

Cairo, August 26<sup>th</sup>, 2018

**Press Release: Golden Pyramids Plaza Company S.A.E (Citystars Properties)**

**MERIS (Middle East Rating & Investors Service) affirms the National Scale Rating (NSR) of an "A" grade for Golden Pyramids Plaza's (Citystars Properties) second bond and maintains the "BBB+" grade for the entity. The rating outlook is maintained at "Negative" for both the entity and the instrument.**

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**MERIS** (Middle East Rating & Investors Service) has maintained the National Scale Rating (NSR) of Golden Pyramids Plaza (Citystars Properties) second bond issue of an **"A"** grade and the entity rating at **"BBB+"** grade. The rating outlook is maintained at **"Negative"** for both the entity and the instrument.

An **"A"** rated issuer or issue is considered **Above Average Creditworthiness** relative to other domestic issuers or issues; while **"BBB"** rating denotes an **Average Creditworthiness** relative to other domestic issuers. The (+/-) signs denote relative status within each rating category.

The negative outlook is driven by **MERIS'** concerns regarding the international arbitration outcome, which has negative shades on the company's operating as well as financial fundamentals; however, the timeframe for settling this situation is not clear yet. In **MERIS'** view, the outcome of the abovementioned arbitration case, if materialized and in case the shareholders' did not meet their commitment, will have a significant negative impact on the credit worthiness of the company. However, the shareholders' written commitment to pay any potential financial obligation related to this arbitration from their own resources protects the bondholders and offsets this risk to a great extent. In addition, Citystars Properties' – as a standalone company - quantitative aspects dropped compared to the initial bond assumptions, as evident from the fluctuation in the earnings and cash flow metrics. Moreover, the company's financial performance declined in FY17, as a result of the devaluation of the Egyptian pound as well as the stressed macroeconomic conditions and the increase in custom duties, which have negatively affected the tenants' business fundamentals. This was reflected in 15% drop in the top line in 2017. Despite the slowdown, the company still boasts reasonable operating margins and financial strength metrics that reflect its robust operating efficiency. Going forward, management expects the drop to be reversed by next year, after the completion of the expansions/renovations scheme currently on going in the commercial center and the leasing of the last office tower.

Citystars Properties tapped the international capital market for the first time early 2018. The first tranche of the note program amounting to US\$ 36.4mn was withdrawn this year and currently management is exploring issuing the second tranche of the international bond amounting to US\$ 25mn, in order to enhance its liquidity position and to fulfill the need to repay the existing bond amortization. It is worth mentioning that the third bond is secured by a 2nd degree commercial mortgage over its tangible and intangible assets and real estate mortgage which will be transferred to first grade mortgage upon full maturity of the existing second bond. In **MERIS** views the new issue will have a neutral effect on Citystars Properties financial leverage, taking into consideration that the international bond proceeds will be used mainly to repay the amortization of the existing bond. It is of note that the company maintains healthy leverage position with debt to equity in the range of 30% to 40% giving them room to extend credit facilities. The second bond's outstanding balance stood at US\$ 191.3mn as of December 2017, with the fifth principal

installment under the amortization schedule due in July 2018. The bond is to be fully redeemed in 2020. It is worth mentioning that the issue will be secured by a first degree real estate mortgage for all the tangible and intangible assets of the City Star- Heliopolis project, in addition to a cross corporate guarantee issued by "Golden Coast Company for Hotels, Resorts and Project Touristic S.A.E." (The Guarantor), according to which the Guarantor is committed to share with the Issuer all the bond's financial obligations, including the coupon and the bond amortization until the final maturity of the bond.

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