REUTERS

Fitch Assigns Pinewood Group Final Rating of 'BB', Secured Bond 'BB+'; Outlook Stable

DECEMBER 07, 2017

(The following statement was released by the rating agency)

LONDON, December 07 (Fitch) Fitch Ratings has assigned a final Issuer Default Rating (IDR) of 'BB' to UK-based film studio real estate owner, Pinewood Group Limited. Fitch has also assigned a final rating of 'BB+' to Pinewood Finco plc's 3.75% coupon GBP250 million guaranteed senior secured bond. The Outlook on the IDR is Stable.

The ratings on Pinewood Group reflect: its position as one of the key providers globally of studio space to film production companies, underpinned by the UK's supportive tax regime for UK-domiciled film production; a long history of film production at its key sites of Pinewood and Shepperton, with long-standing customer relationships; a large local network of creative industry workers; very good access to international transport links; and an investment-grade capital structure. These strengths are offset by Pinewood's small size relative to most rated real estate companies, the short-term nature of its contractual income base, some concentrations within its tenant base (albeit generally strongly rated), and the specialist nature of its two main assets.

Fitch has provided an uplift of one notch to the GBP250 million secured bond, reflecting the agency's expectation of outstanding recovery for bondholders in the event of insolvency or liquidation. Pinewood Finco's bond is guaranteed by group entities constituting around 81% of total assets, 86% of turnover and 89% of adjusted EBITDA (12 months ended 30 September 2017).

KEY RATING DRIVERS

Renowned Studio Infrastructure Provider: Pinewood Group receives: (i) income from renting out its studios, on-campus offices, accommodation and workshops; and (ii) after some pass-through costs, net income from its production-related ancillary services used by teams who occupy the main studios. Management estimates that stage, workshop and office costs account for less than 5% of a large-scale film production's costs. As at June 2017, nearly all of the group's budgeted revenue for the year to end-March 2018 (FY18) was contracted or reserved. Under new ownership, Pinewood Group is discontinuing its investment in non-core areas such as direct film and TV production to focus purely on studio infrastructure ownership and provision of related services at Pinewood and Shepperton (both adjacent to London), and its Atlanta joint venture.

Well-Located Facilities: The long-established Pinewood and Shepperton studios are hubs of film and TV activity participants, technology and creativity. The scale and scope of existing and planned facilities lend themselves to large-scale film blockbusters, but vacant space can be filled in with smaller productions. The London studios (some owned by other groups including Warner Bros at Leavesden) have been home to many recent film successes, aided by an innate, non-unionised, English-speaking workforce and expertise, favoured by international producers, as well as recent GBP depreciation and the UK's long-standing cross-party supported Film Tax Relief for film-producing companies.

Ongoing Links to Film Industry: Pinewood remains exposed to the health of the international and UK film industry, which can fluctuate according to the success of ideas and creativity, scheduling of films and their sequels, adjusting to different delivery platforms (although they all need studios to film their content), and financial backing. In the UK, gross inflation-adjusted film revenue across all delivery platforms has remained around GBP4 billion since 2007. As an independent studio, Pinewood also attracts inward investment from many of the larger US studio groups.

Relationships Balance Short-Dated Income: Pinewood Group's rental profile features much shorter contractual periods than traditional real estate companies. Fitch takes comfort, however, from its understanding that some major producers have a film production pipeline of up to seven years, and the very long-dated relationships that Pinewood has had with the major global film production groups. Since 2007, Pinewood Group has housed an increasing global share of major films with budgets of over USD100 million, including the James Bond, Disney and Star Wars franchises. Most of Pinewood Group's rental agreements are with film productions backed by investment-grade-rated US studios. Occupancy levels of its stages (measured by revenue) have averaged 80% over the last 10 years.

Expansion to Improve Flexibility: Fitch expects expansion of Pinewood East to increase rental visibility and reduce the number of productions turned away by Pinewood management because of limited space. Fitch expects this to improve the group's profit margins over time. The physical space constraints and difficult UK planning regime for future studio development in the London catchment point to ongoing demand for Pinewood's facilities, despite the lack of property company-type contractual long-dated leases.

Senior Secured Rating: The 3.75% coupon GBP250 million senior secured guaranteed bond has a one-notch uplift from the IDR. The attributable value of GBP605 million of collateral (market value basis) primarily reflects freehold ownership of the Pinewood and Shepperton studios and is based on a discounted cash flow method reflecting the projected net operating income generated by relevant properties, plus surplus land. Alternatively, valued on an undeveloped land basis, the market value of the group's land is GBP260 million, although Fitch believes that the group would be valued as a going concern. Fitch's recovery estimate assumes a fully drawn super senior GBP50 million revolving credit facility.

DERIVATION SUMMARY

Pinewood Group's IDR reflects the company's stable position as an infrastructure provider as well as its linkage to the health of the UK film production industry. Using the independently assessed GBP605 million market value for its business, the asset base would be small for an investment-grade property company despite Pinewood Group having a financial profile commensurate with this rating level. Pinewood Group's expected cash-flow leverage (net debt/EBITDA) of about 5.0x and fixed-charge cover (FCC) of 4.0x-4.5x (after Pinewood East capex) compare with US cinema property company EPR Properties' (BBB-/Stable) downgrade sensitivity of leverage of 5.5x and FCC of 2.2x. Similarly rated peers include Grainger PLC (BB/Stable), a UK residential property owner, with a highly granular portfolio of units offset by higher leverage of about 15x.

KEY ASSUMPTIONS

- The senior secured bond of GBP250 million refinances the group's existing secured bank debt and upstreams some GBP125 million of proceeds to entities outside the immediate group.
- Successful completion and occupancy of the c.GBP60 million Pinewood East Phase II expansion.

- Continued high occupancy of, and steady rental stream from, existing studios, which in turn reflects the Pinewood group's share and conducive contribution towards UK film's output and successes, and inward investment from US studio groups.
- Potential expansion plans and overseas investments are contributory to EBITDA.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Less concentrated geographic diversification which directly contributes to the issuer's profitability (ie not JV)
- Rental-focused interest cover increasing to over 4.0x
- Decrease in leverage to below 4.0x

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Decreased occupancy, or reduced rental stream
- Increase in leverage to 6x and/or decrease in coverage metrics to below 2.5x
- Undue speculative development risk within Pinewood East Phase II, or later delivery
- Weakening of the UK film industry and its fundamentals, including UK Film Tax Relief

LIQUIDITY

Fitch expects Pinewood Group's liquidity to be adequate following the issuance of the GBP250 million bond, with a debt maturity of December 2023. However, Pinewood Group will be exposed to bullet refinancing risk at that point. The recovery ratings include a GBP50 million super-senior revolving credit facility, which Fitch does not expect to be immediately drawn. Fitch expects Pinewood to hold about GBP35 million pro forma cash as a result of the bond issue.

FULL LIST OF RATING ACTIONS

Pinewood Group Limited

- Long-Term IDR assigned at 'BB'; Outlook Stable

Pinewood Finco plc

- GBP250 million guaranteed senior secured bond assigned 'BB+'

Contact:

Supervisory Analyst
John Hatton
Managing Director
+44 20 3530 1061
Fitch Ratings Ltd
30, North Colonnade
London
E14 5GN

Principal Analyst
Paul Lund
Senior Director
+44 20 3530 1244

Committee Chairperson
Bram Cartmell
Senior Director
+44 20 3530 1874

Relevant committee date: 17 November 2017

Media Relations: Adrian Simpson, London, Tel: +44 203 530 1010, Email: adrian.simpson@fitchratings.com.

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Criteria (pub. 07 Aug 2017)
Non-Financial Corporates Notching and Recovery Ratings Criteria (pub. 16 Jun 2017)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any