

Credit Rating Announcement



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

Capital Intelligence (CI), the international credit rating agency, today announced that it has affirmed the 'BBB-' Long-Term 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 improving profitability. Also supporting the Rating is the improved funding structure and the diminishing reliance on short-term borrowing, which has in turn improved liquidity. The main constraints on the Rating are the size of the company in balance sheet terms, and the sector in which it operates. An improvement in the Rating continues to be unlikely in the short- to-medium term. The fact that secured borrowings still remain after the issue of the bond amounts to an element of structural subordination. However, the amount of such borrowing is not considered large enough to impact the Rating. With the exception of this factor, Alargan has a solid balance sheet with satisfactory financial ratios that are forecast to remain so during the life span of the bond.

While Alargan is a small company in purely balance sheet terms, this reflects to a certain extent 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 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.

Alargan International Real Estate Company K.S.C (Alargan) was established in March 2002, but the origins of the group date 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 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 October 2011. The ratings were last updated in October 2011.

The principal methodology used in determining the ratings is 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.