



## **Fitch Rates Global Switch 'BBB'; Outlook Stable** Ratings

06 Dec 2010 9:46 AM (EST)

Fitch Ratings-London-06 December 2010: Fitch Ratings has assigned UK-based Global Switch Holdings Ltd (Global Switch) a Long-term Issuer Default Rating (IDR) of 'BBB' and a senior unsecured rating of 'BBB'. The company's Short-term IDR has been assigned at 'F3'. The Outlook on the Long-term IDR is Stable. Global Switch is one of the world's largest owners and operators of wholesale data centres.

"Global Switch is a market leader in the provision of wholesale IT data centres, which have become a lynchpin of modern commercial activity. This large portfolio of high specification data centres valued at GBP2.3bn at the financial year ended 31 March 2010 is geographically diversified in Europe and Asia-Pacific," says Jean-Pierre Husband, a Director in Fitch's EMEA Industrials and Property team. "Global Switch has strong credit metrics, with little debt outstanding. Fitch therefore views Global Switch as having a financial structure that can absorb a possible further downturn in global economic activity."

With the possibility of a medium term bond issue in early 2011, Fitch expects that at the current rating level Global Switch will nevertheless maintain its financial metrics and, in particular, an EBIT NIC (net interest coverage) above 3x (on a pro forma basis assuming that any shareholder loan is replaced by debt at market rates) and leverage below 50% LTV. In addition, should Global Switch's policies in relation to dividends and loans to other group companies/holding companies change in favour of these companies, this would be a credit constraint.

While the buildings themselves are specialised and there is the possibility of some technology risk over the medium term, there are significant barriers to entry to the business and the long-term trends are favourable. Tenants will have invested 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 exhibit predictable cashflows due to the often critical nature of the IT applications for tenants. Fitch believes that retention rates will remain high and this will be helped by staggered lease maturities.

Global Switch's tenant profile is strong overall, but by the nature of the space there is a high concentration of TMT tenants and allied industries and this limits the rating upside. Lease terms are improving, with new leases now being signed for 10 years with lease indexation. The lease maturity profile is resilient, with only 38% of leases expiring in the next five years and average tenant churn is low.

Global Switch's financial metrics should remain strong post the anticipated bond issue. Unlike many property companies, Global Switch is strongly cash generative and Fitch does not consider that the current committed development programme will result in a significant deterioration in credit metrics. Current LTV is low at 2% (23% including shareholder loans at FYE10), reflecting the group's past historical cash flow generation and equity funding. With the new bond issue in place leverage will remain low by Fitch European property company peers. In addition shareholder loans to Global Switch will remain subordinated to both bond and bank debt.

Global Switch is a private company owned by Aldersgate Investments Ltd, an unlisted company itself owned by Landal Worldwide Corp, a company owned by the Reuben Brothers. Fitch has reflected this ownership profile in its credit assessment, but notes that the group has stated its intention to consider a listing through an IPO, although no timeframe has been specified.

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Applicable criteria, "Corporate Rating Methodology", dated 13 August, 2010 are available at [www.fitchratings.com](http://www.fitchratings.com)

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**Applicable Criteria and Related Research:**

Corporate Rating Methodology

Rating EMEA REITS and Property Investment Companies - Sector Credit Factors

Interpreting the New Sector Credit Factor Reports for Corporates

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