FitchRatings

Fitch Affirms Global Switch at 'BBB', Outlook Stable

Ratings Endorsement Policy

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Fitch Ratings-London-16 November 2012: Fitch Ratings has affirmed Global Switch Holdings Ltd's (Global Switch) Long-term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB'. The Outlook on the Long-term IDR is Stable. The Short-term IDR has been affirmed at 'F3'.

Despite a GBP100m dividend paid for the first time in FY11 (to March 2012), Global Switch retains strong credit metrics, with leverage on a loan-to-value basis at around 13%. Global Switch's financial structure could absorb a possible further downturn in global economic activity.

Fitch expects that at the current rating level, Global Switch will maintain its financial metrics, in particular an EBIT NIC above 3.0x and leverage below 50% LTV on a sustained basis. At the end of the financial year to 31 March 2012 (FY11), EBIT NIC was 6.1x and LTV was 13%. The financial structure was further underpinned by the EUR600m 2018 unsecured bond issue in April 2011, which extended the group's debt maturity to an average of 6.5 years. In addition, remaining shareholder loans totalling GBP99.6m were capitalised into equity in FY11.

Global Switch is a market leader in the provision of wholesale carrier neutral data centres, which are a lynchpin of modern business. The large portfolio of high-specification data centres valued at GBP3.6bn at FY11 is geographically diversified in Europe and Asia-Pacific. Unlike many property companies, Global Switch is cash generative (FCF of GBP21m at FY11) and Fitch does not believe that the current development programme (GBP32m) will result in a significant deterioration in credit metrics.

Global Switch is rated as a standalone entity. It is a private company owned by Aldersgate Investments Ltd, an unlisted company which is itself ultimately owned by Landal Worldwide Corporation, a company which does not produce accounts. Fitch has reflected this ownership profile in its ratings, but notes that the group has the stated long-term intention of listing through an IPO.

At March 2012, Global Switch displayed good liquidity with GBP207m of unrestricted cash available as liquidity. Since then, it has increased its RCF facility to GBP300m from GBP225m and extended the maturity to March 2017. There are no material debt maturities in FY12 and FY13 and only GBP32m of committed development costs as at March 2012. Global Switch also minimises the impact of power supply cost increases by fully recharging power costs to its customers and by entering hedging arrangements or fixed-term supply contracts.

While the buildings themselves are highly specialised (including high power provision of up to 2,000W/sq. m) and there is the possibility of some obsolescence/technology risk over the medium term, there are significant barriers to entry to the business and the long-term trends are favourable. Tenants invest large amounts of their own capex to fit out their space and will be reluctant to move sites given their considerable investment. The data centres should thus show limited price sensitivity due to the often critical nature of the IT applications for tenants. Fitch believes that retention rates will therefore remain relatively high and this will be helped by staggered lease maturities.

Global Switch's tenant profile is good overall. There is a concentration, albeit of good quality, to TMT tenants and allied industries (over 60% of the top 30 occupier rent roll is from international telcos and systems integrators). Lease terms continue to improve and include fixed indexation as standard. The lease maturity profile is good with only 45% of leases expiring in the next five years (including FY12) and average tenant churn is low. Occupancy is stable at around 90% at March 2012.

WHAT COULD TRIGGER A RATING ACTION?
Positive: Future developments that may, individually or collectively, lead to positive rating action include:
- Successful IPO, with full listing on major international stock exchange
- Net interest cover of at least 5.0x on a sustainable basis
- Further tenant diversification outside TMT/IT fraternity

Negative: Future developments that may, individually or collectively, lead to negative rating action include:
- Significant loans to other group companies/holding companies
- EBIT NIC to fall below 3.0x on a sustained basis
- Leverage to increase above 50% LTV on a sustained basis
- Liquidity shortfall in FY13 and beyond.

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Additional information is available on www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, "Corporate Rating Methodology", dated 8 August 2012 are available at www.fitchratings.com

Applicable Criteria and Related Research:
Corporate Rating Methodology
Rating EMEA REITs and Property Investment Companies