

Cairo, February 2019

Press Release: **Sarwa Securitization Company S.A.E. – 29<sup>th</sup> Issue 2019-2024**

**MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) ASSIGNS NATIONAL SCALE RATINGS (NSR) TO THE 29<sup>th</sup> MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY SARWA SECURITIZATION COMPANY AND BACKED BY A PORTFOLIO OF REAL ESTATE RECEIVABLES ORIGINATED BY PALM HILLS DEVELOPMENT COMPANY AND ITS SUBSIDIARIES**

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**MERIS** (Middle East Rating & Investors Service) has assigned the following ratings on the national scale to the 29<sup>th</sup> multiple-tranche asset backed securitization bond issued by Sarwa Securitization Company S.A.E. and backed by a single pool of real estate receivables in the amount of EGP 759,767,454 originated by Palm Hills Development Company and its subsidiaries:

Tranche A: **“AA+ (sf)”** to the EGP 154 million Senior Fixed-Rate Notes due in February 2020, representing 26.2% of the aggregate issue size, with a coupon of 15.11% p.a. payable quarterly;

Tranche B: **“AA (sf)”** to the EGP 325 million Subordinated Fixed-Rate Notes due in February 2022, representing 55.3% of the aggregate issue size, with a coupon of 15.96% p.a. payable quarterly during the lifetime of Tranche A and monthly thereafter.

Tranche C: **“A (sf)”** to the EGP 109 million Junior Subordinated Fixed-Rate Notes due in January 2024, representing 18.5% of the aggregate issue size, with a coupon of 16.46% p.a. payable quarterly during the lifetime of Tranche A and monthly thereafter.

The notes will be redeemed sequentially in order of seniority. Tranche A will follow a pre-determined quarterly amortization schedule, whereas Tranche B and C will pay according to a pass-through monthly amortization schedule.

All of the above ratings are considered investment grade on the National Rating Scale. An **“AA”** grade represents **Very Strong** Creditworthiness relative to other domestic issuers. **“A”** rated issuers or issues are considered **Above Average** in Creditworthiness relative to other domestic issuers or issues. The (+/-) signs denote relative status within each rating category and the (sf) insertion stands for structured finance.

The ratings are a relative ranking of risk and address the expected loss posed to investors by the bond maturity. In **MERIS**'s opinion, the transaction structure allows for timely payment of interest and ultimate repayment of principal with respect to the bond maturity.

Sarwa Securitization Company S.A.E. – a special purpose entity – was incorporated in November 2005. The current notes are backed by a static pool of real estate receivables arising from installment sale contracts related to 670 residential units located in seven of the Originator's new projects (New Cairo Katameya Ext., Golf Ext., Katameya, North Coast Hacienda Bay 1, North Coast Hacienda White 2, October Golf View and Woodville).

The ratings of the notes are based on: (1) the level of protection provided to investors by the credit enhancements in the form of (i) over-collateralization in the amount of 3.8% net of expenses; (ii) subordination of tranche B and C to the more senior tranches; (iii) availability of a default reserve account (Letter of Guarantee) in the amount of EGP 66.9 million representing 11.4% of the original notes' balance; (2) the additional credit supported provided through credit insurance for 90% coverage on the individual sale by installment contracts provided by the government-owned Misr Insurance Company (AM Best Financial Strength Rating: B++ (Good) and Long Term Issuer Credit Rating: bbb with Stable Outlook, Dec.

2018); (3) the liquidity support in the form of a cash reserve account in the size of 5.66% of the notes' initial balance that is to be funded from the first month cash inflows to reach the target level of EGP 33.28 million, and after the amortization of Tranche A will be maintained at 5.66% of the outstanding balance of Tranche B and C on a monthly basis; (4) the relatively low weighted average loan-to-value (LTV) ratio (44% of the original purchase price) of the portfolio, which accelerates the build-up of owner's equity into the properties and hence minimizes the buyers' propensity to default, while at the same time increasing the recovery potential in case of default; (5) the additional level of protection stemming from the fact that all of the receivables are backed by post-dated cheques, which is considered an incentive for timely payment of the installments as a bounced cheque constitutes a criminal offence under the Egyptian law; (6) the reasonable geographic diversification of the portfolio including units across 7 projects, set in 3 different geographic locations across Egypt, (7) the relatively high seasoning (34 months) of the receivables, and (8) the availability of a contractually appointed back-up servicer.

The assigned ratings also take into consideration the following weaknesses of the transaction: (1) the lack of relevant and consistent historical data tracking the performance of the receivables; (2) small size of the pool, with notably high individual obligor concentrations, with the top 20 obligors accounting for 19% of the portfolio; (3) no security interest in the underlying properties for the benefit of the note holders, and hence no direct recourse over the properties; (4) unlike class A notes, the ratings of class B and more so class C notes are highly dependent on the creditworthiness of the external credit support provider (L/G issuing bank). A material deterioration of the creditworthiness of the credit support provider will inevitably result in a downgrade of these notes; (5) the credit insurance is a newly-introduced product in the Egyptian market, which has not been tested extensively in practice; (6) the portfolio comprises mostly vacation homes (72% of the portfolio), with primary homes accounting for only 28%. **MERIS** considers holiday homes to be a riskier type of asset relative to primary homes; (7) the existence of legal uncertainties, given that the key legal concepts underpinning securitization remain largely untested in judicial proceedings or in practice in Egypt, mitigated by the legal opinions provided by the transaction's legal advisor on issues such as true sale, separateness of accounts, commingling and consolidation risk.

**MERIS** will monitor the transaction on an on-going basis and will issue regular performance reports.

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