

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 is 'Stable'. The Rating is supported by the sound financial profile, the geographically 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.

Alargan is a small company in purely balance sheet terms, but its size to a certain extent 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 seeks to reduce this risk through development partnerships, through the financial and funding structures 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 satisfactory financial ratios, which are forecast to remain so throughout the life span of the bond.

Alargan International Real Estate Company K.S.C was established in March 2002, but the origins of the group go back to 1994. The Company was listed on the Kuwait Stock Exchange in July 2007. Alargan is principally a developer of affordable housing in selected GCC markets, in particular the KSA and Oman. However, the Group has also developed commercial space (often as part of a larger and mainly residential project), as well as developments in the office and hospitality segments.

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The information sources used to prepare the credit ratings are the rated entity and public information. Capital Intelligence had access to the accounts and other relevant internal documents of the issuer for the purpose of the rating and considers the quality of information available on the issuer to be satisfactory for the purposes of assigning and maintaining credit ratings. Capital Intelligence 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 August 2011. The ratings were last updated in January 2013.

The principal methodology used in determining the ratings Bond Rating Methodology. The methodology and the meaning of each rating category and definition of default, as well as information on the attributes and limitations of CI's ratings, can be found at www.ciratings.com.