S&P upgrades Prologis' corporate credit rating

By Joseph Williams

Standard & Poor's Rating Services on March 24 raised Prologis Inc.'s corporate credit rating to BBB+ from BBB with a stable outlook due to improved credit measures, improved financial risk profile and a favorable outlook on the industrial subsector.

The agency also raised its senior unsecured ratings on the company's debt to BBB+ from BBB and its ratings on the Prologis' preferred stock to BBB- from BB+.

Reflected in the ratings actions is S&P's view that the company has improved its financial risk profile to "intermediate" from "significant."

"Following early completion of the company’s post-merger integration, portfolio repositioning, and de-leveraging plan in mid-2013, Prologis emerged with a tighter business strategy with a focus on select global and regional markets, a streamlined investment management business that has fewer and longer-duration funds, and lower financial risk," S&P credit analyst James Sung said in the ratings report.

The company has managed to reduce debt, lower its borrowing costs, extend its maturities and reduce currency exchange risks.

The ratings agency maintained its "strong" business risk assessment for Prologis, but noted that the company continues to improve. S&P also said it has an improving view of the company’s management and governance, which it now assesses as "strong," up from "satisfactory," largely due to the early completion of its post-merger integration, portfolio repositioning and deleveraging plan.

Prologis' unmatched size, scale and diversity make it well-exposed to a recovery in rental rates, which, along with improving occupancy, will add loft to NOI growth over the next two years.

The S&P analyst also noted the extra revenue and value-creation activities generated from the company's investment management and development businesses.

"The stable outlook reflects our view that Prologis is well positioned to execute its three-year plan given favorable industrial subsector conditions, strong management capabilities, and more supportive financial policies," S&P said in the report.

The rating agency said an upgrade in the next 12 to 24 months would be contingent on the company's business risk profile strengthening toward the "excellent" category or its financial risk profile continuing to improve toward the "modest" category. S&P also would like to see the company demonstrate stronger and more stable EBITDA margins versus peers, as well as greater operating efficiency. From a financial perspective, the rating agency would consider an upgrade if debt-to-EBITDA approaches the low end of its 4.5x to 7.5x "intermediate" range and fixed-charge coverage approaches the high end of its 2.1x to 3.1x "intermediate" range, along with improvement in other key credit measures.

A downgrade as unlikely in the near term, the rating agency said, based on assumptions supporting the upgrade. However, a lower rating would be considered if business fundamentals deteriorate abruptly, leading to material operating and leasing difficulties, or if the company were to pursue more aggressive development and financing strategies, such that key credit measures were to start to deteriorate toward the weaker end of S&P's "intermediate" range.