MOODY'S INVESTORS SERVICE

CREDIT OPINION
23 July 2018

Update

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RATINGS

Cyrela Commercial Properties S.A.

Domicile	Sao Paulo, Brazil
Long Term Rating	Ba3
Type	LT Corporate Family Ratings - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Cyrela Commercial Properties S.A.

Update to credit analysis

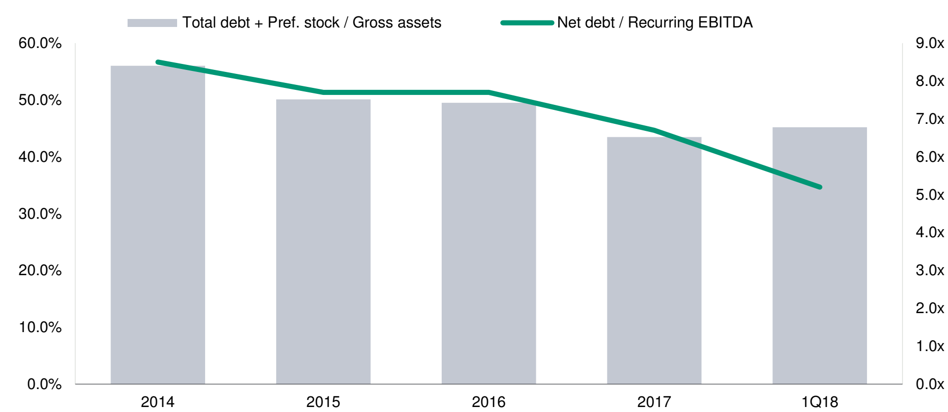
Summary

Cyrela Commercial Properties S.A's ("CCP") Ba3 (global local currency) / A1.br (national scale) corporate family rating reflects the improvement in its credit profile, as expected, following the company's deleveraging using net proceeds from a portfolio sale of distribution centers to Prologis Inc., (A3 senior unsecured rating) in August 2017. CCP's credit profile also benefits from its position as one of the leading owners and developers of commercial real estate in Brazil, as well as from its high quality portfolio of corporate office towers and shopping malls. Furthermore, the stronger-than-expected economic recovery after the country's worst recession (2014-2016) in its history is a tail wind behind the portfolio's improving operational and financial performance.

CCP's credit strengths, however, are partially offset by its elevated secured debt levels, the portfolio's concentration in the city of Sao Paulo and as well as its weak, but improving internal cash flow generation.

Exhibit 1

Key leverage trends [1]



[1] As of March 31, 2018.
Source: Moody's Investors Service and Company's CVM filings.

Credit strengths

» Improved credit metrics and capital structure with no exposure to foreign debt or development

» One of the leading commercial real estate companies in Brazil

» A substantial unencumbered asset pool and a manageable debt maturity schedule

» A high quality office and shopping mall portfolio

» Economic recovery driving consumer demand and improving real estate fundamentals

Credit challenges

» Secured debt levels remain elevated

» Geographic concentration in Sao Paulo, mitigated by its strong and resilient economy

» Weak cash flow from operations, although gradually improving

» Short-term uncertainty due to the upcoming presidential elections in October 2018

Rating outlook

The stable rating outlook reflects our expectation that CCP will continue to operate under a conservative financial policy while strengthening its internal cash flow generation with higher occupancy levels and rental rates.

Factors that could lead to an upgrade

Upward rating movement is unlikely in the medium term and would be predicated upon CCP achieving the following criteria on a sustained basis:

» Effective leverage (total debt + preferred stock as a percentage of gross assets) closer to 30%;

» Net debt to EBITDA below 4.0x;

» Secured debt below 20% of gross assets;

» Fixed charge coverage ratio above 2.0x.

Factors that could lead to a downgrade

Downward ratings pressure would result from the following criteria on a consistent basis:

» Total debt + preferred stock as a a percentage of gross assets approaching 50%;

» Net debt to EBITDA approaching 6.0x;

» Fixed charge coverage ratio or net cash interest expense coverage ratio below 1.0x;

» Portfolio physical occupancy level below 80%;

» A significant reduction of its unencumbered asset base;

» A downgrade to Brazil's sovereign rating would place additional pressure on the ratings.

Key indicators

Exhibit 2

	1Q18 [1]	2017	2016	2015	2014
Net Debt / Recurring EBITDA	5.2x	6.7x	7.7x	7.7x	8.5x
Recurring EBITDA / Fixed Charges	1.9x	0.8x	0.9x	0.9x	1.3x
Gross Assets (US$ bil)	$1,154	$1,099	$1,482	$1,453	$1,438
Secured Debt / Gross Assets	37.5%	35.4%	41.0%	41.6%	46.5%
Total Debt + Pfd Equity / Gross Assets	45.2%	43.5%	49.5%	50.1%	56.0%

[1] As of March 31, 2018.
Source: Moody's Investors Service and Company's CVM filings.

Profile

Headquartered in the city of Sao Paulo, Brazil, Cyrela Commercial Properties S.A. [BM&BOVESPA: CCPR3] is one of the leading owners, developers and managers of commercial real estate. After the sale of its last distribution center, as of May 31, 2018, the company had ownership stakes in 21 operating properties, encompassing approximately 504,000 square meters (m^2) of gross leasable area (GLA), of which approximately 231,000 m^2 was of owned GLA.

Detailed credit considerations

Leverage metrics in-line with expectations at initial rating

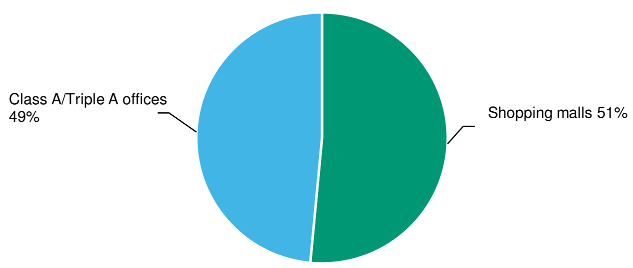
Moody's assigned initial ratings to CCP in July 2017. As of March 31, 2018, the firm's market-value based effective leverage and net debt to EBITDA improved to 45% and 5.2x (Moody's adjusted), respectively, from 49% and 8.5x for the same period last year. The reduction in leverage was due to the company prepaying R$730 million of debt, approximately 32% of its total debt at that time, with the R$1.1 billion of net proceeds received from the sale of nine distribution centers to Prologis. For the next 12 to 18 months, Moody's expects that the company's leverage will remain in the mid to low 40% debt to gross asset range and net debt to EBITDA in the low 5 times range with some potential modest improvement.

A significant portion of CCP's indebtedness is secured debt, which is the most competitively priced form of long-term debt financing in Brazil. Although slightly decreased, the company's secured debt levels remain elevated at approximately 38% of gross assets at 1Q18 compared to approximately 40% for the same period last year. Debt financing in Brazil is generally floating rate, which inherently exposes companies to interest rate fluctuations. However, CCP's debt structure is 53%/47% weighted towards the reference rate (Taxa Referencial) compared to the average one-day Brazilian interbank deposit rate (Certificado de deposito interbancário or "CDI"), which provides the company with some stability and longer payment terms. CCP is benefitting from lower financing costs as a result of several interest rate cuts made by the Central Bank of Brazil (BCB) starting in 2016. The most recent one was in March 2018 when the BCB lowered the SELIC rate by 25 basis points to 6.5%. Moreover, the BCB signaled another potential rate cut later this year to ensure alignment with the bank's inflation target of 4.5%. In perspective, inflation stood at 2.7% at the end of March 2018. Positively, the company has no U.S. dollar debt exposure, alleviating it of foreign currency volatility. While on a global scale, we consider CCP's access to capital as moderate, the company has a proven record of tapping local capital markets.

High quality, diversified portfolio benefits from the economy's solid growth

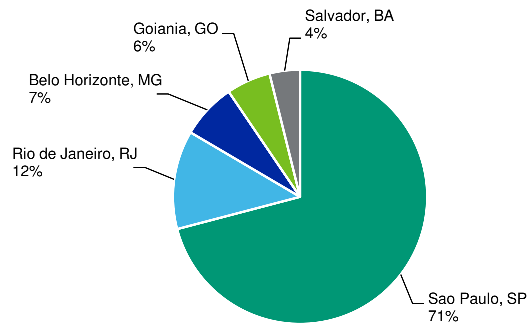
Following the sale of the Parque Industrial Tambore distibution center in May 2018, CCP's portfolio is now almost equally split between its mall and office tower properties, in terms of GLA (Exhibit 3). On a revenue basis, the shopping mall segment generates the bulk of the firm's earnings. More than two thirds of the portfolio's footprint is situated in prime locations in the city of Sao Paulo (Exhibit 4). Furthermore, many of its properties are classified as Class A or higher with several of them having received Gold or Silver-level LEED certifications. Although a risk, the portfolio's geographic concentration is partially mitigated by the large, vibrant and diversified economy of the state of Sao Paulo and its state capital city, reflecting their respective roles as the country's industrial engine and financial hub.

Exhibit 3
Portfolio composition [1]



[1] As of May 31, 2018 after the sale of Parque Industrial Tambore.
Source: Company's CVM filings.

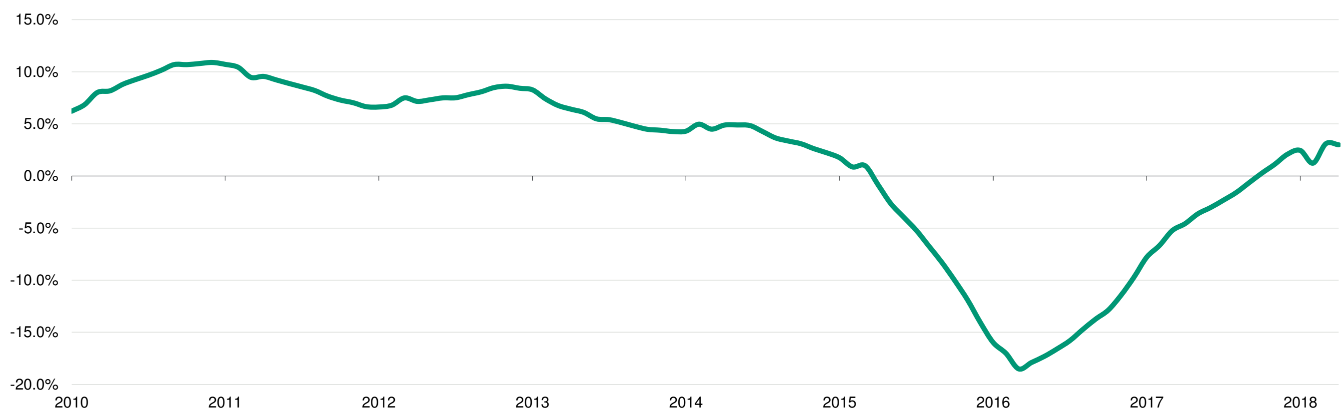
Exhibit 4
Portfolio geographic concentration [1]



[1] As of May 31, 2018 after the sale of Parque Industrial Tambore.
Source: Company's CVM filings.

Starting after the first quarter of 2016, the economy, including consumer confidence and spending, began to improve due to a recovery in labor markets as well as an unexpected and rapid decline in both inflation and interest rates. The recovery was also fueled by an expansion in consumer credit and the government's 2017 stimulus plan that allowed Brazilian workers to access their FGTS (Guarantee Fund for length of Service) savings account. By the end of the year, the Brazilian economy had rebounded stronger than expected at a growth rate of 0.6% from -3.6% in 2016. This momentum continued into the first quarter of 2018 with GDP growing at about 1%. For 2018-2019, Moody's projects GDP will continue to expand at a rate of 2.8%.

Exhibit 5
Retail sales (LTM)



Source: Central Bank of Brazil

As a function of a growing economy, total retail sales in Brazil (seasonally adjusted) jumped into positive territory at a nominal rate of 3% at the end of March 2018 from a 20% contraction in 2016 (Exhibit 5). In 1Q18, CCP reported real sales growth of almost 8% over the prior year while same store sales expanded at a real rate of 2.2% (4.9% nominal) compared to 1.0% (4.6% nominal) for the same period last year. Occupancy levels rose in five out of CCP's seven shopping malls with the largest increase at Shopping Cerrado. This is the newest mall in the portfolio and has not yet reached a stabilized occupancy level.

On the office property front in Sao Paulo city, where 84% of CCP's office GLA is located, signs of the economic improvement are reflected in the quarterly increase in leasing activities. According to CBRE Research, gross leasing volume in the city reached its second highest point since 2016 with slightly more than 214,000 m^2 of new leases signed in 1Q18 compared to approximately 264,000 m^2 in 1Q17, and roughly 142,000 m^2 in 1Q16. On a net basis, nearly 56,000 m^2 of office space was absorbed at the start of 2018, in relation to approximately 76,000 m^2 and -62,000 m^2 at the start of the two prior years. The net absorption was reportedly due to an ongoing flight to quality, especially in the Paulista/Jardins/Marginal submarkets, as more firms seek better quality, more efficient office space with newer amenities and closer proximity to public transportation nodes. During the first quarter, CCP signed new leases in some of its trophy properties such as Miss Silvia Morizono and JK 1455.

However, office landlords remain challenged by a renter's market with 1). asking rents remaining flat; 2). an elevated average vacancy rate of 20%, and 3). new supply. CBRE highlights that a few property owners have been able to increase rents or offer less rent concessions/discounts in specific trophy buildings in premier locations, such as in Faria Lima. Additionally, there is an estimated pipeline of reduced new supply for the remainder of 2018, notably in Paulista and Jardins. Moody's has observed that there is a growing scarcity of large, open plots of land in the premier office neighborhoods in Sao Paulo with development rights that qualify for Certificates of Additional Construction Potential bonds (CEPAC). As the economy continues to strengthen, these factors should also help spur the absorption of vacant stock. As a short-term counterbalance, the political uncertainty regarding the October 2018 presidential elections may cause hesitancy in some companies to sign new long-term leases until there is clear visibility about the new administration and its policies towards addressing Brazil's fiscal challenges.

Overall, we view that CCP is well positioned to take advantage of the strengthening economy as the retail sector steadily improves and as supply/demand dynamics in the office market gradually shift in favor of property owners.

A simpler portfolio generating stable cash flow and higher margins

CCP simplified its operations after the delivery of its last development project, Miss Silvia Morizono, which was 50% occupied, in April 2017 and the portfolio sale to Prologis in August 2017. Subsequent to 1Q18, the company sold Parque Industrial Tambore, which was 100% vacant, in May 2018. At first quarter-end, the firm's top line grew 6.5% over the same period last year, due to a combination of higher rental and services revenues and a modest dip in expenses. This resulted in an 11% growth in net operating income (NOI) over the same period last year, and EBITDA margin reaching a high point of 68% since the recession. CCP's lease contracts are structured on a net lease basis and the majority are inflation-indexed to the General Price Index-Market (IGP-M).

The increase in physical occupancy at Shopping Cerrado as well as in the Miss Silvia Morizono, JK 1455 and ITM office buildings was the catalyst to a revenue boost. At the end of the quarter, the portfolio had a 86% physical occupancy (91% financial occupancy) compared to 81% (85% financial occupancy) for the same period last year. Excluding the Parque Tambore, the portfolio was approximately 91% leased for the same period. Physical occupancy for the shopping malls segment remained strong at about 93% compared to 92.0% at 1Q17. While there is some lease roll-over risk, it is partially mitigated by a healthy retail sector and the high costs associated with tenants moving to another mall. To keep vacancies at minimum, management might offer concessions or discounts.

With regard to CCP's office segment's occupancy, it had slipped to 87% from about 93% at 1Q17, as expected after the delivery of Miss Silvia, along with significant tenant departures in Brasilio Machado. Over the short term, CCP's earnings growth will come more from rent escalations in the shopping malls and new leases in the unstabilized office towers rather than from higher lease spreads on renewals or third-year realignment negotiations.

At 1Q18, the fixed charge coverage ratio improved to 1.9x compared to 0.9x, as a result of higher EBITDA and lower financing expenses. Net cash interest expense was 1.55x for the same period. The company does have some exposure to joint ventures. The most prominent being its commitment to a $400 million new Brazilian office JV with Canada Pension Plan Investment Board (CPPIB). However, as of March 31, 2018, the JV had not yet been funded or made any investments.

Liquidity analysis

CCP's liquidity coverage is moderate, as measured by its near-term sources and uses of funds. The company has historically funded itself with proceeds from local debentures issuances, construction financing lines and asset sales. At quarter-end on March 31, 2018, the company reported R$292 million of cash on hand and generated for the first time in multiple quarters positive Funds from Operation (FFO) of approximately $21 million compared to negative R$10 million at 1Q17. In January 2018, the company issued its ninth series of debenture notes, totaling R$450 million and maturing in 2023. Subsequent to the quarter, CCP divested whole and partial stakes in Shopping Belem, Shopping Cidade Sao Paulo and Parque Tambore for approximately R$150 million.

Since winding down its development pipeline in April 2017, the company mostly keeps its cash for debt repayment and working capital. Unlike REITs in the U.S., Brazilian companies, such as CCP, are only required to distribute a minimum of 25% of its adjusted net income to shareholders, according to local corporate law. During the first quarter, the company prepaid approximately $301 million of debt with the net proceeds from its ninth debenture issuance. The next schedule debt maturity, which totals R$109 million, is not until 2019, followed by R$200 million due in 2020. The company is well positioned to address these maturities with cash on hand along with any proceeds from future debt issuances and asset sales. Assuming the Central Bank continues to curb interest rates and inflation, CCP will most likely refinance its debt maturities to take advantage of the low interest rates. Nevertheless, an equity issuance would be a credit positive. Lastly, the company's financial flexibility is supported by its substantial unencumbered asset pool, equating to 59% of gross assets at 1Q18.

Structural considerations

CCP's fifth and eighth series of locally issued, senior unsecured debentures are rated one notch below the corporate family rating to reflect their relative junior status.

Rating methodology and scorecard factors

Exhibit 6

Cyrela Commercial Properties S.A.

Rating Drivers [1]	Aa	A	Baa	Ba	B	Caa	Ca	Implied Score	Adjusted Score	Trend
Liquidity & Funding								Mid Ba	Mid Ba	Neutral
Liquidity Coverage				Moderate						
Debt Maturities					25.2%					
FFO Payout										
Amount of Unencumbered Assets				59.3%						
Leverage & Capital Structure								High Ba	High Ba	Neutral
Debt + Preferred/Gross Assets			45.2%							
Net Debt/EBITDA			5.2x							
Secured Debt/Gross Assets					37.5%					
Access to Capital				Moderate						
Market Positioning & Asset Quality								High Ba	Mid Ba	Neutral
Franchise/ Brand Name			Good							
Gross Assets (US$ bil)				$1.2						
Diversity-location/tenant/industry/economic				Moderate						
Development % Gross Assets										
Asset Quality			Good							
Cash Flow & Earnings								Low Baa	Mid Ba	Neutral
EBITDA/Revenues		68.1%								
EBITDA Margin Volatility						16.7%				
Fixed Charge Coverage				1.9x						
JV/Fund Business % Revenues	3.0%									
Overall Assessment										
Implied Score								High Ba		
Adjusted Score									Mid Ba	

[1] As of March 31, 2018.
Source: Moody's Investors Service and Company's CVM filings.

Ratings

Exhibit 7

Category	Moody's Rating
CYRELA COMMERCIAL PROPERTIES S.A.	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba3
Senior Unsecured -Dom Curr	Ba3

Source: Moody's Investors Service

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