S&P Global Ratings

Press Release

GLP And GLP China Rating Outlook Revised To Negative From Stable On High Reliance On Asset Monetization Gains

- **GLP Pte. Ltd.** (GLP) and **GLP China Holdings Ltd.**'s volatile intra-year consolidated debt balance and high proportion of lumpy nonrecurring EBITDA accentuate financial risk, in our view.
- We have revised GLP and GLP China's management and governance score to fair from satisfactory owing to significant related-party transactions and weakened disclosure due to confidential transactions.
- We have revised our rating outlook on GLP and GLP China to negative from stable. At the same time, we affirmed our 'BBB-' long-term issuer credit ratings and issue ratings on both companies. We also affirmed our 'BB' long-term issue rating on GLP's perpetual notes.
- The negative outlook indicates that we could lower the ratings if GLP is unable to sustainably reduce the proportion of nonrecurring EBITDA to less than 30% by end-2023. A downgrade could also materialize if GLP continues to utilize its balance sheet to fund material new development, undertakes related-party transactions, or is unable to collect the majority of its advances to GLP Bidco Ltd. (Bidco, an intermediate holding company) over the next six to 12 months.

SINGAPORE (S&P Global Ratings) Nov. 1, 2022--S&P Global Ratings today took the rating actions listed above.

The likelihood of GLP sustainably reducing the proportion of nonrecurring EBITDA to less than 30% by the end of 2023 has decreased.

In our view, macroeconomic headwinds--including the reset of offshore investors' yield expectation and investment appetite, as well as China's ongoing zero COVID approach--could delay approvals and GLP's monetization of assets. These could prolong GLP's transition to an asset-light model to beyond 2023. A successful transition will reduce GLP's balance sheet leverage and allow it to benefit from a higher proportion of stable and recurring management fee-related income.

We now expect GLP's net monetization proceeds to be US$4.7 billion for 2022, down from US$5.2 billion we had forecast earlier this year. As a result, some of the monetization events could be pushed into 2023, increasing the proportion of nonrecurring EBITDA (realized gain upon asset monetization) to 35%-39% for 2023, compared with our previous expectation of 30%-35%. This compares with our downgrade threshold of 30% by end 2023.

We expect more certain and stable rental income and management fees would represent the majority of GLP's adjusted EBITDA. Meeting the 30% threshold is important to continue classifying GLP as a real estate owner and operator, rather than a developer.

Despite the headwinds, GLP's planned asset monetization will benefit from the company's substantial uncalled third-party equity capital commitment of US$12.4 billion, as well as strong demand from Chinese onshore investors such as insurance companies due to the lack of viable alternative investments. GLP raised US$7 billion in equity capital at the fund level during the first half of 2022.

GLP has revised down its full-year 2022 guidance for capital spending (in the form of capital expenditure (capex), acquisitions, and contributions to JCEs) following its expectation of lower asset monetization proceeds. We project the company will spend US$4.7 billion in 2022, down from our previous forecast of US$8 billion.

GLP's use of its balance sheet to fund material related-party transactions has heightened financial risk.

Advances to Bidco have increased to approximately US$6.5 billion as of June 30, 2022, from about US$4.1 billion and US$2 billion at end-2021 and 2020 respectively. This contributed to the unexpected increase in GLP's reported consolidated debt to US$14.4 billion as at June 30, 2022, from US$11.8 billion at end-2021.

As per GLP's interim financial statement, the company upstreamed US$2.6 billion cash advances to Bidco during the first half. This related to the bridge financing provided to GLP-managed fund, China Income Partners V, which has since been repaid. The other advances during the first half were to facilitate the transfer of a minority stake in GLP China to a new strategic shareholder. GLP expects to collect this before the end of this year.

We expect advances of US$1.4 billion-US$1.7 billion made to Bidco during 2021 would be collected through 2023. Any delay in collection would further strain GLP's ability to reduce its consolidated debt as part of its asset-light strategy. The remaining US$1.7 billion-US$2.1 billion Bidco receivable arising from GLP's privatization has been outstanding since 2019.

GLP's deleveraging is dependent on timely repayment of advances to Bidco, cash collection from asset monetization, and use of cash proceeds to pare down debt instead of reinvestment.

Based on our forecast, GLP would need to reduce debt by about US$5.5 billion-US$6.0 billion over the next 12-18 months to meet its asset light strategy target by the end of 2023 and maintain a ratio of funds from operations (FFO) to debt of more than 9%. Repayment of US$3.6 billion–US$3.9 billion advances made to Bidco over the next six to 12 months would aid deleveraging. We expect the surplus cash proceeds from asset monetization, net of capital spending, over the next 18 months could also be used to reduce GLP's consolidated debt balance.

However, GLP's past asset monetization proceeds were substantially reinvested in capex and capital contribution to its joint venture funds, rather than reducing its outstanding debt. Even with GLP's intention to complete its transition to an asset-light model by 2023, the company continues to pursue an expansion strategy by investing in internet data centers in China, as well as developing cold storage facilities and logistics warehouses. Timing mismatch between asset monetization proceeds and capital spending also contributed to material intra-year volatility of its consolidated debt balance in 2021.

Although we expect the capital spending will reduce from 2023 due to the deconsolidation of its subsidiary fund, GLP China Logistics Fund II, it also depends on timely completion of the deconsolidation, and GLP's effort to reduce capital spending.

We believe GLP's FFO-to-debt ratio will be close to the downgrade trigger in 2022 and 2023 if 30% of cash proceeds from annual planned asset monetization slip to next year. The company's net cash proceeds from asset monetization during the first six months of 2022 only met 35%-40% of our full-year forecast published in June. The cash collection schedule is skewed toward the fourth quarter of 2022, and therefore some proceeds could be collected only in 2023.

Material related party transactions with Bidco raise governance issues.

In our view, significant advances to Bidco over the past 18 months, as well as limited disclosure on related-party transactions, have contributed to our reassessment of GLP and GLP China's management and governance score. While we understand GLP is bound by non-disclosure agreements on certain transactions, the lack of timely and adequate disclosure to the market have resulted in a material decline in the company's bond prices.

GLP has announced measures to strengthen its related-party transaction policy. This includes oversight by an independent related party transaction committee (RPTC). However, a substantial number of related-party transactions have occurred prior to the set-up of RPTC. We will monitor the committee's effectiveness.

Enhancement in joint venture entity (JCE) disclosure and transparency could be critical as the proportion of JCE business increases as more assets go off-balance-sheet. We believe the level of visibility and transparency could reduce as GLP recycles more assets off balance sheet into privately held funds, where the company holds a minority interest. We forecast proportion of JCE's debt will increase to close to 40% of total adjusted debt by 2023, from 20%-25% in 2022.

The negative outlook on GLP and GLP China reflects the uncertainty over GLP's ability to reduce balance sheet and EBITDA volatility to levels in line with an investment grade rating within the next six to 12 months.

GLP

We may lower the rating if we believe GLP is unable to: (1) reduce the proportion of nonrecurring EBITDA to less than 30% sustainably by end-2023; (2) reduce the utilization of its balance sheet to fund material related-party transactions; (3) collect the advances it has made to Bidco of about US$4.5 billion in the next six to 12 months; or (4) use proceeds from future asset monetization to reduce debt rather than continue with sizable capital spending.

Rating pressure could also emerge if GLP's ratio of FFO to debt weakens to less than 9% intra year. Weakening credit metrics would be an indication of management's inability or unwillingness to reduce debt and volatility in EBITDA.

GLP China

We may lower the rating on GLP China if we downgrade GLP.

We may lower our assessment of GLP China's stand-alone credit profile (SACP) if the company's proportion of volatile nonrecurring earnings remains above 30% of adjusted EBITDA by end-2023.

GLP

We may revise the outlook to stable if we believe GLP will reduce its debt and volatility in EBITDA by transitioning to its asset-light model by end 2023, and adhere to its financial policy on a sustainable basis.

GLP China

We may revise the outlook on GLP China to stable if we revise the outlook on GLP to stable. This is also contingent on GLP China maintaining its core strategic relationship within the group.

Environmental, Social and Governance

ESG credit indicators: To E-3, S-2, G-4; From E-3, S-2, G-2

We have revised our governance credit indicator for GLP to negative (G-4) from neutral (G-2). Governance factors are now a negative consideration in our credit rating analysis of GLP. The company's level of disclosure is not comparable with that of listed companies. GLP has had material related-party transaction over the past 18 months. We estimate the amount due from immediate holding company (Bidco) was about US$6.5 billion at end-June 2022, compared with US$4.1 billion at the end of 2021.

The disclosure in the company's financial statement lacks details on the nature of these transactions and terms of repayment due to the confidential nature of transactions. The remaining US$1.7 billion-US$2.1 billion Bidco receivable arising from GLP's privatization has been outstanding since 2019.

Environmental factors are a moderately negative consideration in our credit rating analysis of GLP. Real estate developments are likely to remain a material part of the company's business. GLP had a fifth of its buildings green certified at the end of 2021. The high contribution from real estate development activities also exposes the company to wastewater and air pollution risk. We have embedded this risk in our real estate development industry risk analysis. Social factors have had no material influence on our credit rating analysis of GLP.

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Governance structure
- Transparency and reporting

Related Criteria

- **General Criteria: Hybrid Capital: Methodology And Assumptions**, March 2, 2022
- **General Criteria: Environmental, Social, And Governance Principles In Credit Ratings**, Oct. 10, 2021
- **General Criteria: Group Rating Methodology**, July 1, 2019
- **Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments**, April 1, 2019
- **Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings**, March 28, 2018
- **Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry**, Feb. 26, 2018
- **Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments**, Jan. 20, 2016
- **Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers**, Dec. 16, 2014
- **Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry**, Feb. 3, 2014
- **Criteria | Corporates | General: Corporate Methodology**, Nov. 19, 2013
- **General Criteria: Country Risk Assessment Methodology And Assumptions**, Nov. 19, 2013
- **General Criteria: Methodology: Industry Risk**, Nov. 19, 2013
- **General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities**, Nov. 13, 2012
- **General Criteria: Principles Of Credit Ratings**, Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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