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Summary:
O1 Properties Ltd.

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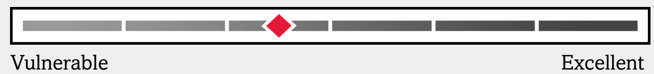
Summary:
O1 Properties Ltd.

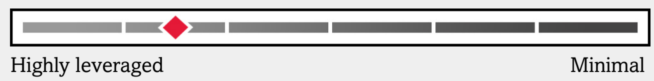
Corporate Credit Rating	B+/Stable/--

Profile Assessments

BUSINESS RISK	FAIR



FINANCIAL RISK	AGGRESSIVE



Initial Analytical Outcome ("Anchor") And Rating Result

Our 'B+' long-term issuer rating on Cyprus-registered real estate investment company O1 Properties Ltd., which operates in Russia, is derived from:

- Our anchor of 'bb-', based on our assessment of the company's business risk profile as "fair" and its financial risk profile as "aggressive."
- Our assessment of the company's stand-alone credit profile (SACP) at 'b+', based on the one-notch downward impact of our comparable rating analysis modifier.

Rationale

Business Risk: Fair	Financial Risk: Aggressive
• Large portfolio of income-producing office assets with low exposure to development activities and limited asset churn. • Strong market position as leading prime office player in the Moscow market. • Low diversity in terms of geographical reach, asset type, and tenants. • Full revenue concentration in Russia where the regulatory framework is opaque and subject to unpredictable changes.	• High average debt duration and well-staggered maturities. • Highly leveraged capital structure, with loan-to-value (LTV) and debt to debt-plus-equity ratios higher than 60%. • Low debt diversity, with a high amount of secured amortizing loans. • Weak interest-coverage metrics with EBITDA interest coverage close to 1.5x.

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Outlook: Stable

The stable outlook reflects our forecast that O1 Properties will likely maintain stable occupancy rates while growing its income-generating asset base. Rating stability hinges on the company maintaining an interest coverage ratio close to 1.5x over the next 12 months.

Downside scenario

We could lower the rating if O1 Properties' interest coverage ratio fell to less than 1.5x on a sustained basis as a result of a drop in rental rates, which we view as unlikely at this stage. We could also take a negative rating action if the company used less equity than we currently anticipate to fund acquisitions.

Upside scenario

We could raise the rating if 01 Properties was able to reduce its leverage, so that its ratio of debt to debt plus equity reached a 55% inflection point, while keeping an EBITDA interest coverage ratio of 2x or higher. Based on the current market trend, we estimate this would correspond to a LTV ratio below 55%.

Standard & Poor's Base-Case Scenario

We consider corporate confidence and the Consumer Price Index (CPI) to be among the most important rent factors for office property investors. Consequently, the slowing office leasing market in Russia offset by O1 Properties' high share of rental income under fixed indexation mechanism should translate into stable credit metrics.

Assumptions

- Low but positive single-digit percentage revenue growth in 2013 and 2014, reflecting the full-year impact of Moscow acquisitions (mainly White Square and Legend) and deliveries (Vivaldi Plaza and LightHouse). The positive indexation is partly offset by our forecast of negative rental reversions owing to weakening leasing activity in the Moscow office property market.
- A flat market valuation factoring in stabilization of property capitalization rates in Moscow.
- EBITDA climbing to between €210 and €250 million over the next twelve months along with rising revenue and stable margins.

Key Metrics

	2012A	2013E	2014E
EBITDA (Mil. $)	113	230-250	270-300
Debt/EBITDA (x)	15	9.5-10.5	9-10
EBITDA/Interest (x)	1	1.4-1.6	1.4-1.7

A--Actual. E--Estimate

Business Risk: Fair

Underpinning our view of business risk is O1 Properties' good quality income producing property portfolio, comprising mainly high quality office assets. Most of these are in the center of Moscow and they had about 96% occupancy as of March 31, 2014. The company is large--worth $4.2 billion based on asset value--and has strong market positions in Moscow. Recurring cash flows are supported by well-spread lease maturities averaging 4.3 years, contracted with a large base of good-quality tenants. We believe that the current strong demand from tenants for new space should support rent levels from existing assets and new developments, as barriers to entry remain high due to local planning and zoning restrictions. We note that the company's share of developments is low, at about 2% of the portfolio value, although management has tolerance for up to 20%.

The rating is constrained, in our view, by high country risk in Russia, which suffers from structural weaknesses such as the economy's strong dependence on hydrocarbons and other commodities, and uncertainties over the rule of law. Compared with other office property companies that we rate, O1 Properties is still in expansion, and bears high geographical concentration as 100% of the portfolio is in Moscow, and asset concentration as it has 11 operational assets with the largest accounting for 13% of market value. We believe the limited number of assets leaves the company exposed to rent volatility from asset rotation and reletting activities as an average of about 16% of rent is under risk in 2014 and 2015.

We foresee positive like-for-like net rental income growth of about 4% in 2013 and 2% in 2014. This is owing to rent uplift from rent reviews and fixed indexation, stable occupancy and a widening EBITDA margin as a result of lower general and administration costs, and the effective start of new leases.

Financial Risk: Aggressive

In terms of financial risk, we see recurring cash flow generation as stable thanks to the company's positive rental income growth and stable lease maturity profile. We believe that given the current favorable market conditions in Moscow, O1 Properties' rental growth will come from rent reviews and additional income from ongoing development projects like Bolschevik and Sheremetievska, and the full-year impact of acquisitions realized over the past 12 months. Given the recent acquisitions and flexibility around dividend payouts, we foresee improvement in the capital structure, to the extent that LTV and debt to debt-plus-equity ratios should stabilize closer to 60% and 63% over the next 12 to 24 months. We also assume a stable cost of debt, which leads us to project a debt service ratio higher than 1.5x in 2014. Although there are no large debt maturities until 2016, we believe the financial risk profile remains constrained by debt amortization schemes and the absence of unencumbered assets, which limits the company's ability to raise new secured bank financing in case it faces difficulties refinancing its existing credit facilities. We view O1 Properties' access to capital markets as fairly limited, which leaves it still highly dependent on the availability of bank financing.

Liquidity: Adequate

We view O1 Properties' liquidity as "adequate" under our criteria as we foresee that liquidity sources will cover uses by more than 1.2x, as of March. 31, 2014, for the next 12 months.

Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash balances of about $76 million on March. 31, 2014. • Our forecast of funds from operations (FFO) of about $60-$70 million. • $50 million of an available revolving credit facility (RCF)	• $45 million of debt repayment and amortization. • Our forecast of $64 million of capital expenditure subject to new financings. • Our forecast of dividend payments of $76 million.

Other Modifiers

Our comparable rating analysis constrains the rating by one notch. This reflects our view that O1 Properties financial risk profile is at the lower end of "aggressive" due to its more highly leveraged capital structure than peers we rate in the 'BB' category. We also believe O1 Properties' funding options and potential for getting support is more limited than higher-rated peers due to its single and private shareholding.

Ratings Score Snapshot

Corporate Credit Rating: B+/Stable/--

Business risk: Fair

- Country risk: High
- Industry risk: Low
- Competitive position: Fair

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bb-

Modifiers

- Diversification/Portfolio effect: Neutral ("no impact")
- Capital structure: Neutral ("no impact")

- Liquidity: Adequate ("no impact")
- Financial policy: Neutral ("no impact")
- Management and governance: Fair ("no impact")
- Comparable rating analysis: Negative (-1 notch)

Recovery Analysis

Key analytical factors

- The 'B+' issue rating and '4' recovery rating on O1 Properties' Russian ruble (RUB) 6 billion senior notes due 2016 reflect their unsecured nature, significant subordination to structurally and contractually senior bank debt, and our unfavorable view of the Russian insolvency regime. The recovery rating is supported by O1 Properties' strong market position and the high quality of assets in its portfolio.

- The notes' recovery prospects are very sensitive to small changes in the haircuts applied to the assets in our stressed valuation. For example, recovery prospects are nil if the haircut is increased to 40% from 30%. Hence, despite coverage of more than 100% on the notes, we cap the recovery rating at '4' due to the volatility.

- We use a discrete asset valuation approach applying stress of 30% on the fair market value of completed projects, which comprises most of the value of the group.

- Our hypothetical default scenario would be triggered by downward pressure on rental income and the threat of rising costs stemming from the still-immature administrative and regulatory environment in Russian real estate. These factors could lead to the company's inability to meet interest and principal repayments.

Simulated default and valuation assumptions

- Year of default: 2017.
- Jurisdiction: Russia.

Simplified waterfall

- Gross enterprise value at default: $2.7 billion.
- Net value available to creditors (after deducting administrative costs, priority liabilities (mainly leases) and secured debt): $308 million.
- Unsecured debt claims: $260 million.*
- --Recovery expectation: 30%-50%.

*All debt amounts include six months' prepetition interest.

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors For The Real Estate Industry, Nov. 19, 2013

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