Maalot
S&P Global Ratings

Alony-Hetz Properties & Investments Ltd.

April 8, 2025

Research Update

Outlook Revised To Stable From Negative On Expected Leverage Commensurate With Rating; 'ilAA-' Rating Affirmed

Primary Credit Analyst:

Jonathan Revach 972-3-7539708 jonathan.revach@spglobal.com

Additional Contact:

Dima Postirnak, 972-3-7539736 dima.postirnak@spglobal.com

Table of Contents

Rating Action Overview

- In the past year, the value of the asset portfolio of Alony-Hetz Properties and Investments Ltd. (“Alony-Hetz" or “the Company") decreased by about 5% to about NIS 12.4 billion. The decrease was mainly due to a decline of about 28% in the share value of subsidiary Energix Renewable Energies Ltd. ("Energix", ilA/Negative/ilA-1) and a decline of about 16% in the value of private holding Carr Properties Holdings LP ("Carr"). In contrast, there was an increase of about 15% in the share value of subsidiary Amot Investments Ltd. ("Amot", ilAA/Stable/ilA-1+) and an increase of about 10% in the value of the private holding Brockton Everlast Inc. ("Brockton").
- Despite this, the Company's adjusted leverage decreased to 41%-43% from about 45% on the date of our last report. The decrease was due to lower net financial debt following deleveraging measures implemented by the Company, including a reduction in the dividend distribution policy and equity issuances totaling about NIS 1 billion.
- In addition, in the past year Alony-Hetz received a material amount of dividends and management fees from its subsidiaries, about NIS 697 million in total. The high dividend receipts support the Company consistently maintaining a coverage ratio comfortably exceeding 0.7x, in accordance with its financial policy, supporting our assessment of its financial risk profile.
- We believe the Company's investment portfolio maintained adequate characteristics, including its large size relative to peers, the share of tradable assets, geographic spread in low-risk countries and adequate average credit quality. All of these support the business risk profile. On the other hand, the portfolio remains concentrated and exposed to only two sectors of operations– real estate and renewable energy.
- Accordingly, on April 8, 2025, we affirmed our ‘ilAA-’ rating on Alony-Hetz Properties & Investments Ltd. and on its bonds and revised our outlook to stable.
- The stable outlook reflects our assessment that over the next 12 months, Alony-Hetz will maintain adjusted leverage of about 40%, commensurate with the rating, as per company policy, as well as a coverage ratio sufficiently higher than 0.7x and adequate liquidity, and that there will be no deterioration in the subsidiaries’ operating performance and in the characteristics of the existing investment portfolio.

Rating Action Rationale

Alony-Hetz carried out significant deleveraging actions in recent quarters. In early 2024, the Company announced a reduction of its dividend distribution policy, from NIS 1.46 per share (including an additional dividend of NIS 0.18 per share) in 2023 to NIS 0.72 per share in 2024. The Company recently updated its distribution policy to NIS 0.96 per share in 2025, but this is still a limited amount compared to the past. In July 2024, the Company issued about 13.3 million shares and about 6.7 million options (Series 16), to be exercised by the end of 2025. As part of the offering, a net amount of NIS 319 million was injected into the Company, supporting its equity. Subsequently, in October 2024 the Company issued 22 million shares and 3.6 million options (Series 16) in a private placement to Mr. Aaron Frenkel, through a company he owns, and in return he invested about NIS 685 million in the Company and became a ~10% shareholder (currently about 13%). In total, the Company issued about NIS 1 billion in equity in the past year. These actions, supported by the Company's financial policy, support long-term maintenance of a leverage level commensurate with the rating. It should also be noted that if Series 16 options mature and are exercised fully, the Company is expected to receive an additional inflow of about NIS 325 million, which will provide additional support to its equity, but this move is not part of our base case scenario at this stage.

The value of Alony-Hetz's asset portfolio declined by about 5% to about NIS 12.4 billion since the date of our last report. The decline in portfolio value resulted from a decrease of about 28% in Energix's share price over the past year, while the Tel Aviv Energy Infrastructure Index increased by about 5%. The Company's holding in Energix constitutes about 23% of its total portfolio as of the date of this report. In addition, the net asset value of private subsidiary Carr, which operates in the U.S. real estate market, decreased by about 16% in the past year.

Negative valuations in private subsidiaries operating in the real estate sector in the U.S. and the U.K. were slower in 2024 compared to 2022 and 2023 and amounted to about NIS 0.6 billion (company share), compared to about NIS 2.75 billion in 2023 and about NIS 1.3 billion in 2022. These were offset by an increase of about 15% in the value of Amot shares since the date of our last report, similar to an increase of about 17% in the Tel Aviv Real Estate Index, and by an increase of about 10% in the value of Brockton's net asset value due to investments made by the Company, alongside a positive revaluation of about NIS 38 million (compared to negative revaluations of about NIS 975 million and about NIS 246 million, respectively, in 2023 and 2022).

Despite the decrease in portfolio value, the actions taken by the Company supported reduction of net financial debt, and the Company's adjusted leverage decreased to 41%-43% on the date of this report, from about 45% on the date of our last report. The Company's deleveraging actions are supported by the its financial policy, and if its portfolio value further declines or its net financial debt increases, whether due to a decrease in the value of tradable holdings, negative revaluations of private holdings or high investments compared to our base case scenario, we estimate that the

Company will act to mitigate the leverage increase, if necessary through deleveraging actions in accordance with its policy. According to our base scenario, over time Alony-Hetz is expected to maintain financial ratios commensurate with the rating, i.e. an adjusted LTV ratio comfortably below 45% and a coverage ratio comfortably above 0.7x, as well as adequate liquidity.

The investment portfolio mix has not changed in the past year, and continues to support the Company's business risk profile. We estimate that the Company's investment portfolio is still large in scope and has adequate geographical spread, both supporting the Company's business risk profile relative to peers. Over the past year, the Company continued to implement its strategy of investing in leading markets in low-risk countries (the U.S., the U.K. and Israel, rated AA+/Stable, AA/Stable and A/Negative, respectively). Alony-Hetz also maintained moderate financial flexibility in its investment portfolio, as the share of tradable companies is about 60% of the entire portfolio, adequate and stable compared to the date of our last report. We believe that the average credit quality of the investment portfolio remains adequate, as reflected in subsidiaries' stable performance over the years, including in the past year, and in their ability to distribute a stable, consistent and large annual dividend flow to Alony-Hetz, which also supports the Company's rating relative to peers. We estimate that the portfolio's average credit quality will remain unchanged in the coming year.

On the other hand, the business risk profile is still constrained by the portfolio's concentration and low business diversification. The Company's investment portfolio remains concentrated, as Amot, the largest holding, constitutes about 36% of the portfolio, and the three largest investments – Amot, Energix and Brockton - about 85%, compared to about 82% on the date of our last report. The portfolio's business diversification remains low, and includes only the real estate and renewable energy sectors. The portfolio's concentration and exposure to a limited number of industries constrain our assessment of the Company's business risk profile. The decline in Energix's value over the past year resulted in the real estate sector's share of the total portfolio increasing to about 77% from about 70% at the time of our last report. However, we assess the real estate sector as a relatively low-risk segment, which mitigates the impact of low diversification. We should also note that the investment portfolio is relatively liquid, owing to the tradability of the two main holdings, Amot and Energix, and a large amount of unencumbered shares. However, the Company holds controlling interests in these companies, which in our opinion may reduce its willingness to exercise shares when necessary to regulate leverage, due to the prospect of losing control.

Outlook

The stable outlook reflects our assessment that over the next 12 months, Alony-Hetz will maintain a leverage of about 40%, commensurate with the rating, as per company policy, as well as a coverage ratio comfortably above 0.7x and adequate liquidity, and that there will be no deterioration in the subsidiaries' operating performance and in the characteristics of the existing investment portfolio.

Downside Scenario

We may lower the rating if the Company's LTV ratio exceeds 45% over time. We believe this scenario may materialize if the Company increases the pace of investments without leverage-balancing actions, or if there is a significant decline in the value of the asset portfolio. A 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, may also exert downward pressure on the rating.

Upside Scenario

We may take a positive rating action if the Company expands its investment portfolio to additional sectors while reducing dependence on its main assets, with no deterioration in the portfolio's credit quality, while maintaining adequate liquidity, financial flexibility and low leverage with sufficient headroom below 30% over time.

Company Description

Alony-Hetz Properties & Investments Ltd. is a public company traded on the Tel Aviv Stock Exchange. The Company's main holdings are in tradable companies Amot Investments Ltd. (~51%)., which operates in income-producing real estate in Israel, and Energix-Renewable Energies Ltd. (~50%), which operates in Poland, the U.S. and Israel. The Company's portfolio also includes holdings in non-tradable companies in the income-producing real estate sector in the U.S. (Carr Properties, ~48%, and AH Boston ("Boston"), ~55%) and the U.K. (Brockton, ~85%). About 13% of the Company's shares are held by Mr. Aaron Frenkel and about 12.5% are held by Mr. Nathan Hetz. The remaining shares are held by institutional investors and the public.

Base Case Scenario

Our base case scenario is underpinned by the following assumptions:

- About 2.2% GDP growth in Israel in 2025, inflation rate of about 2.8% and unemployment rate of about 3.3%. In 2026: about 5% GDP growth, inflation rate of about 2.5% and unemployment rate of about 3%.
- About 1.5% GDP growth in the U.S. in 2025, inflation rate of about 2.0% and unemployment rate of about 4.2%. In 2026: about 1.7% GDP growth, inflation rate of about 2.3% and a stable unemployment rate of about 4.2%.

- About 1.3% GDP growth in the U.K. in 2025, inflation rate of about 2.3% and unemployment rate of about 4.4%. In 2026: about 1.6% GDP growth, inflation rate of about 2% and a stable unemployment rate of about 4.4%.
- General and administrative expenses and tax payments of about NIS 60 million - NIS 80 million per year.
- Annual dividend and management fee receipts from subsidiaries of NIS 600 million - NIS 700 million.
- No material composition changes in the portfolio, alongside continued investment in subsidiaries. We expect any significant investment beyond our base case scenario which would result in an increase in leverage to be accompanied by a balancing equity action, if necessary, in accordance with the Company's policy.
- Annual dividend distribution of about NIS 206 million.

Under our base case scenario, the expected adjusted ratios for the next two years are as follows:

- Coverage Ratio (dividends receipts + management fees + interest income)/(interest and tax expenses + G&A expenses) comfortably above 0.7x.
- LTV ratio comfortably below 45%.

Liquidity

We assess Alony-Hetz's liquidity as adequate. We examine the liquidity profile on a stand-alone basis. We expect the ratio between the Company's certain sources and uses to exceed 1.2x in the 12 months starting January 1, 2025. The Company's liquidity is underpinned by committed credit facilities maturing in over a year totaling NIS 500 million and by stable dividend receipts. Alony-Hetz's liquidity assessment and financial flexibility are also supported by its good access to the capital market and by its holding of a large amount of unencumbered tradable shares. The liquidity scenario does not include the possible exercise of Series 16 options in 2025, which could add about NIS 325 million to the Company's sources in a full exercise scenario.

We estimate the Company's main sources and uses in the 12 months starting January 1, 2025, to be as follows:

Principal Liquidity Sources	Principal Liquidity Uses
• About NIS 642 million in cash and cash equivalents. • Annual dividend and management fee receipts of about NIS 600 million - NIS 700 million. • Undrawn committed credit facilities maturing in over 12 months of NIS 500 million.	• Debt maturities (principal, interest and fees) of about NIS 552 million (of which about NIS 535 million were paid in the first quarter of 2025). • General & administrative expenses and taxes of about NIS 60 million - NIS 80 million. • Investments* of about NIS 178 million (of which about NIS 60 million were invested in the first quarter of 2025 and about NIS 118 million are attributed to annual investment in Carr as part of dividend reinvestment). • Dividend distribution of about NIS 206 million, in accordance with the Company's dividend policy.

*Excluding about NIS 600 million that the Company intends to invest in its subsidiaries Carr, Brockton and Boston, as per its 2025 budget (non-binding investments).

Covenant Analysis

The Company has several covenants vis-à-vis bond holders and banks, with whom it has signed an agreement of credit facility allocation. We understand that the Company has sufficient headroom on its financial covenants, and we estimate that it will maintain sufficient headroom in the short term.

Modifiers

Liquidity: Adequate (no impact)

Management and governance: Neutral (no impact)

Comparable ratings analysis: Positive impact

Environmental, Social, And Governance

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

Recovery Analysis

Rating Rationale

- We are affirming our '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 unsecured debt is '3'.

Simulated default assumptions

- Simulated year of default: 2029
- Material devaluation of the Company's holdings, due, among other things, to a deep recession in the countries of operation, will be reflected, inter alia, in a deterioration in the real estate and energy 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.
- On the path of deterioration to the hypothetical default, the Company will refinance its debt and utilize 85% of its available credit facilities.
- On the day of default, the market value of the Company's portfolio and its cash reserves will decrease to the amount of its debt due to a sharp decrease in subsidiaries' market value. We also assume an additional 30% reduction in share value considering the need for quick liquidation.

Simplified Waterfall

- Gross enterprise value according to DAV method: about NIS 4.4 billion
- Administrative costs: 5%
- Enterprise value available for secured debt: about NIS 4.2 billion
- Total senior secured debt (unrated): about NIS 440 million
- Net value available for unsecured debt: about NIS 3.8 billion
- Total rated unsecured debt (bond series 9, 10, 11, 12, 13, 15): about NIS 5.9 billion
- Recovery expectations of unsecured debt: 50%-70%

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: Industry Risk, November 19, 2013
- Country Risk Assessment Methodology And Assumptions, 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
- Methodology For National And Regional Scale Credit Ratings, June 8, 2023
- Corporate Methodology, January 7, 2024
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, January 7, 2024
- S&P Global Ratings Definitions, December 2, 2024

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	18/04/2024
Issue rating(s)			
Senior Unsecured Debt			
Series 9,10	ilAA-	18/05/2015	18/04/2024
Series 15	ilAA-	28/08/2022	18/04/2024
Series 11	ilAA-	23/07/2019	18/04/2024
Series 12	ilAA-	23/07/2019	18/04/2024
Series 13	ilAA-	08/08/2022	18/04/2024
Issuer Credit Rating history			
Long term			
April 8, 2025	ilAA-/Stable		
April 18, 2024	ilAA-/Negative		
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	08/04/2025 14:06
Time when the event was learned of	08/04/2025 14:06
Rating requested by	Issuer