

## Alargan International Real Estate Company Bond Rating Affirmed at 'BBB-'

**Capital Intelligence (CI)**, the international credit rating agency, today announced that it has affirmed the 'BBB-' Rating of the KWD26.5mn five-year bond issued by Alargan International Real Estate Company (ARE) in April 2012. The Outlook on the Rating remains 'Stable'. The Rating is supported by the sound financial profile, the geographically (within the GCC) diversified business model, and the improved funding structure – there is now little reliance on short-term borrowing. The main constraints on the rating are the size of the company in balance sheet terms and the risk profile of the sector in which it operates. While profitability is neither a supporting nor constraining factor at present, the company has a good earnings track record and the plans to build up a larger base of recurring rental income are welcome.

Alargan is a small company in purely balance sheet terms, but – to a certain extent – its size reflects the corporate structure used for development projects, whereby most are held off-balance sheet through SPVs with their own non-recourse (to Alargan) financing arrangements. While any real estate development business involves risk, Alargan generally seeks to reduce this risk through development partnerships, through the financial and funding structures that are selected, and through the sale of developments while they are still in the construction phase. Nonetheless, risks remain. Alargan seeks to further mitigate these by keeping the exposure to any single project or financing vehicle as low as possible, and by reducing activities in those markets where prospects are perceived as constrained.

The fact that secured borrowings still remain after the issue of the bond contributes to an element of structural subordination. However, the amount of such borrowing is not considered large enough to impact the rating, while its maturity structure (more than two-thirds is repayable after the maturity date of the bond) is a significant positive. In addition, Alargan has a solid balance sheet with generally satisfactory financial ratios, which are forecast to remain so throughout the remaining life span of the bond. Management is expecting net profit in both 2014 and 2015 to be stronger than that seen in 2013, and that for 2015 in particular to be much stronger.

### CREDIT RATINGS

Issue Rating	Outlook
BBB-	Stable

### CONTACT

#### Primary Analyst

Rory Keelan  
Senior Credit Analyst  
Tel: +357 2534 2300  
E-mail: rory.keelan@ciratings.com

#### Secondary Analyst

Darren Stubing  
Senior Credit Analyst  
E-mail: darren.stubing@ciratings.com

#### Rating Committee Chairman

Morris Helal  
Senior Credit Analyst

The information sources used to prepare the credit ratings are the rated entity and public information. CI considers the quality of information available on the issuer to be satisfactory for the purposes of assigning and maintaining credit ratings. CI does not audit or independently verify information received during the rating process.

The rating has been disclosed to the rated entity and released with no amendment following that disclosure. Ratings on the issuer were first released in July 2011. The ratings were last updated November 2013.

The principal methodology used in determining the ratings is Bond Rating Methodology. The methodology, the meaning of each rating category, the time horizon of rating outlooks and the definition of default, as well as information on the attributes and limitations of CI's ratings, can be found at [www.ciratings.com](http://www.ciratings.com). Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at <http://cerep.esma.europa.eu>.