الربحية الضعيفة ومقاييس تغطية الفائدة المنخفضة، وكذلك مركز الخسارة الصافي في السنوات القليلة الماضية وفي العام الحالي هي سلبيات ائتمانية تؤثر بشكل كبير على التصنيف.

ومن المتوقع فصاعداً أن تؤدي تكلفة الإطفاء على عقارات مشروع مارينا وورلد بنظام البوت BOT على مدار خمس (٥) سنوات (اعتباراً من عام ٢٠١٨) إلى تقييد الأرباح حتى عام ٢٠٢٣. وقد أسفر إنهاء تسهيلات الديون قصيرة الأمد فيما سبق عن وضع الشركة في مكانة أفضل لمواجهة الانكماش الاقتصادي. كما أن التركيز المستمر على إدارة التدفق النقدي وخفض الديون يعتبر إجراءً حكيماً في ظل بيئة التشغيل الصعبة للغاية. ولقد واصل التدفق النقدي التشغيلي تحسنه في كل من عام ٢٠١٩ والنصف الأول من عام ٢٠٢٠، ومن المتوقع أن تسفر عائدات مبيعات الأصول المستقبلية المخطط لها عن تعزيز التدفق النقدي على المدى المتوسط إلى البعيد. ومع ذلك، لا تزال مخاطر التوقيت كبيرة وقائمة.

توقعات التصنيف

تشير التوقعات المستقرة إلى أنه من المرجح أن يظل تصنيف السندات دون تغيير خلال الاثني عشر شهراً المقبلة. كما توازن التوقعات بين المزيد من التحديات المتعلقة بجائحة كوفيد-١٩ في مقابل امتياز الشركة الراسخ وموقفها المالي المرضي (على الرغم من بعض الضعف الذي يشهده)، أخذاً في الاعتبار الدعم المستمر من مجموعة شركة مشاريع الكويت.

ديناميات التصنيف: السيناريو الإيجابي

على الرغم من ضعف احتمالات ذلك في الاثني عشر شهراً القادمة، يمكن مراجعة التوقعات لتصبح إيجابية و/أو مراجعة التصنيفات صعوداً إذا تحسنت المقاييس المالية للشركة بشكل ملحوظ. وتشتمل التحسينات المهمة على زيادة إنخفاض القروض وانخفاض ملحوظ في الرافعة المالية إلى مستوى أكثر راحة وانتعاش مستدام في الأرباح.

ديناميات التصنيف: السيناريو السلبي

يمكن مراجعة التوقعات لتصبح سلبية أو خفض التصنيف بمقدار درجة واحدة في الاثني عشر شهراً القادمة إذا ارتفعت الرافعة المالية – المرتفعة بالفعل - للشركة و/أو اتسعت الخسائر الصافية المستقبلية،

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لما لذلك من تأثير سلبي على قاعدة حقوق الملكية. كما قد يؤدي أي انخفاض في المستوى الملحوظ لدعم مجموعة شركة مشاريع الكويت إلى خفض التصنيف.

شركة آلاء للترجمة مترجمون معتمدون Certified Translators AALAA TRANSLATION CO.

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CAPITAL INTELLIGENCE

Credit Rating Report

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

Country: Kuwait; **Report Date:** October 2020

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)	H1 20	H1 20	2019	2018
KWD (mn)	USD	KWD	KWD	KWD
Gross Rental Inc	41.4	12.6	38.7	39.1
Net Rental Income**	16.3	5.0	17.0	15.5
Operating Expenses	10.9	3.3	14.2	10.4
EBITDA	17.5	5.3	16.2	11.6
Net Profit	-19.5	-6.0	-6.9	-8.9
Total Assets	2,037.5	621.8	622.8	616.8
Total Debt	963.5	294.1	297.2	300.6
Total Liabilities	1,355.2	413.6	412.2	399.9
Total Equity	682.3	208.2	210.5	216.9
Exchange Rate: USD/KWD		*0.3052*	*0.3031*	*0.3036*
		H1 20	2019	2018
Current Ratio		0.82	0.70	0.59
EBITDA/ Interest overage		1.50	1.03	0.69
Leverage		1.99	1.96	1.84
Total Debt/Total Equity		1.41	1.41	1.39
ROAA***		-1.09	-2.93	-3.10

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

Key Rating Factors

Credit Strengths

- Key strategic member of the well-established KIPCO Group; ongoing funding support.
- Diversified funding base notwithstanding some concentration; sound debt maturity profile.
- Sizeable portfolio of good quality income generating properties; sound growth prospects to be supported by improving occupancy rates at the Malls and improving operating cash flow.
- Demonstrated ability to raise new funding largely on an unsecured basis.

Credit Challenges

- Significant deterioration of the regional operating environment due to Covid-19, weak real estate market and elevated geopolitical risk in some of the Company's key markets.
- Weak profitability; loss making in recent years due to large amortisation cost.
- Continued reliance on refinancing and asset sales for the principal repayment of larger debt facilities.
- High and rising leverage and structurally tight liquidity.
- Concentration in individual holdings in various asset classes, although diversified geographically.

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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 Bond rating is driven primarily by the Company's continued ability to refinance and raise new funding on an unsecured basis, a re-profiling of its total debt that significantly improved the debt maturity profile, and the ongoing funding support of KIPCO Group. The more active participation of the latter in the management of the Company is a positive development. Other factors supporting the rating are the large and diversified portfolio of high-end income generating properties with sound occupancy and rental growth prospects, a diversified lender base and a decline in borrowings in absolute money terms in both 2019 and H1 20. The rating also incorporates the value of URC's well-established franchise and the ownership 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 credit challenges are the weak profitability and net losses, high and rising leverage (although debt to equity ratios are more satisfactory), structurally tight liquidity, a continued reliance on refinancing and/or asset sales to service larger debt facilities, and some dependence on short-term renewable lines. However the main challenge faced by the Company at present is the substantial deterioration of the operating environment. This reflects the impact of Covid-19 and the weak real estate markets across the MENA region. The heightened geopolitical risk in some of the Company's key markets is an additional constraint.

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 each being of a moderate scale. In recent years such support has been largely in the form of equity partnerships in some of URC's investments/acquisitions and increased funding.

URC's asset base is fairly well diversified across real estate segments and countries (largely 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 and hotel holdings. Concentration within major asset classes remains high, although each individual holding represented a moderate proportion of total assets. The ten largest holdings have remained unchanged and have continued to form over two thirds of total assets in both 2019 and H1 20. Asset growth has slowed substantially in recent years with the completion of major projects and investment in new projects has been constrained by the weak real market conditions across the MENA region. Prospects over the medium to long term however remain sound and are supported by ongoing developments and planned projects in the pipeline.

URC has a fairly well diversified lender base although there is some concentration with the funding from two local lenders forming just over a third of total borrowings at end H1 20. At end H1 20, the bulk of URC's debt was at the parent level. The Parent's continued ability to refinance and term out existing debt as well as raising new borrowings on an unsecured basis are strong supporting factors for the rating. Borrowings at the subsidiary level on the other hand are usually secured by the asset bases of the projects they are financing. A continuing negative factor is the high and rising leverage in 2019 and H1 20 although this was due largely to the increase in accounts payables but also partly to the contraction of the equity base. As the largest proportion accounts payables was related to its subsidiaries, a more appropriate debt ratio is the Company's total debt to total equity which stood at a more moderate and acceptable level at end H1 20.

The Company's debt service ability remained sound at end H1 20 although there remains some reliance on short-term funding, and on refinancing and/or asset sales for repayment of large debt facilities such as the bond under review. Nonetheless URC has a good track record of fulfilling its debt obligations in a timely manner. URC's liquidity metrics however remains structurally tight and they largely reflect its real estate development business model. Liquidity risk continues to be mitigated by the portfolio of saleable income-generating properties and hotels, and the continued funding support of KIPCO.

Going forward, the Company's business strategy focuses on strengthening the financial profile, in particular reducing debt and improving leverage. In this regard, a sales plan for the next five years aims to monetise mature and idle assets has been developed. Execution will however depend on real estate market conditions – which are currently soft. The proceeds from the sales program are intended to be mainly used to bring down debt and leverage but they will also help to fund existing ongoing projects. Naturally the size and timing of any debt reductions will be very much dependent on the success of sales in terms of both timing and disposal prices that can be achieved. The pace is not expected to be rapid.

In terms of earnings, rental income from developed properties and hotels is the mainstay of the URC's operating income and has supported the quality of the operating income. While the fairly stable occupancy rates and lower related costs saw net operating income expanding in 2019, this positive trend reversed in H1 20. Rental income fell sharply due largely to the lockdown measures of the pandemic which include the temporary closure of malls as well as lower revised lease rental and the substantial fall in hotel occupancy with the closure of the airports. A positive development is the steady growth in services and contracting income although at the net level, this currently remains modest in absolute money terms. URC's recurring non-operating income is limited and relates largely to the share of income of associates (which only returned a small profit in H1 20) and income from the small book of FVOCI investments. As in previous years, URC's non-operating income remains erratic. In 2019 this income was boosted by a large fair value gain from the Salalah Mall in Oman and a one off settlement of a legal dispute in Egypt which fell back noticeably in H1 20. In 2019 earnings performance was also impact by a large provision for a legal case in Oman which was settled in April this year. Offsetting these headwinds were good cost control and a noticeable decline in finance costs from the lowering of total debt. However with amortisation and finance costs exceeding EBITDA, the Company remained in a loss in both 2019 and H1 20 and likely to stay in a net loss position for the full year 2020. EBITDA coverage of interest payment is low due the large amortization cost of the Marina BOT development although on an improving trend. Notwithstanding the sound operating cash flow management, the weak profitability and low interest coverage metrics as well as the net loss position of the past few years and in the current year are credit negatives which weigh increasing heavily on the rating.

Going forward, the amortisation charge on the BOT Marina World properties over 5 years (which started in 2018) is expected to constrain earnings until 2023. The terming out of previously short term debt facilities has placed the Company in a better position to weather the downturn. The ongoing focus on cash flow management and debt reduction is prudent given a very challenging operating environment. Operating cash flow continued to improve in both 2019 and H1 20 and proceeds from planned future asset sales would also boost cash flow in the medium to long term. Nonetheless significant timing risks remain.

Rating Outlook

The Stable Outlook indicates that the bond rating is likely to remain unchanged over the next 12 months. The Outlook balances further challenges relating to Covid-19 against the Company's well established franchise and satisfactory financial standing (despite some weakening), and takes into account the continued support of the KIPCO Group.

Rating Dynamics: Upside Scenario

Although not considered likely in the next 12 months, the Outlook could be revised to Positive and/or the ratings revised upwards if the Company's financial metrics improve noticeably. Significant improvements would include a further decline in borrowings, a marked lowering of leverage to a more comfortable level, and a sustained recovery in earnings.

Rating Dynamics: Downside Scenario

The Outlook could be revised to Negative or the rating lowered by one notch in the next 12 months if the Company's already high leverage rises further and/or future net losses widen as this would also negatively impact the equity base. Any lessening of the perceived level of KIPCO Group support could also trigger a downgrade of the rating.