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S&P Global Ratings

Alony-Hetz Properties & Investments Ltd.

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Alony-Hetz Properties & Investments Ltd.

Issuer Credit Affirmed	ilAA-/Stable

Overview

Key Strengths	Key Risks
• Moderate financial flexibility, supported by a portfolio with about 60% tradable assets. • Medium-high credit quality of most owned companies. • Geographic spread in low-risk countries. • Stable dividend receipts from major assets. • Consistently maintaining a leverage ratio below 40% on a stand-alone basis and a steady dividends-to-expenses coverage ratio well over 1.0x. • "Adequate" liquidity supported by tradability of the two major holdings and a large share of unencumbered assets.	• Low industry diversification due to focus on the income-producing real estate sector and the renewable energy sector. • Expected change in portfolio mix as share of non-tradable assets increases.

Despite the market crisis following the coronavirus outbreak, the value of Alony-Hetz's investment portfolio increased by ~6% in the past year and amounted to about NIS 13.8 billion as of June 9, 2020. We believe the revaluation was mainly due to a material increase in the share value of Energix Renewable Energies Ltd. (ilA/Stable) and in the value of Brockton Everlast ("BE"), mitigated mainly by a ~16% decrease in the share value of Amot Investments Ltd. (ilAA/Stable/ilA-1+) and divestment of ~5% of PSP Swiss Property shares in the past year. We believe that, if the coronavirus-triggered crisis continues and the gradual return to normal is delayed, the companies' operation could be negatively affected, which could indirectly affect our assessment of Alony-Hetz's business profile and leverage (inter alia, if the companies' value materially drops).

The Company maintained its portfolio mix, such that the share of tradable investments is about 60%, similar to last year. Of which, about 87% are unencumbered tradable shares. On the other hand, the portfolio mostly consists of three companies that together constitute about 77% of its total value. We consequently evaluate the Company's financial flexibility as moderate.

Alony-Hetz's LTV (loan-to-value) leverage was about 25%, compared with 29% at the end of May 2019, despite new investment in recent years. This is mainly due to an increase in the value of the

Company's portfolio and a decrease in net debt to about NIS 3.4 billion. If the group's companies are affected by the crisis, and if we expect a lower or no dividend distribution by subsidiaries, we will examine the effect on the Company's leverage and financial risk profile.

We acknowledge a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Outlook

The stable outlook reflects our assessment that in the next 12 months Alony-Hetz will maintain an LTV ratio of up to 40%, at least "adequate" liquidity and financial flexibility. This assessment is based on subsidiaries' operating performance and on our assessment that any new investments would have similar characteristics to the current portfolio. The outlook also reflects our assessment that the Company's and its subsidiaries' dividend policies will remain balanced.

Downside Scenario

We may take a negative rating action if the Company's LTV ratio materially increases and exceeds 45%. We estimate that this could happen if the Company increases the pace of its investments compared with our base case scenario. In addition, material deterioration in subsidiaries' performance, which would adversely affect our assessment of the portfolio's credit quality and dividend receipts, or a material deterioration in the Company's liquidity, will exert downward pressure on the rating.

Upside Scenario

We may take a positive rating action if the Company increases the industrial diversification of its portfolio to non-real estate industries, and consistently maintains its leverage materially below 30%.

Base Case Scenario

Key Assumption

- Recession in Israel in 2020, with a ~5.5% contraction in GDP, an unemployment rate of about 11% and a negative inflation rate of about 0.9%. Expected recovery in 2021, as reflected in ~6.5% GDP growth, decrease in unemployment rate to about 6% and positive inflation rate of about 1%.
- ~5.3% contraction in GDP in the U.S.A. in 2020 and ~6.2% GDP growth in 2021. We expect the material effects of the coronavirus pandemic to mainly manifest in Q2 2020, with only partial recovery thereafter.

- General and administrative expenses and tax payments of about NIS 65-70 million per year.
- Annual dividend and management fee receipts from subsidiaries of NIS 360-420 million.
- Lack of material changes (divestments or new investments) in the investment portfolio composition, but partial divestments may be possible.
- Dividend distribution of about NIS 200 million per year.

Key Metrics

Financial Metric	9.6.2020A	2020E	2021E
Coverage Ratio*	>1.0x	1.0x-1.2x	1.0x-1.2x
Net debt to portfolio value (LTV)	~25%	25%-40%	25%-40%

A – Actual. E – Estimate.

*Coverage Ratio – (dividends received + management fees + interest income) /(interest expenses + G&A expenses + dividends paid)

Base Case Projections

Stable leverage

As long as the value of the portfolio does not decrease by over 35% and no aggressive investments or dividend distributions occur (beyond our base case assumptions), the Company will maintain a leverage sufficiently below 40% in 2020-2021 and balance any decrease in portfolio value through divestments or lower investments.

Large investments in 2019-2020

In 2019, the Company invested about NIS 1.6 billion, mainly in BE, and in the first quarter of 2020 it invested about NIS 167 million, including about NIS 132 in BE. We expect the Company to make additional investments of about NIS 350 million in 2020, and invest about NIS 700 million in 2021.

Company Description

Alony-Hetz Properties & Investments Ltd. is a public company traded on the Tel Aviv Stock Exchange. The Company's portfolio consists mainly (77%) of the shares of two income-producing real estate companies - Amot Investments LTD ad Carr Properties Holdings LP - and a company operating in the renewable energy industry - Energix Renewable Energies Ltd. In 2020 the Company continued divesting in real estate company PSP Swiss Property AG, which currently only consists of about 6% of the portfolio. Alony-Hetz, through its subsidiaries, manages and develops income-producing properties, focusing on the office and shopping centers segments in Israel and in Washington. In addition, the Company is expanding its operations in Boston and in London through a ~44% holding in CARR and a ~55% holding in other properties in Boston, and through a ~96% holding in BE which operates in the office segment in London and in REITs in the U.K. (Brockton). About 15% of Alony-Hetz shares are held by Mr. Nathan Hetz. In order to comply with the Israeli Anti-Concentration Law, the Wertheim family sold most of its shares in the Company in 2019, and ceased to be a stakeholder in the Company. The remaining shares are held by institutional investors and the public.

Business Risk

Alony-Hetz's business risk profile is underpinned by a portfolio characterized, in our opinion by medium-high creditworthiness of subsidiaries, by adequate liquidity and tradability and by wide geographic spread.

In our opinion, Alony-Hetz's business risk profile is supported by the ongoing stable performance of the major companies in the portfolio, a stable cash flow from income-producing properties, steady growth in net operating income (NOI) and high occupancy rates.

The Company's financial flexibility is moderate due to a high share of tradable, unencumbered shares (~53% of portfolio value) and no dependence on a single holding (no holding constitutes more than 30% of portfolio value), and due to the fact that the portfolio mainly constitutes holdings in three companies. We estimate that the Company can sell a material amount of Energix, PSP and Amot Investments shares in order to control leverage levels if they materially increase as a result of sharp drops in share prices. The Company can also partly divest some of its holdings without immediately losing control over subsidiaries.

The Company continues to implement its strategy to invest in leading markets in relatively low-risk countries (Israel and U.S.A, rated 'A+' and above) and to increase its geographical spread (as reflected in its operations in the London office market). The Company's business risk profile is also supported by high property and tenant diversification of its subsidiaries.

On the other hand, the business risk assessment is adversely affected by low industry diversification, as most of the Company's subsidiaries operate in the income-generating real estate sector. This low diversification is, however, partly mitigated by our assessment that the income-producing real estate sector is a relatively low-risk sector, with less volatile cash flows compared with other fields of operations. In addition, the increase in the share price of Energix, operating in the renewable energy industry, contributed to the change in the portfolio mix and to some decrease in the Company's dependence on real estate activity.

We note that despite recent market drops following the coronavirus outbreak, the value of the Company's portfolio increased by about 6% in the past year, mainly due to a material increase in the value of Energix and BE, which was somewhat mitigated by a ~16% in the value of Amot Investments shares and the divestment of about 5% of PSP Swiss Property shares in the past year. We believe that, if the crisis continues and the gradual return to normal is delayed, the companies' operation could be negatively affected, which could indirectly affect our assessment of Alony-Hetz's business profile.

Financial Risk

The Company's financial risk profile is underpinned, in our opinion, by moderate financial flexibility supported mainly by a largely tradable portfolio (~60% of portfolio assets are tradable), by lack of dependence on a single asset and by moderate debt load compared to the portfolio. Its financial risk is also supported by our assessment that the Company will maintain a leverage level of up to 40% with adequate headroom.

The Company continued to decrease its leverage to about 25%, despite its investments, mainly due to an increase in the value of its portfolio and a decrease in net debt. We believe that, in accordance with the company's financial policy, any future investments will be made while maintaining an LTV ratio below 40%, and using equity issuances and divestment of other portfolio assets if necessary. This is demonstrated by the fact that the Company continues to sell part of its PSP Swiss Property shares (about 3% of them were sold since the beginning of 2020) in order to invest (in BE, inter alia).

The company's dividend coverage ratio (the ratio of dividends received to the sum of G&A and interest expenses and dividends paid) remained stable in 2020 at over 1.0x, and we expect it to stay at this level in the next two years. Over the years, the Company benefited from stable dividend receipts from its major holdings, and we expect them to continue in the next two years, based on the dividend policy of some of the subsidiaries. The Company distributed a dividend of about NIS 100 million since the beginning of 2020, and it is expected to distribute a similar amount until year-end. The Company also invested about NIS 170 million in subsidiaries since the beginning of this year. On the other hand, the Company received dividends totaling about NIS 250 million, mostly from Carr, PSP and Amot Investments, and sold 3% of PSP shares for about NIS 720 million.

Alony Hetz Property & Investments Ltd. – Portfolio (book value as of June 9, 2020)					
Holding	**Country**	**Stake (%)**	**Listed/ Private**	**Value for LTV**	**(%) of PV**
PSP Swiss Property	Switzerland	4.6%	Listed	802	5.8%
Amot Investments	Israel	55.1%	Listed	3,780	27.3%
Carr Properties Holdings	USA	44.0%	Private	3,120	22.5%
Energix	Israel	56.4%	Listed	3,792	27.4%
Brockton Everlast	UK	95.8%	Private	1,307	9.4%
Boston	USA	55%	Private	860	6.2%
Other	Various			176	1.3%
Total				13,837	100%

Liquidity: Adequate

We examine the company's liquidity on an expanded stand-alone basis. We estimate the company's liquidity as "adequate", based on our assessment that the ratio between the Company's sources and uses will exceed 1.2x in the 12 months starting April 1, 2020. The Company's liquidity is underpinned by committed credit facilities for over a year totaling NIS 500 million and by stable dividend receipts. The Company's liquidity and financial flexibility are also supported by its good access to the capital market and by a large amount of unencumbered tradeable properties valued at about NIS 7.2 billion (as of March 31, 2020).

Following are the company's liquidity sources and uses for the 12 months beginning April 1, 2020, according to our base case scenario:

Principal Liquidity Sources	**Principal Liquidity Uses**
• About NIS 510 million in cash and cash equivalent. • About NIS 390 million in dividend and management fees receipts. • About NIS 500 million of unused credit facilities committed for over a year.	• Debt maturities (principal and interest) of about NIS 475 million. • General and administrative expenses and tax expenses of about NIS 70 million; • Dividend distribution of about NIS 200 million in accordance with the Company's dividend policy (*).

(*) As of the date of this report, the Company distributed a dividend of about NIS 100 million.

Debt Maturities					
Year	1.4.2020-30.3.2021	1.4.2021-30.3.2022	1.4.2022-30.3.2023	1.4.2023-30.3.2024	1.4.2024 onwards
Maturities (Mil. NIS)	348	408	776	527	2,062

Covenant Analysis

Compliance Expectations

We expect the Company to maintain adequate headroom (over 15%) on all of its financial covenants.

Requirements

According to the terms of its bonds and loans, the Company must comply with the following covenants: an LTV ratio below 80%, equity of at least NIS 2.1 billion, net debt to FFO (funds from operations) below 25x, equity share above 30%, and dividend/interest above 1.2x.

Modifiers

Liquidity: Neutral

Management and governance: Neutral

Comparable ratings analysis: Positive

Recovery Analysis

Key analytical factors

- We are affirming our 'ilAA-' issue rating, identical to the issuer rating, on Alony-Hetz Properties & Investments Ltd.'s unsecured bond series (Series H,I,J,K,L).
- The recovery rating for these series is 3', reflecting our assessment that in the case of default, the recovery rate would be at the higher end of the 50%-70% range.

Simulated default assumptions

- Year of default: 2025
- Material devaluation of the Company's holdings, due, among other things, to a deep recession which will increase competitive pressure and lead to real estate price drops due to slower business activity and a material drop in demand for real estate space, and thus to a sharp drop in occupancy rates and rents.
- The Company will be liquidated, an assessment based on the fact that there is no activity at the holding company level and its entire value at the time of default will be based on the shares it holds.
- Creditors will attempt to liquidate part or all of the Company's holdings in subsidiaries, an assessment supported by the low synergy between the holdings and the possibility of selling part of the holdings in Amot Investments or in Energix without losing the controlling share.
- Following a sharp drop in the price of the shares in the portfolio, the leverage ratio at the date of the default will be about 80% (in accordance with the financial covenant on the bonds). We

assume an additional reduction of about 30% at liquidation due to the low industry diversification of the portfolio (in total, we assume a decrease of about 80%).

Simplified waterfall

- Gross enterprise value at emergence: about NIS 2.6 billion
- Administrative costs: 5%
- Enterprise value available for secured debt: NIS 2.5 billion
- Total unsecured debt (unrated): NIS 0.4 billion
- Enterprise value available for unsecured debt: NIS 2.1 billion
- Total unsecured debt: about NIS 3.1 billion
- Recovery expectations for unsecured debt (Series H,I,J):50%-70%
- Recovery rating for unsecured debt (Series H,I,J) (1 to 6): 3

All debt amounts include six months' prepetition interest.

Mapping Recovery Percentages To Recovery Ratings

Recovery expectations (%)	Description	Recovery rating	Notching above/below issuer rating
100%	Full recovery	1+	+3 notches
90%-100%	Very high recovery	1	+2 notches
70%-90%	Substantial recovery	2	+1 notch
50%-70%	Meaningful recovery	3	0 notches
30%-50%	Average recovery	4	0 notches
10%-30%	Modest recovery	5	-1 notch
0%-10%	Negligible recovery	6	-2 notches

Recovery ratings are capped in certain countries to adjust for reduced creditor recovery prospects in these jurisdictions. Recovery ratings on unsecured debt issues are generally also subject to caps (see Step 6, paragraphs 90-98 of Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016, for further detail).

Related Criteria And Research

- Use Of CreditWatch And Outlooks, September 14, 2009
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, November 13, 2012
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of ‘D’ And ‘SD’ Ratings, October 24, 2013
- Corporate Methodology, November 19, 2013
- Country Risk Assessment Methodology And Assumptions, November 19, 2013
- Methodology: Industry Risk, November 19, 2013

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, December 16, 2014
- Methodology: Investment Holding Companies, December 1, 2015
- Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016
- Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Group Rating Methodology, July 1, 2019
- S&P Global Ratings Definitions, July 5, 2019

Ratings List

Rating details (as of June 10, 2020)	
Alony-Hetz Properties & Investments Ltd.	
Issuer rating(s)	
Long term	ilAA-/Stable
Issue rating(s)	
Senior Unsecured Debt	
Series H,I,J	ilAA-
Series K	ilAA-
Series L	ilAA-
Issuer Credit Rating history	
Long term	
May 18, 2015	ilAA-/Stable
October 27, 2014	ilA+/Positive
January 16, 2013	ilA+/Stable
January 17, 2010	ilA/Stable
June 11, 2009	ilA/Negative
August 14, 2008	ilA/Stable
May 25 ,2008	ilAA-/Watch Pos
December 5, 2007	ilAA-/Negative
December 19, 2006	ilAA-/Stable
July 28, 2005	ilAA-
November 1, 2003	ilA+
October 1, 2002	ilA
October 2, 2001	ilA-
Additional details	
Time of the event	15:50 10/06/2020
Time when the event was learned	15:50 10/06/2020
Rating requested by	Issuer