underperformance, including a declining occupancy rate, subdued like-for-like rental income growth, a shortening weighted average lease term (WALT) or sharply weakening property market fundamentals

» Moody's-adjusted gross debt/assets increasing above 50% and net debt/EBITDA sustained above 11x

» Fixed-charge coverage ratio falling below 1.8x

» Increased development risk, with the total committed pipeline cost increasing above 10% of GAV and no significant pre-letting ratios

» Failure to maintain adequate liquidity

Key indicators

Exhibit 2
MLP Group S.A.

(in PLN billions)	2020	2021	2022	2023	LTM Jun-24	2024F	2025F	2026F
Gross Assets	2.7	3.8	5.0	5.1	5.5	7.2	7.8	8.6
Unencumbered Assets / Gross Assets	30.7%	24.1%	21.8%	20.5%	19.9%	36.4%	36.2%	55.2%
Total Debt + Preferred Stock / Gross Assets	44.9%	40.5%	38.1%	42.7%	40.4%	48.1%	44.7%	47.4%
Net Debt / EBITDA	54.7x	16.4x	14.0x	6.7x	8.4x	10.3x	10.5x	10.6x
Secured Debt / Gross Assets	29.5%	27.2%	29.2%	32.7%	29.9%	26.3%	25.5%	20.5%
Fixed Charge Coverage	0.9x	3.5x	2.9x	3.6x	2.4x	2.1x	1.8x	1.9x

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. LTM = Last 12 months. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

MLP Group S.A. specializes in developing and managing modern big box and city logistics assets strategically located near large cities or main transport corridors in Poland, Germany, Austria, and Romania. As of end of June 2024, their portfolio includes around €1.17 billion in Gross Asset Value (GAV) and 1.16 million square meters of Gross Leasable Area (GLA).

MLP Group S.A. is listed and trades on the Warsaw Stock Exchange As of October 1, 2024, MLP Group S.A. had a market capitalization of approximately €500 million.

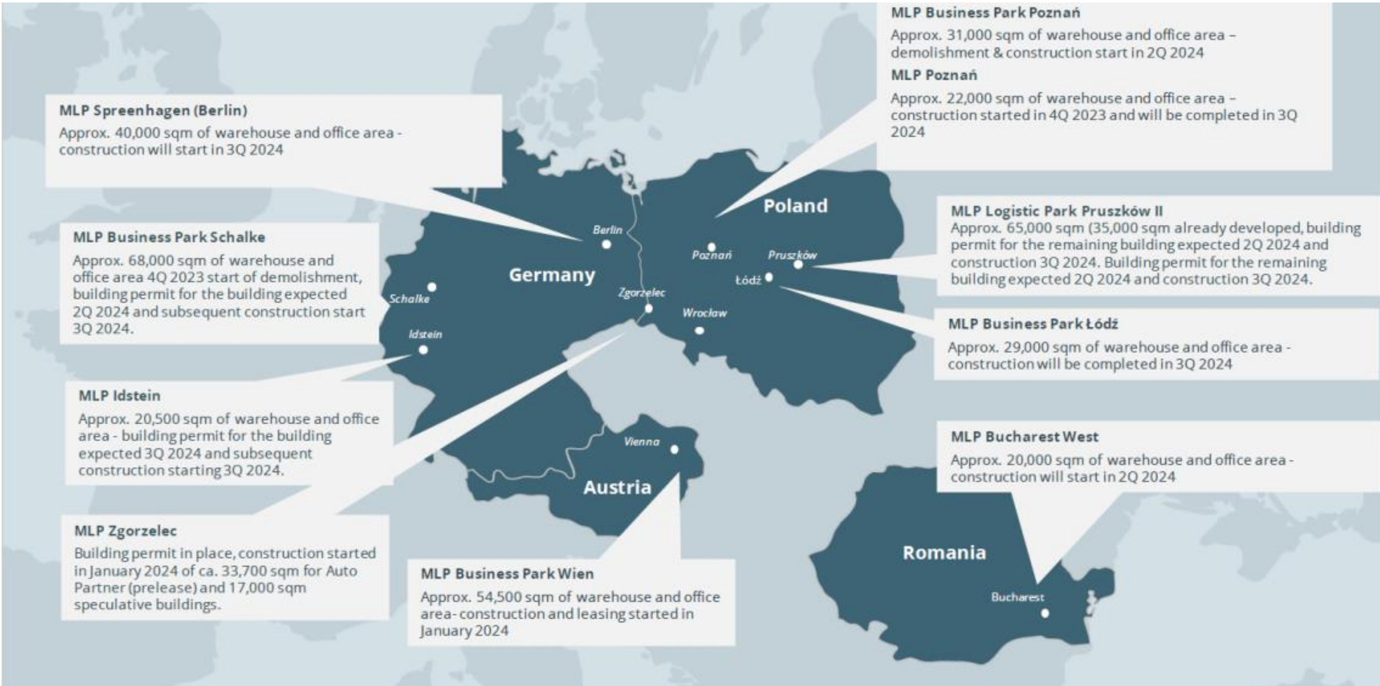
Detailed credit considerations

High-quality portfolio of big box and city logistics assets close to large cities or main transport corridors

MLP has an industrial and logistics portfolio with a GAV of around €1.2 billion as of June 2024. With about 1.1 million square metres (sqm) of gross leasable area (GLA), the company is smaller than its higher-rated peers. Its portfolio consists of 13 big box warehouses and two city logistics sites with a high geographic concentration in Poland (around 78% of GLA), followed by Germany (16%), Austria (4%) and Romania (2%). The geographic concentration is partly balanced by the company's high asset quality and regional diversification across core Polish regions. MLP's strategy is to focus on A class, green projects in core locations across Europe. A significant portion of its assets are within five to 20 kilometres of major cities and close to essential transport corridors, thereby benefiting from the availability of a local labour force.

MLP's properties are of good quality, with 62% of its buildings less than five years old and only 17% more than 10 years old. As of the last twelve months June 2024, 80% of the portfolio was energy certified (BREEAM rating: Very good).

Exhibit 3
Geographical overview of MLP's portfolio



Source: Company filings

Lease demand is expected to benefit by robust market fundamentals and structural tailwinds for the industrial/logistics sector

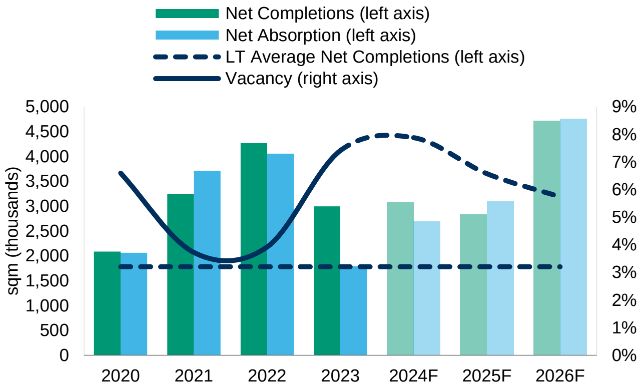
The industrial and logistics sector continues to benefit from a robust and constant demand for warehousing and distribution space, driven by the sustained rise in e-commerce and a larger need for buffers along the global supply. This strong demand has led to relatively low vacancies and growing rents in most European countries. An effect that will help MLP to continue capturing positive rent reversion over the next 12 to 24 months.

MLP operates in strong economies like Germany (Aaa stable) and Poland (A2 stable) which should further support the operating performance of MLP. Notably Central and Eastern European (CEE) countries like Poland or Romania are faring better in terms of economic growth than their Western European counterparts. Still, a moderate growth outlook and geopolitical risks could temperdemand over the next 12 to 18 months.

During 2023, the volume of net completions of logistics space exceeded net take-up across Poland and Germany, leading to an increase in vacancies from historically low levels. However, based on CBRE estimates, new supply will largely be absorbed by existing demand over the next 12- 24 months. As a result, vacancies will gradually decline in Poland and stabilise in Germany at still low levels, while market rents continue to grow in both markets, but at a more moderate pace.

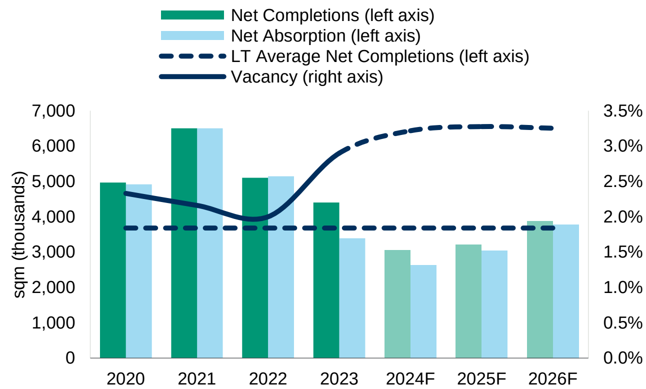
MLP's locations in Poland and other CEE countries like Romania are set to benefit from European manufacturers seeking industrial and logistics space closer to their operations. This shift is being driven by deeper integration of CEE countries into Europe's supply chains, aided by their competitive land and labor costs, and geographical location. MLP is in a favourable position to capitalise on the shift to nearshoring and the reconfiguration of supply chains in the medium to longer run.

Exhibit 4
Improvement in Polish vacancy rate from 2025 onwards
Industrial take-up, vacancy, net absorption and completions in Poland



Source: CBRE Quarterly forecast Q3

Exhibit 5
Vacancies to remain around 3% in Germany
Industrial take-up, vacancy, net absorption and completions in Germany



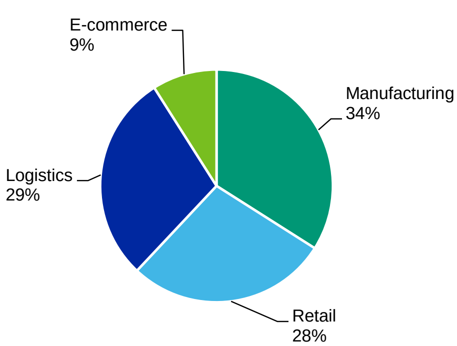
Source: CBRE Quarterly forecast Q3

Diversified, high-credit-quality tenant base and average lease length of around seven years ensure reliable income flow

MLP has a diversified tenant base of good credit quality, including a number of international companies that operate in a variety of industries and export outside CEE. The good-quality tenant base, combined with an average lease length of around seven years, provides MLP with a steady and highly visible rental income stream. The company also has more than decade-long relationships with half of its top 10 tenants and maintains a strong tenant retention rate of close to 100%. MLP has consistently adopted a strategy of extending existing leases one-two years in advance of their expiry date, further supporting the stability of its rental income.

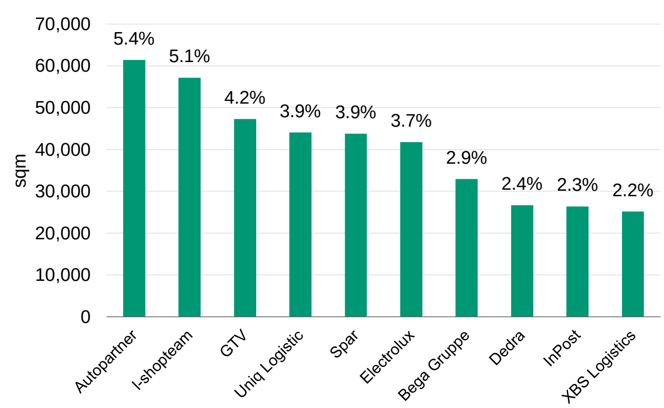
The portfolio's diversity mitigates any specific industry or tenant-related risks. We understand MLP favours long-term relationships with light-industrial types of tenants. Its top 10 tenants account for 36% of total rent, in line with peers such as SELP (32%) and CTP (33%). No single tenant contributes more than 5% of total rent. Over its 20-year history, MLP has experienced just one tenant bankruptcy, illustrating the robustness of its tenant selection criteria.

Exhibit 6
MLP has a diversified tenant mix
Total leased area by sector as of June 2024



Source: Company filings

Exhibit 7
Low tenant concentration in line with peers
Top 10 tenants by annual rental income as of June 2024



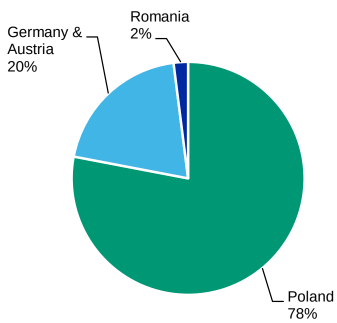
Source: Company filings

MLP's contracts are euro denominated, shielding earnings from the direct effects of currency fluctuations, and contain indexation clauses. There are no master leases for any customers, even if present at multiple sites, which helps to minimise lease extensions risks.

Growth via development increases business risk, mitigated by good track record

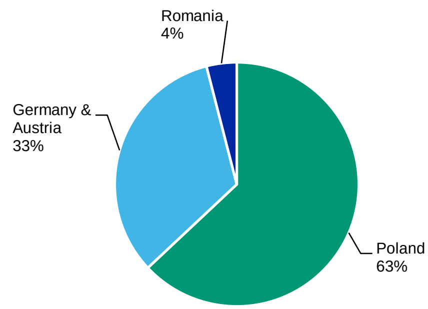
Between 2013 and 2018, MLP's GAV remained broadly stable and did not exceed €350 million. Between 2019 and 2023, however, growth accelerated to about 25% annually and we expect the company to remain focused on growth given its 1.3 million sqm of development potential under its landbank, which largely comprises locations adjacent to existing properties. While in Moody's view landbanks are relatively illiquid and volatile in terms of value, we understand MLP's holdings, primarily in Poland and Germany, are strategically well-positioned for logistics development projects, which should protect their value over time.

Exhibit 8
GAV by country as at first half of 2024



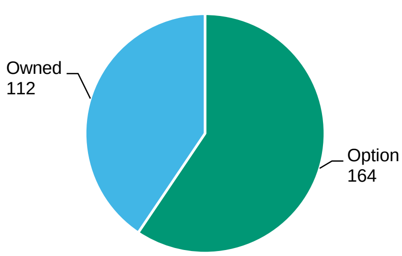
GAV = Gross Asset Value
Source: Company filings

Exhibit 9
Targeted GAV by country as at year-end 2028



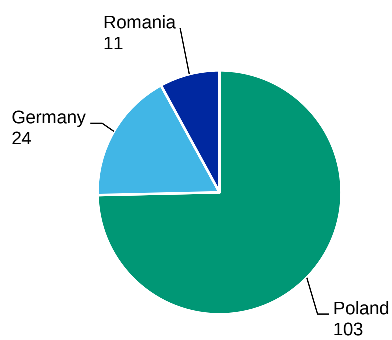
GAV = Gross Asset Value
Source: Company filings

Exhibit 10
Total landbank owned and optioned (hectares)



Source: Company filings

Exhibit 11
Potential for development by country (hectares)

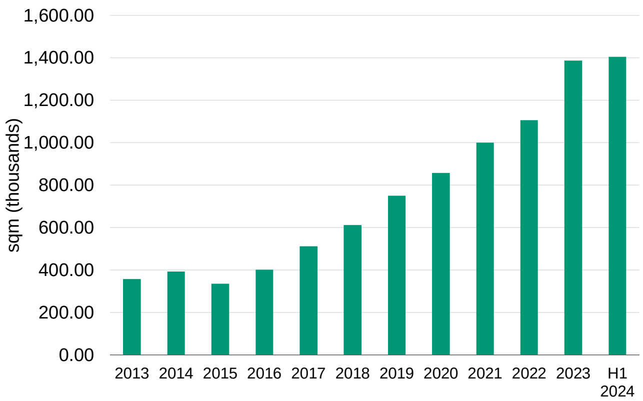


Source: Company filings

The company's current development pipeline accounts for around 15% of its standing GLA as of year-end 2023. Forty percent of the 182,332 sqm under construction is pre-let with a weighted average unexpired lease term (WAULT) of 11 years. These lettings are driven by light-industry tenants and support the company's target of a pre-letting ratio of 80% until construction completion.

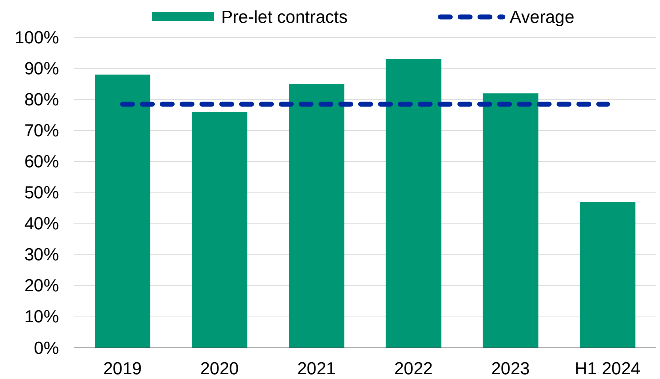
The total cost of the projects as of the end of 2023 was around €100 million, with about €56 million still to be spent and an average yield on cost of 12%. Over the next 12-24 months, we expect the total cost of the development projects to be around 10% in terms of GAV, with a yield on cost of 11%-12%, accompanied by good pre-letting ratios and adherence to the company's publicly communicated net LTV target of below 40%. We expect this leverage target to be supported by no shareholder distributions over the period, with the remainder of the funding coming from the issuance of unsecured debt in the euro bond market and the Polish domestic bond market, and some complementary funding from secured loans.

Exhibit 12
MLP's development track record



Periods are financial year-end unless indicated.
Source: Company filings

Exhibit 13
Pre-let contracts on average around 85%



Periods are financial year-end unless indicated.
Source: Company filings

MLP plans to fuel its growth over the next three years mostly through development projects, with some landbank acquisitions. This plan should reflect well on the company's portfolio quality because newly development properties are of superior quality due to high standards. Also, the company develops standardised warehouses, which minimises reletting risk. Despite potential execution risks from an extensive development pipeline, MLP's track record, with more than 60% of its properties having been developed only in the last five years, demonstrates its capabilities.

Expectation of solid earnings growth mitigates higher leverage coupled with decreasing interest coverage

As of the last 12 months ended June 2024, MLP's earnings-based credit metrics were robust, with Moody's-adjusted net debt/EBITDA of around 8.4x and EBITDA/fixed charges of around 2.4x. In terms of capital structure, external debt of around €520 million resulted in Moody's-adjusted leverage of around 40%.

In our rating case, we have factored in an additional €65 million of external debt contemplated by the company after its inaugural euro bond issuance in the amount of €300 million. Proceeds will support the funding of the development pipeline as well as an initial refinancing of secured debt through unsecured debt. Consequently, MLP's financial leverage will rise to between 45% and 48% over the next 12-24 months. The higher amount of debt in the capital structure is partly balanced by our assumptions of annual like-for-like valuation growth, at least in line with estimated rental value (ERV) growth of around the mid-single digits (4% to 6%) and a realised valuation uplift from development projects being completed. In this context we also expect net debt/EBITDA to rise to around 10x, but remain stable afterwards, supported by solid levels of like-for-like rental growth, a stable occupancy ratio and a growing EBITDA contribution from delivered development projects.

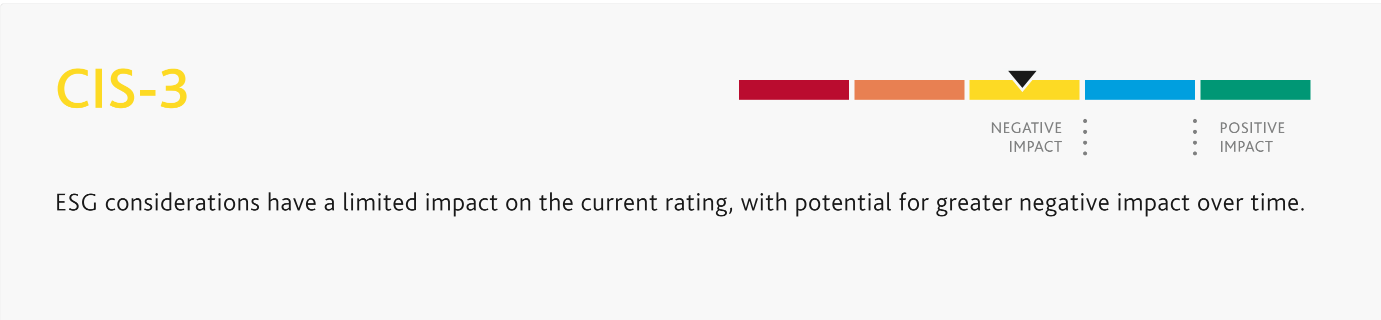
Currently, 80% of bank loans and 60% of loans and bonds are hedged. However, MLP's fixed-charge coverage will decline to around 2x because of a higher marginal cost of funding compared with the one in place at around 4.8%. Consequently, MLP's interest coverage ratio will be relatively weak for the Ba2 rating category, though we expect it to remain around 2x in the coming years, with the potential to strengthen if the company successfully executes its business plan.

The company's financial policy targets a maximum reported net LTV of 40%.

ESG considerations

MLP Group S.A.'s ESG credit impact score is CIS-3

Exhibit 14
ESG credit impact score



Source: Moody's Ratings

CIS-3 indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time, mainly due to governance-related risks stemming from ambitious growth plans through development activities that could expose the company more meaningfully to business and financial risks. These risks are balanced by a good operational track record and a publicly communicated net LTV target of below 40%, supported by no shareholder distributions planned until 2028.

Exhibit 15
ESG issuer profile scores

Source: Moody's Ratings

Environmental
MLP alongside most of the real estate industry in Europe is moderately exposed to carbon transition risk through increasing investment requirements and focus on the energy performance and the greenhouse gas emissions of its buildings, from a regulatory, investor and tenant perspective. The company is well positioned with a modern portfolio and its commitment to high-quality construction standards.

Social
Credit exposure to social considerations is not a key risk factor. MLP is well positioned to continue benefitting from a supportive operating environment on the back of the proliferation of e-commerce, and a gradual reconfiguration of the supply chain in Europe fuelling demand for warehousing and logistics space.

Governance
MLP's **G-3** reflects governance-related risks that arise mainly from the company's s ambitious growth plans through development activities, balanced by a good track record of delivering solidly leased space (with a minimum target of 80% by project completion date) as well as its adherence to a publicly communicated net LTV target of below 40%, supported by no shareholder distributions planned until 2028. Further we note that MLP's largest shareholder is Israel Land Development & Construction Ltd (ILDC). ILDC through direct and indirect shareholding participates in 41% of the economic interest of MLP. Other minority shareholders are pension and mutual funds with Allianz Polska PTE SA with 7.156%, and Generali PTE SA with 6.647%.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Taking into account the contemplated bond issuance of €300 million, MLP's liquidity will remain solid over the next 12-18 months. Liquidity is supported by a cash balance of around €58 million as of June 2024 and forecast funds from operations (FFO) of €20 million-€30 million, which will cover operating needs excluding capital spending. MLP has no plans to pay out dividends to shareholders by the end of 2028. Capital spending will be supported through cash on balance, the initial bond issuance and further secured and unsecured debt issuances.

MLP will also benefit from the shift into an unsecured debt structure, releasing around €180 million of encumbered investment property through the refinancing of €67 million of secured debt. We forecast an unencumbered asset ratio of around 55% by 2026, compared with 20% as of 2023.

Additionally, the company benefits from a good pool of domestic and international banking partners, through which it managed to issue around €171 million of unsecured bonds in the domestic bond market, out of which €115 million is outstanding.

Structural considerations

MLP's senior unsecured bond issuance in the amount of €300 million is rated in line with the Ba2 CFR, because the company will start shifting towards a predominantly unsecured funding structure after the issuance.

Pro forma for the new euro bond issuance, MLP's unsecured debt will increase to around 52% of total debt by the end of 2024, while encumbered assets of around €917 million will decrease to around €737 million, given the company contemplates an early repayment of €67 million of mortgage loans.

By year-end 2024, bondholders will be subordinated to remaining secured bank loans, representing around €370 million. The ratio of unsecured investment properties to unsecured debt will still be below 1.5x by year-end 2024. However, we expect the structural subordination to decrease over the next 12 - 24 months, because of a growing portfolio of newly built income-generating properties and a gradual replacement of secured debt through unsecured borrowings. A gradual shift by the company towards unsecured funding will increase its financial flexibility and the protection of senior unsecured creditors, with the ratio of unsecured investment properties to unsecured debt strengthening towards 2x in the next 12-18 months after the inaugural bond.

Rating methodology and scorecard factors

The principal methodology used is the REITs and Other Commercial Real Estate Firms rating methodology, published on 01 February 2024.

The current and on a 12 to 18-month forward-looking basis scorecard-indicated outcome is Ba2, in line with the indicative rating.

Exhibit 16

Rating factors

MLP Group S.A.

REITs and Other Commercial Real Estate Firms Industry Scorecard	Current LTM Jun-24		Moody's 12-18 month forward view	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets ($ billions)	1.4	Ba	1.8 - 2.2	Baa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	Ba	Ba	Ba	Ba
b) Operating Environment	Baa	Baa	Baa	Baa
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	Ba	Ba	Ba	Ba
b) Unencumbered Assets / Gross Assets	19.9%	B	36.2% - 55.2%	Ba
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	40.4%	Baa	44% - 48%	Baa
b) Net Debt / EBITDA	8.4x	Ba	10x - 10.6x	Caa
c) Secured Debt / Gross Assets	29.9%	B	20% - 26%	Ba
d) Fixed Charge Coverage	2.4x	Baa	1.9x - 2.1x	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba2		Ba2
b) Actual Rating Assigned				Ba2

All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's forecasts are Moody's opinion and do not represent the views of the issuer. LTM = Last 12 months.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 17

Moody's-adjusted debt reconciliation

MLP Group S.A.

(in PLN millions)	2020	2021	2022	2023	LTM Jun-24
As reported debt	**1,163.3**	**1,491.1**	**1,856.5**	**2,113.5**	**2,174.6**
Lease	37.1	43.0	42.3	58.4	57.9
Moody's-adjusted debt	**1,200.4**	**1,534.1**	**1,898.8**	**2,171.9**	**2,232.5**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 18

Moody's-adjusted EBITDA reconciliation

MLP Group S.A.

(in PLN millions)	2020	2021	2022	2023	LTM Jun-24
As reported EBITDA	**232.0**	**623.1**	**568.6**	**15.1**	**476.6**
Unusual Items	(213.3)	(540.3)	(455.6)	257.7	(245.1)
Moody's-adjusted EBITDA	**18.7**	**82.8**	**113.1**	**272.8**	**231.5**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 19

Category	Moody's Rating
MLP GROUP S.A.	
Outlook	Stable
Corporate Family Rating	Ba2
Senior Unsecured	Ba2

Source: Moody's Ratings

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