Maalot
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
• Geographic spread in low-risk countries. • Stable dividends flow from main assets. • Moderate financial flexibility, supported by a portfolio of which about 50% are tradable assets. • Adequate average credit quality of the investment portfolio. • Expect to maintain leverage with sufficient headroom below a 40% LTV ratio and on stable coverage ratio exceeding 1.0x in the short- to medium term. • Adequate liquidity supported by tradability of the two main holdings and by unencumbered assets.	• Low industry diversification due to focus on the income-producing real estate sector and the renewable energy sector. • Concentration in a single holding of about 31% of portfolio value (Amot Investments Ltd). • Holding controlling interests, which in our opinion reduces the willingness to divest the holdings if necessary.

No material change occurred in the value of the investment portfolio of Alony Hetz Properties and Investments Ltd. (“Alony-Hetz" or the "Company"), which remains high. Although the Company made material investments of about 1 billion NIS since our last surveillance, and despite high capital market volatility, no material change occurred in the value of its holding portfolio, which is currently about NIS 15.0 billion NIS compared to about NIS 15.6 billion as of our previous surveillance action, a ~3% decrease. The value of the portfolio was adversely affected by negative asset revaluations of the companies operating in the real estate sector in the US (Carr and AH Boston) and the UK (Brockton Everlast) in 2022 and in the first quarter of 2023, and by a ~17% decrease in the share price of Amot Investments Ltd. ("Amot", ilAA/Stable) in the past year, higher than the ~8% drop in the Tel Aviv 35 Index but significantly lower than the ~30% drop in the Tel Aviv Real Estate Index. On the other hand, a significant increase of ~17% in the share price of Energix - Renewable Energies Ltd. ("Energix", ilA/Stable), positive exchange rate effects and the considerable investments made by the Company, helped maintain its large portfolio value.

The Company maintained its portfolio mix, with about 53% tradable investments (compared with about 54% at the time of our previous surveillance). On the other hand, the portfolio still includes a single asset constituting about 31% of its total value and three companies that together constitute about 75% of its total value. We consequently evaluate the Company's financial flexibility as moderate. The Company's industry diversification also remained low, as most of its portfolio constitutes companies operating in the income-producing real estate sector.

Alony-Hetz's leverage ratio increased to about 35% from about 28% at the time of our previous surveillance. The increase in leverage is due to a significant increase of about NIS 1 billion in the Company's net debt, due to significant investments in subsidiaries. Despite high volatility in the markets and share prices in the past year, we estimate that the Company will maintain a leverage ratio below 40%, among other things based on its financial policy.

Outlook

The stable outlook reflects our assessment that in the next 12 months Alony-Hetz will maintain an LTV ratio of up to 40% with sufficient headroom, at least "adequate" liquidity and financial flexibility. This assessment is based on the Company's financial policy and on our expectations regarding its subsidiaries' operating performance. We also estimate that new investments will have similar characteristics as the existing ones, based on its business strategy. The outlook also reflects our assessment that the dividend policies of the Company and its subsidiaries dividend policies will remain balanced.

Downside Scenario

We will consider a negative rating action if the LTV ratio increases above 45% over time. We estimate that this could happen if the Company increases the pace of its investments compared with our base case scenario, without selling assets or increasing the amount of dividends to be received as a balance measure, or due to an additional decrease in the value of its portfolio. A material deterioration in subsidiaries' performance, which would adversely affect our assessment of the portfolio's credit quality and dividends to be received from it, or a material deterioration in the Company's liquidity level, may also exert downward pressure on the rating.

Upside Scenario

We will consider a positive rating action if the Company increases the diversification of its investment portfolio to additional sectors, without causing a deterioration in credit quality, while maintaining at least adequate liquidity, financial flexibility and low leverage with sufficient headroom below 30% over time.

Base Case Scenario

Key Assumptions

- Slow GDP growth of about 1.5% in Israel in 2023 and a slight recovery to about 3.5% in 2024. Inflation rate of about 3.8% in 2023 and about 2.5% in 2024.
- Slow GDP growth of about 0.8% in the U.S in 2023 and 1.8% in 2024. Inflation rate of about 4.4% in 2023 and about 2.7% in 2024.
- General and administrative expenses and tax payments of about NIS 50 million - NIS 60 million per year.
- Annual dividend and management fees from subsidiaries of at least NIS 600 million.
- No material changes in the composition of the investment portfolio, with continued investment in subsidiaries and potential partial divestments.
- Dividend distribution of about NIS 260 million per year.

Key Metrics

Financial Metric	2022A	2023E	2024E
Coverage Ratio*	3.4x	2.3x-2.6x	2.3x-2.6x
Net debt to portfolio value (LTV)	~33%	<40%	<40%

A - actual. E - expected.

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

Base Case Projections

Stable leverage

As long as the value of the portfolio does not materially decrease (about 25%) and no aggressive investments or dividend distributions occur (beyond our base case assumptions and in accordance with the Company's policy), Alony-Hetz will maintain a low leverage level with sufficient headroom from 40% in 2023-2024 and balance any possible decrease in portfolio value through divestments or lower investments, among other things based on its financial policy.

Maintaining a high coverage ratio

Based on the dividend distribution policy of the Company's main subsidiaries and their business growth in recent years, we estimate that Alony-Hetz will maintain a coverage ratio significantly higher than 0.7x in the next two years. The real estate investments in the UK (through Brockton Everlast) and the US (through Carr) are expected to increase the cashflow from income-producing assets in the upcoming years, and therefore may increase the future stream of dividends. Nevertheless, at this stage we did not take this expected increase into account in our base scenario, due to the uncertainty regarding the timing of the investments and their scope, and against the backdrop of weak market conditions and increasing interest rates.

Company Description

Alony-Hetz Properties & Investments Ltd. is a public company traded on the Tel Aviv Stock Exchange. The Company's portfolio consists mainly of shares of income-producing real estate companies – Amot Investments Ltd. (Israel), Carr Properties Holdings LP (U.S.) and Brockton Everlast Inc. (U.K) – and a company operating in the renewable energy industry – Energix Renewable Energies Ltd. About 14.33% of Alony-Hetz shares are held by Mr. Nathan Hetz. The remaining shares are held by institutional investors and the public.

Business Risk

Alony-Hetz's business risk profile is underpinned by adequate average credit quality of its investments, by adequate liquidity and tradability and by wide geographic spread. The value of the Company's investment portfolio declined by about 3% in the past year due to a decline in the value of most of the subsidiaries (both tradable and non-tradable), which was partially offset by investments of about NIS 1 billion in the subsidiaries. The increase in the share price of Energix, which operates in the renewable energies industry in Israel, the US and Poland, also contributed to offsetting the decline.

In our opinion, Alony-Hetz's business risk profile is supported by the ongoing stable performance of the main companies in its portfolio: stable cashflow from income-producing properties, steady growth in net operating income and high occupancy rates (Amot). In accordance with our base case scenario, we expect no significant decline in the credit quality of rated subsidiaries in the upcoming year, based, among other things, on the stable outlook of their ratings.

The Company's financial flexibility is moderate due to a high share of tradable, unencumbered shares (about 53% of portfolio value). However, the business profile is constrained by the still high share of the Company's investment in Amot, about 31% of the portfolio, by the fact that the three major investments constitute about 75% of the portfolio, and by the fact that only two of the companies in the portfolio are listed for trading. In addition, the liquidity of the shares in the portfolio isn't high due to the holding of controlling interests. We estimate that the weight of the investment in Amot and the holding of controlling interests reduces the Company's willingness to sell shares in the future in order to control leverage levels if they materially increase as a result of a sharp drop in share prices. However, we estimate that the Company can partly divest some of its holdings without losing control over subsidiaries.

Alony-Hetz continues to implement its strategy to invest in leading markets in relatively low-risk countries (Israel, the UK and the US, rated 'A+' and above) and to increase its geographical spread (as reflected in its operations in the UK and US office markets). 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-producing real estate sector. This low diversification is, however, partly mitigated by our assessment that income-producing real estate is a relatively low-risk sector, with less volatile cash flows compared with other real estate segments.

Financial Risk

The Company’s financial risk profile is based, in our opinion, on moderate financial flexibility supported mainly by a largely tradable portfolio (~53% of portfolio assets are tradable) and by a 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 sufficient headroom. In the past year, the Company's leverage increased to about 35% due to a decrease in the value of subsidiaries – both tradable and non-tradable (a decrease that was offset by an increase in the share price of Energix) and against the backdrop of material investments the Company made in its subsidiaries. We estimate that if investments are made in 2023 and 2024, they will be made in accordance with the Company's financial policy, while maintaining an LTV ratio below 40%, through capital issuances and divestment of other holdings if necessary (in 2018-2021 the Company sold its entire stake in PSP Swiss Property and used most of the NIS 2.4 billion in proceeds for investments).

The coverage ratio (the ratio between dividends, royalties and management fees received and G&A expenses, financing expenses and taxes) remained stable in 2022 and significantly above 0.7x, and we expect it to remain stable in the next two years. Over the years, Alony-Hetz has benefited from stable dividends flow from its major holdings, and we expect this 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 90 million since the beginning of 2023, and it is expected to distribute an additional dividend of about NIS 172 million until year-end. The Company also invested about 1.1 billion NIS in its subsidiaries in 2022, and it is expected to invest about NIS 380 million more in 2023. On the other hand, the Company is expected to receive dividends of at least NIS 600 million in 2023 from subsidiaries, mainly Amot and Carr. The dividends from Carr of about NIS 100 million will remain in Carr as an investment.

Alony Hetz Property & Investments Ltd. – Portfolio (value as of May 30, 2023)					
Holding	**Country**	**Stake (%)**	**Listed/ Private**	**Value for LTV**	**(%) of PV**
Amot Investments	Israel	53.8%	Listed	4,678	31.1%
Carr Properties	USA	47.3%	Private	2,851	19.0%
Brockton Everlast	UK	83.2%	Private	3,299	22.0%
Energix	Israel	50.4%	Listed	3,271	21.8%
Boston	USA	55.0%	Private	746	5.0%
Other	Various			184	1.2%
Total				**15,029**	**100%**

Liquidity

We examine the Company's liquidity on a 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, 2023. The Company's liquidity is underpinned by committed credit facilities for over a year totaling NIS 550 million and by stable dividends flow. Aloni-Hatz's liquidity assessment and financial flexibility are also supported by its good access to the capital market and by the fact that its assets are unencumbered.

Following are the Company's liquidity sources and uses for the 12 months beginning April 1, 2023, according to our base case scenario:

Principal Liquidity Sources	Principal Liquidity Uses
• About NIS 240 million in cash and cash equivalents. • Annual dividend and management fees from subsidiaries of at least NIS 600 million. • Repayment of owner loan from Brockton Everlast of about NIS 80 million. • NIS 550 million of unused credit facilities committed for over a year.	• Debt maturities (principal and interest) of about NIS 800 million. • General & administrative expenses and taxes of about NIS 50 million. • Dividend distribution of about NIS 260 million.

Debt maturities					
Year	**1.4.2023-31.03.2024**	**1.4.2024-31.03.2025**	**1.4.2025-31.03.2026**	**1.4.2026-31.03.2027**	**1.4.2027 onwards**
Maturities (Mil. NIS)	589	589	589	589	2.749

Covenant Analysis

Compliance Expectations

The Company has several covenants vis-à-vis bond holders and banks. We understand that, as of March 31, 2023, the Company had sufficient headroom on its financial covenants. We expect the Company to maintain adequate headroom (over 15%) on all its financial covenants in the near-term.

Modifiers

Liquidity: Neutral

Management and governance: Neutral

Comparable ratings analysis: Positive

Environmental, Social, And Governance

ESG Credit Indicators

ESG factors have an overall neutral influence on our credit analysis of Alony-Hetz Properties & Investments Ltd.

ESG Credit Indicator	E-2	S-2	G-3
ESG factor	Not relevant	Not relevant	Not relevant

ESG credit indicators provide additional disclosure and transparency at the issuer level, and reflect S&P Global Ratings' assessment of the impact of environmental, social and corporate governance factors on our credit rating analysis. ESG indicators are not a credit rating, a sustainability rating or an ESG Evaluation. The factors' effect is expressed on a scale of 1 to 5, where 1 = positive effect, 2 = neutral, 3 = moderately negative effect, 4 = negative effect, and 5 = very negative effect. For additional information see ESG Credit Indicator Definitions And Application, published on October 13, 2021.

Recovery Analysis

Key analytical factors

- We are affirming 'ilAA-' issue rating, identical to the issuer rating, on Alony-Hetz Properties & Investments Ltd.'s unsecured bond series (Series 9, 10, 11, 12, 13, 15). The recovery rating for these series is '3'.
- Our recovery prospect assessment is constrained to the 50%-70% range despite the simplified waterfall, due to our assessment that on the path to default the Company will exchange unsecured debt for secured or senior debt.

Simulated default assumptions

- Simulated year of default: 2028
- Material devaluation of the Company's holdings, due, among other things, to a deep recession in the various countries the company operates in, which will be reflected, inter alia, in a deterioration

in the energy and real estate industries 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, in increased competitive pressures and price drop in private consumption markets, and in material slowdown in government infrastructure investments.

- 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.
- On the path of deterioration to the default, the Company will refinance its debt and utilize 85% of its available credit facilities.
- 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% in the value at liquidation due to the low industry diversification of the portfolio.

Simplified Waterfall

- Gross enterprise value according to DAV method: about NIS 4.9 billion
- Administrative costs: 5%
- Enterprise value available for secured debt: about NIS 4.6 billion.
- Total unsecured debt (unrated): about NIS 0.5 billion.
- Enterprise value available for unsecured debt: about NIS 4.2 billion.
- Total unsecured debt: about NIS 5.2 billion
- Recovery expectations for unsecured debt: 50%-70% (constrained as noted above)
- Recovery rating for unsecured debt (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). ICR--Issuer credit rating.

Related Criteria And Research

- Principles Of Credit Ratings, February 16, 2011
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, November 13, 2012
- Methodology: Industry Risk, November 19, 2013
- Country Risk Assessment Methodology And Assumptions, November 19, 2013
- Corporate Methodology, 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
- Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Group Rating Methodology, July 1, 2019
- Environmental, Social, And Governance Principles In Credit Ratings, October 10, 2021
- S&P Global Ratings Definitions, November 10, 2021

Ratings List

Alony-Hetz Properties & Investments Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
Issuer rating(s)			
Long term	ilAA-/Stable	01/10/2001	02/06/2022
Issue rating(s)			
Senior Unsecured Debt			
Series 9,10	ilAA-	18/05/2015	02/06/2022
Series 15	ilAA-	28/08/2022	28/08/2022
Series 11	ilAA-	23/07/2019	02/06/2022
Series 12	ilAA-	23/07/2019	02/06/2022
Series 13	ilAA-	08/08/2022	08/08/2022
Issuer Credit Rating history			
Long term			
May 18, 2015	ilAA-/Stable		
October 29, 2014	ilA+/Positive		
January 17, 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 05, 2007	ilAA-/Negative		
December 19, 2006	ilAA-/Stable		
July 28, 2005	ilAA-		
June 23, 2002	ilA+		
June 23, 2002	ilA		
October 18, 2001	ilA-		
Additional details			
Time of the event	31/05/2023 15:15		
Time when the event was learned of	31/05/2023 15:15		
Rating requested by	Issuer		