

RATING ACTION COMMENTARY

# Fitch Downgrades Signa Development to 'C' on Prospective Insolvency Application

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Fitch Ratings - Warsaw - 12 Dec 2023: Fitch Ratings has downgraded Signa Development Selection AG's (Signa Development) Long-Term Issuer Default Rating (IDR) to 'C' from 'CCC+' and removed it from Rating Watch Negative (RWN). Fitch has withdrawn Signa Development's senior unsecured rating and Signa Development Finance S.C.S.'s bond rating (both 'CCC+//RR2'). A full list of rating actions is below.

On 8 December, Signa Development Finance S.C.S (the finance vehicle issuing Signa Development's rated EUR300 million unsecured bond) announced that Signa Development and its group companies, "seem predominantly likely" to apply for the opening of insolvency proceedings in the very near term. This application is an event of default under the terms of the rated notes.

Previous rating downgrades reflected Signa Development's weak ringfencing measures, which should have protected its bondholders from wider Signa group difficulties. Signa Prime Selection (Signa Prime) is reportedly in forms of standstills with various suppliers, some development projects have been halted, and its liquidity is constrained. This has led to contagion effects on other Signa entities including Signa Development.

In Fitch's view, Signa Development has also breached financial separation by significantly increasing its 1H23 and post-1H23 financial receivables to other group entities and activities. The unwinding of these receivables will take time and be difficult.

Fitch has withdrawn Signa Development's senior unsecured rating of 'CCC+' with a Recovery Rating of 'RR2', including that on Signa Development Finance S.C.S.'s bond (which is guaranteed by Signa Development), due to insufficient information to calculate meaningful recovery estimates.

**KEY RATING DRIVERS**

**Lack of Segregation:** The recent increase in financial receivables to wider Signa group entities exposes Signa Development to group entities' property developments or investments that are outside its control. Some of these receivables were cash from recent 2023 net disposal receipts destined for Signa Development creditors.

**Bond Covenants:** Despite Signa Development's bond covenants restricting on-lending to affiliates (as defined), financial receivables to wider Signa entities exist. The company recently described some of these as "ordinary course of business cash management operations", the most recent being net cash proceeds from disposals (kika/Leiner, BEAM and others) that were diverted.

**1H23 Cash Position:** Signa Development improved its end-June 2023 cash position of EUR32 million with proceeds from the BEAM Berlin office disposal (net proceeds undisclosed). During 1H23 it received net proceeds from selling kika/Leiner. The Berlin office Schonerhauser Allee, forward-sold, is near-completion and 60% pre-let. Together with fast-tracking the sale of various D18 assets, Signa Development has received significant disposal proceeds during 2023.

**Wider Signa Group Difficulties:** The group's parent entity, Signa Holdings, which predominantly holds equity stakes in group entities, has filed for insolvency. Elsewhere in the group, news reports have pointed to property developments ceasing particularly within Signa Prime, indicating constrained liquidity, rising material and financing costs to complete projects, and real estate valuation uncertainties, particularly as projects complete in future years. The European Central Bank has requested banks to scrutinise the real estate values used for lending to Signa entities. Signa Development's end-2022 properties were valued by external independent valuers.

**Forward-Sale Business Model:** Signa Development's forward-sale model had provided greater certainty around timing and values of its completed residential and office projects. During 2023, Signa Development has fast-tracked other disposals, creating liquidity and realising development profits. Nevertheless, liquidity is required to fund developments to completion, alongside existing debt funding (usually procured at a low 40% loan-to-value). In addition, the contagion effect of unpaid suppliers and bank lenders on other Signa entities, including Signa Development, may disrupt near-term and longer-term projects and funding.

**Wider Signa Group Poor Transparency:** As the Signa group is privately held, its public transparency is not comparable with listed groups'. Signa Development's disclosed related-party transactions are also subject to the oversight of its six-person supervisory board, which has a fiduciary duty to its shareholders, both of which are equipped to investigate the investment rationale, arm's-length nature, and reporting of transactions with other Signa group entities.

However, all six of Signa Development's supervisory board members also serve on the 10-member supervisory board of Signa Prime. Consequently, in Fitch's view, and from Signa Development's creditors' perspective, transactions with Signa Prime fail to demonstrate the high degree of transparency to allay corporate governance risk. Although Signa Development was conserving its cash with disposal receipts, financial receivables rose EUR215 million in 1H23 after an EUR155 million increase in 2022, which Signa Development has described as interest-bearing "loans to indirect shareholders".

**DERIVATION SUMMARY**

Unlike other property developers Signa Development had a policy of forward-sale of its residential and office developments, which provided some visibility around timings, values upon completion. If the company had relied on speculative development, its previous ratings would have been lower.

**KEY ASSUMPTIONS**

Financial forecasts are no longer relevant pending the filing for insolvency proceedings.

**RECOVERY ANALYSIS**

Fitch's recovery estimate for the EUR300 million unsecured bond is not updated due to lack of information. The Recovery Rating and senior unsecured rating are withdrawn as many of the assumptions used have changed since the company's last disclosures on 30 June 2023.

Key factors will be the recovery of disposal receipts received in 2023, which were upstreamed to other parts of the group in the form of financial receivables. These may have funded other entities', probably subordinated, stakes in other property funding. Recoveries on Signa Development's real estate will depend on recent decisions to complete part-funded, near-completion, projects probably with bespoke-project funders' or purchasers' additional monies, also timing and decisions on funding, or mothballing other projects. These decisions will depend on the priorities of the restructuring advisers and available liquidity.

**RATING SENSITIVITIES**

**Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:**

- Fitch is likely to upgrade after Signa Development's insolvency process, when a new capital structure will be put in place, assessed and re-rated

**Factors That Could, Individually or Collectively, Lead to Downgrade:**

- A 'D' rating would reflect Signa Development entering into bankruptcy filing or other formal winding-up procedures

**LIQUIDITY AND DEBT STRUCTURE**

**Appointment of Advisors:** Signa Development has previously disclosed that it has appointed advisors to support the company with its current challenges, including its liquidity position.

**End-June 2023 Cash:** The last published figures on cash were as of end-June 2023, when the company had cash of EUR32 million (end-2022: EUR125.1 million). Post-1H23 the company reported receipts from a two-stage sale of BEAM (a completed Berlin office) for an undisclosed amount.

**ISSUER PROFILE**

Signa Development is a property development company active mainly in Austria and Germany.

**REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

**ESG CONSIDERATIONS**

Signa Development has an ESG score of '5' for Group Structure reflecting its complexity, transparency as an unlisted entity and high levels of related-party transactions including recent cash outflows. This has a negative impact on the credit profile, and is highly relevant to the ratings in conjunction with other factors.

Signa Development has an ESG score of '5' for Governance Structure. This reflects the previous active participation of the founder within Signa Development without being a supervisory or management board member of Signa Development. We understand from management the founder has now stepped down from this active participation. This has a negative impact on the credit profile, and is highly relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products/esg-relevance-scores>.

**RATING ACTIONS**

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Signa Development Selection AG	LT IDR	C	Downgrade	CCC+ ↕
senior unsecured	LT	WD	Withdrawn	CCC+ ↕
Signa Development Finance S.C.S.				
senior unsecured	LT	WD	Withdrawn	CCC+ ↕

**VIEW ADDITIONAL RATING DETAILS**

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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**APPLICABLE CRITERIA**

- [Corporate Hybrids Treatment and Notching Criteria \(pub. 12 Nov 2020\)](#)
- [Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)
- [Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 13 Oct 2023\) \(including rating assumption sensitivity\)](#)
- [Corporate Rating Criteria \(pub. 03 Nov 2023\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

**ADDITIONAL DISCLOSURES**

- [Dodd-Frank Rating Information Disclosure Form](#)
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**ENDORSEMENT STATUS**

Signa Development Finance S.C.S.	EU Issued, UK Endorsed
Signa Development Selection AG	EU Issued, UK Endorsed

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**ENTITIES**

- Signa Development Selection AG
- Signa Development Finance S.C.S.

**ISSUER CONTENT**

- Fitch Downgrades Signa Development to 'D' on Application for Insolvency
- Fitch Downgrades Signa Development to 'CCC': Ratings on RWN
- Fitch Downgrades Signa Development to 'CCC': Unsecured Debt to 'B'
- Fitch Revises Outlook on Signa Development to Negative: Affirms IDR at 'B', Unsecured Debt at 'B'
- Fitch Affirms Signa Development Selection AG's IDR at 'B'; Unsecured Debt at 'B'
- Fitch Assigns Signa Development Finance S.C.S.'s Bond Final 'B+'//RR2' Rating

**RECOMMENDED CONTENT**

- Fitch Rates Ecopetrol's Senior Notes 'BB+'
- Fitch Rates T-Mobile's New Senior Unsecured Notes 'BBB+'
- [Open Text Corporation](#)
- [China Three Gorges Corporation](#)
- Fitch Rates Fiber Bidco S.p.A.'s Planned Senior Secured Notes 'BB-(EXP)'; Affirms 'B+' IDR
- Fitch Affirms and Withdraws Flamingo's Revolving Credit Facility Rating
- Fertiliser Price Assumptions
- Metals and Mining Price Assumptions
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