التاريخ: 2019/11/07

السادة / شركة بورصة الكويت المحتـــرمين

دولة الكويـت

تحية طيبة وبعد،،،

الموضوع: التصنيف الائتماني لسندات شركة العقارات المتحدة

بالإشارة إلى أحكام الفصل الرابع من الكتاب العاشر من اللائحة التنفيذية لقانون هيئة أسواق المال بشأن الإفصاح عن المعلومات الجوهرية وألية الإعلان عنها، نود الإفادة بأن وكالة التصنيف الائتماني "كابيتال انتيليجنس" قد أعلنت عن تصنيفها للسندات التي أصدرتها الشركة والتي تستحق في ابريل 2023، وأكدت التصنيف عند "BBB" مع نظرة مستقبلية "مستقرة".

وتفضلوا بقبول فائق الاحترام والتقدير،،،

7.11.2019

يوسف توني صليبا

المدير التنفيذي للشؤون القانونية والمطابقة والالتزام

شركة العقارات المتحدة
United Real Estate Co

ملحق رقم (9)

نموذج الإفصاح عن التصنيف الائتماني

التاريخ	2019/11/07
اسم الشركة المدرجة	شركة العقارات المتحدة ش.م.ك.ع.
الجهة المصدرة للتصنيف	كابيتال انتيلجنس
فئة التصنيف	النظرة المستقبلية: مستقرة تصنيف السندات: BBB
مدلولات التصنيف	تعتبر السندات والالتزامات المصنفة "BBB" ذات جودة متوسطة وتدل على توافر القدرة لدى المصدر على سداد كل من الفوائد وأصل الدين إلا أنه قد تغيب بعض عوامل الأمان أو قد لا يمكن الجزم بالوثوق بها في الأجل البعيد. كما تعكس النظرة المستقبلية المستقرة احتمالات الارتفاع أو الانخفاض في التقييم خلال الاثنى عشر شهراً اللاحقة لإصدار التقرير.
انعكاس التصنيف على أوضاع الشركة	استمرار وزيادة ثقة المستثمرين بالشركة ومتانة مركزها المالي.
النظرة المستقبلية	نظرة مستقبلية مستقرة.
ترجمة التصريح الصحفي أو الملخص التنفيذي	أكدت شركة التصنيف الائتماني الدولية كابيتال انتليجنس ("كابيتال انتليجنس") تصنيف السندات غير المضمونة لشركة العقارات المتحدة بقيمة 60 مليون دينار كويتي عند الدرجة الاستثمارية BBB وهي نظرة مستقبلية مستقرة. تتمثل العوامل الرئيسية التي تدعم هذا التصنيف في محفظة الشركة الضخمة من العقارات المدرة للدخل المرتفع والتي لديها امكانيات نمو مرضية في الإيجارات، وقاعدة المقرضين المتنوعة، بالإضافة الى قدرة الشركة على جمع تمويل جديد على أساس غير مضمون. ويعكس هذا التصنيف أيضاً سمعة شركة العقارات المتحدة، فضلاً عن ملكية ودعم مجموعة كيبكو (شركة مشاريع الكويت القابضة). وتعتبر هذه الأخيرة واحده من أكبر الشركات القابضة وأكثرها تنوعاً في الشرق الأوسط.

شركة العقارات المتحدة
United Real Estate Co

يوسف توني صليبا

المدير التنفيذي للشؤون القانونية والمطابقة والالتزام

CAPITAL INTELLIGENCE

Credit Rating Report

UNITED REAL ESTATE COMPANY S.A.K.P.

Country: Kuwait; **Report Date:** 4 November 2019

Rating Action Snapshot

➢ **Senior Unsecured Bond (KWD60mn, maturing April 2023):** Rating Affirmed; Outlook is Stable.

Current Ratings

International Issue Credit Ratings

Senior Unsecured (Foreign Currency)	**BBB**
Outlook	**Stable**

Financial Highlights

USD (mn) **KWD (mn)**	**H1 2019** **USD**	**H1 2019*** **KWD**	**2018** **KWD**	**2017** **KWD**
Gross Rental Inc	173.2	52.5	39.1	38.1
Net Rental Income**	47.0	14.2	15.6	16.4
Operating Expenses	14.3	4.3	10.4	8.7
EBIT	36.9	11.2	8.1	17.5
Net Profit	8.7	2.6	-8.9	1.5
Total Assets	2,054.3	622.8	616.8	602.4
Total Debt	984.0	298.3	300.6	292.7
Total Liabilities	1,330.0	403.2	399.9	371.3
Total Equity	724.3	219.6	216.9	231.1
Exchange Rate: USD/KWD		*0.3028*	*0.3036*	*0.3019*
		H1 2019	**2018**	**2017**
Current Ratio		0.59	0.59	0.58
EBIT(-FVIS/ Interest Coverage)		1.41	0.59	0.58
Leverage		1.84	1.84	1.61
ROAA***		0.85	-1.46	0.25

**Unaudited but reviewed; **Includes hotel depreciation; **Annualised*

Key Rating Factors

Credit Strengths

- Well established and reputable real estate developer; KIPCO Group as controlling ownership.
- Diversified funding base notwithstanding some concentration; satisfactory debt maturity profile.
- Sizeable portfolio of good quality income generating properties; sound growth prospects to be supported by improving occupancy rates at the Malls.
- Demonstrated ability to raise new funding largely on an unsecured basis.

Credit Challenges

- Continued reliance on refinancing and asset sales for the principal repayment of larger debt facilities.
- Tight liquidity; some dependence on short-term renewable facilities and rising leverage.
- Weak profitability; loss making in 2018.
- Concentration in individual holdings in various asset classes, although diversified geographically.
- Challenging regional environment with moderate economic growth; generally still soft real estate market and continued elevated geopolitical risk in some of the Company's key markets.

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RATING RATIONALE

Rating Action

Capital Intelligence Ratings (CI Ratings or CI) has affirmed the rating of United Real Estate Company's (URC) KWD60mn Senior Unsecured Bond at 'BBB'. The Outlook for the rating is Stable.

Rating Drivers

The major factors supporting the rating are the Company's sizeable portfolio of high-end income generating properties with satisfactory rental growth prospects, the diversified lender base, and demonstrated ability to raise new funding on an unsecured basis. The rating also reflects URC's well-established franchise and the ownership and support of the KIPCO Group (Kuwait Projects Company). The latter is one of the largest and most diversified holding companies in the Middle East.

The main constraints on the rating are URC's rising leverage, structurally tight liquidity, continued reliance on refinancing and/or asset sales to service larger debt facilities, and some dependence on short-term renewable lines. Weak profitability is also a constraint, to some extent, although this is largely due to provisions and the change in the accounting treatment of the amortization of the Waterfront BOT. The challenging operating environment and relatively slow economic growth, fairly soft real estate market conditions in the MENA region, as well as continued geopolitical risk in some of the Company's key markets are additional constrains. Nonetheless there have been improvements in the various sub-segments of the real estate sector in some countries in the region.

While the Outlook is maintained at Stable, high and rising leverage is exerting strong downward pressure and action would be required should the leverage ratio fall out of the range for the current rating.

URC is a leading real estate development company in the MENA region, with a well established franchise. It is also the real estate arm of the financially sound KIPCO Group. Support from the parent was demonstrated some years ago through a number of capital injections – albeit of a moderate scale. In recent years support has been largely in the form of equity partnerships in some of URC's investments/acquisitions and through increased funding from Burgan Bank, Kuwait.

URC's asset base is fairly well diversified across real estate segments and countries (mainly in the MENA region), reflecting its geographical knowledge and expertise. The Company's major holdings comprise investment properties and in particular income generating developed properties, hotel holdings, investments in associates, and a book of properties held for trading. Concentration within these major asset classes remains high, although individual holding represented a moderate proportion of URC's asset base. The top ten largest holdings formed more than two thirds of total assets in both 2018 and H1 2019.

URC has a fairly well diversified lender base, which also saw the entry of institutional investors as buyers of the Bond under review. The bulk of URC's debt remains at the parent level. The Company's demonstrated ability to term out existing debt and raise new borrowings on an unsecured basis are strong supporting factors for the rating. Borrowings at the subsidiary level are largely secured by the asset bases of the projects which they are financing. While URC continues to repay a sizeable amount of the existing debt each year, the volume of new borrowings has led to a rising debt level and higher leverage. The latter compares unfavourably with its peers in the region and is the major constraint on the rating. That said, with the appointment of new senior management this year, the Company has revamped its business strategy to focus on strengthening the financial profile, in particular reducing debt and improving leverage. A five year sale plan for mature or idle assets is being finalised. The proceeds of the sale are intended to fund the Hessah Al Mubarak residential development in Kuwait, the Assoufid mixed use project in Morocco, as well as to reduce debt. The size and timing of any debt reduction will be very much dependent on the success of the aforementioned sales in terms of both timing and valuation.

URC's track record of fulfilling its debt obligations in a timely manner is a strong supporting factor. At end H1 2019 the Company's debt service ability remained satisfactory, although there is some continued dependence on short-term funding, as well as refinancing and/or asset sales for large debt facilities such as the bond under review. As in previous years, URC's liquidity metrics are tight, largely reflecting its real estate development business model. Liquidity risk is mitigated by the portfolio of saleable income generating properties and hotels, and the continued support of KIPCO.

In terms of earnings, rental income from developed properties and hotels is the mainstay of the URC's operating income. The bulk relates to its BOT Marina World properties and is scheduled to be replaced (on expiry of the BOT in 2024) by the rental income from the malls in Oman and Jordan, and future contributions from the Hessah Al Mubarak and Assoufid projects. While remaining fairly modest, income from services and contracting is growing steadily and provides a diversification of earnings. Non-operating income remains limited and relates largely to the share of associates and the small book of FVOCI investments. The share of result of associates remains negative, reflecting the initial cost of the Hessah Al Mubarak development. The main constraint on earnings is high funding costs reflecting large borrowings. Going forward, the amortisation of the BOT Marina World properties (which the Company only started last year following a change in the accounting treatment) is also expected to significantly constrain earnings. Profitability will therefore remain weak over the medium term. The Company is focused on managing its operations in such a way as to maximise cash flow rather than bottom line profit. Operating cash flow improved noticeably in 2018 and remained positive in H1 2019. Proceeds from future successful asset sales should boost cash flow but timing risks remain.

In terms of the bond under review, the Company is in compliance with the financial covenants and all coupon payments were met in a timely manner.

Outlook

The Company's two major upcoming projects are the Hessah Al Mubarak and the Assoufid, which will take more than two to three years to complete. Equity syndications for these projects are currently underway. That said, just over 41.7% of total units of both towers and town houses have already been sold off-plan in the Hessah al Mubarak project. Nonetheless, overall asset growth could contract with the planned disposal of assets.

URC's funding base is likely to remain stable and debt service capacity to stay sound, supported by the Company's ability to refinance and raise funds when needed. Liquidity metrics will remain tight but should continue to be mitigated by the Company's portfolio of saleable income generating properties and the support of the KIPCO Group.

Gross rental income prospects are satisfactory and supported by the enhancement of sales, leasing, and a higher occupancy rate at the Abdali Mall and the hotels. However, profitability is likely to remain weak due to the burden of the high financing costs and the aggressive depreciation for the BOT Marina World properties. That said, the Company intends to focus on cash flow rather than net profit. In this regard, the successful asset sales would provide a significant boost to cash flow. The sales plan however could be constrained by the generally still soft real estate sector in the MENA region, which has yet to recover, although the hospitality and retail segments in some countries are improving.

An area that requires urgent attention is the high and rising leverage, which is exerting strong downward pressure on the rating. While the Company is focused on reducing debt through its large asset sales plan, the latter covers a period of 5 years. The size of the debt reduction is therefore very much dependent on the level of success as well as the timing of these sales. In the meantime, leverage could still rise to an unacceptable level, which would result in CI Ratings having to take some action on the rating or the outlook.