

## 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 for the Rating is however raised to 'Positive'. The upgrade to the Outlook reflects the increase in equity and the fall in debt (and therefore leverage) that has resulted from the successful exit from APC in KSA. More generally, Alargan continues to enjoy a sound financial profile, a geographically diversified business model, and a good funding structure – there is little reliance on short-term borrowing. The main constraints on the bond rating remains the size of the company in balance sheet terms and the risk profile of the sector in which it operates, although ongoing changes to the business model should lower the overall risk profile over time. While profitability has in the past been neither a supporting nor constraining factor, it has been consistently sound, while the results in 2015 are a supporting positive. More generally, 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 that has been 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 selected and through the sale of developments, while they are still in the construction phase. Nonetheless, risks remain. Alargan has always sought to further mitigate these by keeping the exposure to any single project or financing vehicle as low as possible and this will continue to be the pattern in the future.

The fact that secured borrowings still remained after the issue of the bond contributes to an element of structural subordination – although this has been steadily reducing. The amount of such borrowing is not considered large enough to impact the rating, while its maturity structure (more than three-quarters is repayable after the maturity date of the bond) is also a significant positive. In addition, Alargan has a solid balance sheet with improved financial ratios, which are forecast to remain strong throughout the remaining life span of the bond.

A strong net profit in 2015 is assured given the gains on the disposal of the remaining stake in APC. The changes that are taking place in the business model should mean that the revenue streams become more predictable over time as the proportion of recurring rental income steadily rise. Although the disposal gains from selling APC are not repeatable, Alargan nonetheless expects net profit for 2016 to be good on higher rental income and from the gains on sale of the Bahrain land and the sales of completed development properties in Oman. In terms of balance sheet, overall debt will rise in 2016 as leverage is added to the non-MENA investments in income-producing properties.

### CREDIT RATINGS

Issue Rating	Outlook
BBB-	Positive

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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 October 2011. The ratings were last updated December 2014.

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>.