Summit Germany Ltd.

Monitoring Report | February 2017

Contacts

Eylon Garfunkel, Senior Team Leader - Lead Assessor
Eylong@midroog.co.il

Anna Aizenberg-Ben Lulu, Senior Analyst - Secondary Assessor
Annaa@midroog.co.il

Ran Goldstein, Vice President - Head of Real Estate
Rang@midroog.co.il

Summit Germany Ltd.

Issuer rating	Aa3.il	Outlook: Stable

Midroog affirms the issuer rating of Aa3.il with stable outlook assigned to the overall repayment capacity of Summit Germany Ltd. ("Summit Germany" or "the Company").

Key Rating Considerations

Summit Germany's rating is positively impacted, inter alia, by its financial leverage ratios, which compare favorably to those of its rated peers. As of 30 June 2016, the company's equity (including minority interests) represented approximately 50% of its total balance sheet, with a 43% net debt to Cap ratio. Equity attributable to shareholders as of that date was 409 million euros, which was similar to 31 December, 2015.

The Company owns a well-diversified portfolio of rental income-generating German real estate, which consisted of 102 properties as of 30 September 2016 (one asset was sold post the end of the reporting period). The Company's rating is positively impacted by its activity in the German real estate market (Germany was rated Aaa with a stable outlook by Moody's), characterized by stable demand for rental space. The German economy is however exposed to current economic and political changes in Europe, including fluctuations in exchange rates. The Company's financial flexibility is good, supported by a portfolio of unencumbered income-producing properties in Germany and a 40 million euros liquid cash balance. The Company does not engage in significant levels of entrepreneurial activity; thus, apart from its liquid funds, most of the balance sheet is used to generate a permanent cash flow. In addition to board operational management platform in Germany the Company's experienced senior management team has strong track record as a manager of income-producing properties, based upon operation of a strategy identical to that employed by the Company. The Company's portfolio diversification compares favorably to that of its rating peers. The largest single property contributes 7% of total revenues, which rises to 17% for its three largest assets combined. The Company has a significant permanent cash flow and coverage ratios that compare favorably to its rating peers. The expected net Debt to FFO ratio is 9-12 years (subject to the scale of additional property acquisitions).

The rating is conversely, negatively impacted by the need of the company to continually monitor and manage its properties, as well as the need to periodically invest in a portfolio with a weighted average lease length of 4.7 years and to contend with a variable tenants' replacement rate. In addition, the weighted occupancy rate for the aggregate portfolio, as of 30 September, 2016, was 87%; it is currently 85% (a percentage that compares unfavorably to other rated companies). This exposure is somewhat moderated by the Company's diversification of the properties and its diversified tenant base, as well as the management's experience of renting vacant space and extending existing contracts. The most material single tenant accounts for 7% of total revenues, rising to 13% for the three most material tenants combined. The Company is exposed to increases in interest rates in its geographical area of operations (this could also affect discount rates, which are currently trending downwards) but endeavors to borrow at fixed interest rate (which reduces its exposure to fluctuation in interest rates) while extending loan duration terms.

Maintenance of the Company’s current financial ratios as it increases the scope of its activity, should have a positive impact on both its rating and the rating outlook.

Assumptions of the Model – Base Scenario

Midroog's base scenario takes into account several key assumptions. This includes the retention of high financial strength ratios relative to the rating level, including a net Debt to Capital ratio of up to 50%, and even lower ratio over the medium-to-short term, while taking into account some further portfolio investment in the acquisition of additional assets. The scenario assumes FFO levels of 37-39 million euros. These ratios result in a net coverage ratio of 9-12 years. The model incorporates a dividend payment equivalent to 60% of the FFO generated by the Company. The base scenario examined the effect of an additional investment in income-producing properties in Germany in line with the Company's strategy which, among other things, includes an intention to maintain leverage at similar levels to those in recent years. That base scenario also assumes that the Company’s residential development projects, which include granting loans, will remain at levels which are insignificant relative to its overall activity, although there may be some increase. Further considerations of Midroog for the Company’s rating included sensitivity tests for a decrease in NOI.

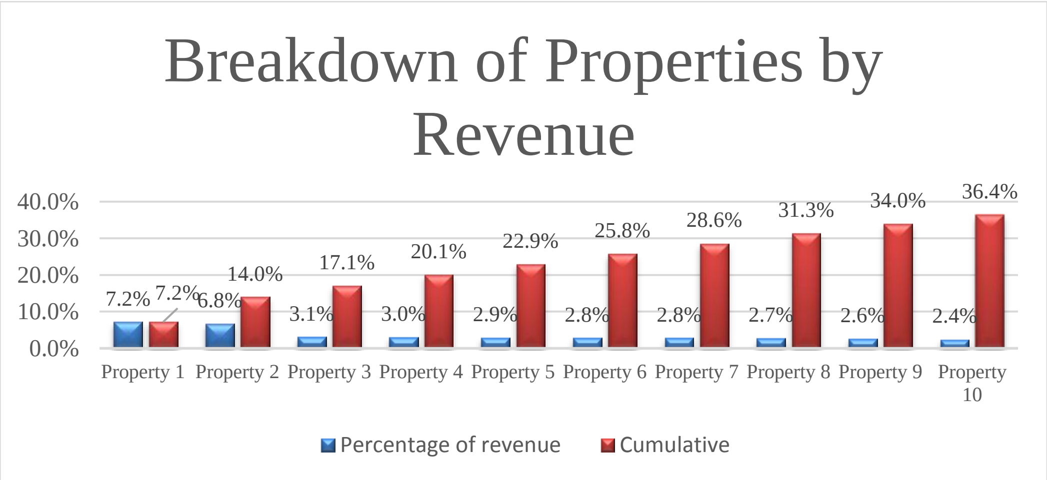
Summit Germany Ltd. – Main Data

Key Financial Data (€'thousands)	June 30, 2016	December 31, 2015	June 30, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Total revenues	28,909	49,578	22,140	43,363	39,523	63,256
NOI	**26,683**	**45,754**	**20,855**	**39,858**	**36,849**	**59,527**
EBITDA excluding revaluations	**22,647**	**37,381**	**17,275**	**32,778**	**32,571**	**49,476**
EBITDA rate	78.3%	75.4%	78.0%	75.6%	82.4%	78.2%
Revaluation of investment properties	-8,816	55,293	-3,366	34,669	-5,058	-51,651
Net income (after tax)	8,169	63,467	-2,852	70,881	23,825	-37,120
Financial debt	**363,157**	**323,840**	**303,262**	**312,833**	**355,379**	**447,091**
Liquid balance	40,461	33,583	94,988	9,734	21,443	74,416
Net financial debt	**322,696**	**290,257**	**208,274**	**303,099**	**329,757**	**367,447**
Cap	800,373	761,434	677,335	573,485	518,216	582,930
Net Cap	759,912	727,851	582,347	563,751	492,594	503,286
Shareholders' equity	408,572	409,484	356,173	244,703	152,768	132,547
Equity and minority interests	423,982	424,702	367,555	255,029	160,131	134,677
Investment Properties	770,960	731,748	582,394	582,572	501,154	515,205
Total Assets	842,066	791,665	701,153	612,985	556,950	633,380
Shareholders' Equity and minorities / Total Assets	**50.4%**	**53.6%**	**52.4%**	**41.6%**	**28.8%**	**21.3%**
Debt to Cap	**45.4%**	**42.5%**	**45%**	**54.5%**	**68.6%**	**76.7%**
Net debt to Net Cap	**42.5%**	**39.9%**	**36%**	**53.8%**	**66.9%**	**73.0%**
FFO	**17,358**	**26,469**	**12,951**	**21,078**	**9,457**	**13,941**
Debt to FFO		12		15	38	32
Net debt to FFO		**11**		**14**	**35**	**26**

Key Rating Rationale

Scope of activity includes satisfactory property diversification and focus on income-producing assets

As of 30 June, 2016, Summit Germany owned 102 income-producing properties with a total lettable area of 863,000 square meters. The valuation of the aggregate portfolio as of that date was 770 million euros and the rentable space was leased to 700 tenants. The average occupancy rate was 87% and weighted average lease length 4.7 years (versus a weighted average lease length of 4.3 years as the date of the previous rating). The main component of portfolio value comprises offices; the remainder is divided between retail and logistics use. The properties are expected to generate significant annual NOI above 52 million euros. The Company's properties are widely diversified. Company data shows that its main asset accounts for 7% of overall revenues, while its three major properties account for 17% of total revenues. The Company has reasonable tenant diversification, with the most material tenant accounting for 7% of the revenues and the three material tenants accounting for 13% of the revenues. Apart from its holdings of income-producing assets, the Company owns german residential projects which represent an insignificant proportion of its total portfolio.



The Company's portfolio profile and its relatively short weighted-average lease length require a management platform with the operational expertise and experience to maintain the portfolio's market positioning and exploit opportunities to improve asset quality. The asset management platform has an employee base of over 50 to support these requirements. Following implementation over the last few years of strategies to reduce leverage, extend debt duration and significantly reduce interest costs, Company data reveals that recent investment has been desiegned to enhance the rentability of its properties. Summit Germany also intends to dispose of properties which it does not consider part of its core operations due to their location, quality or practicble uses.

Company Financial strength and coverage ratios that compare favorably with similarly rated peers; significant FFO contributes to the risk profile

As of 30 June, 2016, the Company's Net debt to Cap ratio is 43% and its Equity/Total Assets ratio is 50%. These compare with 40% and 54%, respectively, as of 31 December, 2015. FFO is expected to amount to 37-39 million euros, and the projected debt/FFO ratio is 10. The Company has a relatively high residual cash flow for its rating grade due to its capital and debt structure, which includes no corporate debt. All financial debt consists of bank loans secured against properties at a weighted LTV of 55%.

High liquidity and financial flexibility relative to the rating level

The cash balance totals to 40 million euros as of 30 June 2016. In addition, good financial flexibility includes opportunities for the Company to use unencumbered properties as security, and increase debt on assets which are providing security but at a low LTVs. Considering processes already underway, Midroog believes that liquid balances and financial flexibility will remain high relative to the rating level.

Rating Outlook

Factors that can improve rating and the rating outlook:

- Significant growth in activity and Company equity base, while maintaining existing financial strength and coverage ratios;
- Maintenance of adequate levels of liquidity and financial flexibility to service debt.

Factors that could lead to a rating downgrade:

- Exceptional large dividend payments and investments incompatible with the Company's risk profile;
- Significant erosion of the Company's financial parameters.

About the Company

The Company commenced activity in 2006 and its shares were issued in an IPO that year on London's AIM market, where it is still traded as at the date of this report. The Company's controlling shareholder is Summit Real Estate Holdings Ltd. ("the Parent Company"), which owns 50.01% of the Company and is rated Aa3.il with stable outlook by Midroog. The Parent Company's controlling shareholder is Mr. Zohar Levy, who also serves as managing director of Summit Germany. The Company's primary business is the management, operation and lease of income-producing properties in Germany.

Rating History

Related Reports

[Summit Germany Ltd. – Initial Rating Report – February 2016]

[Rating of Income-Producing Real Estate Companies – February 2016]

[Midroog Rating Scales and Definitions]

The reports are published on the Midroog website www.midroog.co.il

General Information

Date of rating report:	February 23, 2017
Rating last revised on:	February 28, 2016
Rating first published on:	February 28, 2016
Rating commissioned by:	Summit Germany Ltd.
Rating paid for by:	Summit Germany Ltd.

Information from the Issuer

Midroog relies in its ratings inter alia on information received from competent personnel at the issuer.

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Aa.il	**Issuers or issues rated Aa.il demonstrate, in Midroog's judgment, very strong creditworthiness relative to other domestic issuers.**
A.il	**Issuers or issues rated A.il demonstrate, in Midroog's judgment, above-average creditworthiness relative to other domestic issuers.**
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Ba.il	**Issuers or issues rated Ba.il demonstrate, in Midroog's judgment, below-average creditworthiness relative to other domestic issuers and may possess speculative characteristics.**
B.il	**Issuers or issues rated Ba.il demonstrate, in Midroog's judgment, weak creditworthiness relative to other domestic issuers and possess speculative characteristics.**
Caa.il	**Issuers or issues rated Caa.il demonstrate, in Midroog's judgment, very weak creditworthiness relative to other domestic issuers and possess very significant speculative characteristics.**
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Note: Midroog appends numerical modifiers 1, 2, and 3 to each rating category from Aa.il to Caa.il. The modifier 1 indicates that the bond ranks in the higher end of its rating category, which is denoted by letters; the modifier 2 indicates that it ranks in the middle of its rating category, and the modifier 3 indicates that the bond ranks in the lower end of its rating category, which is denoted by letters.

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