

Cairo, December 2020

Press Release: Cairo for Investment & Real Estate Development S.A.E. (CIRA)

MERIS (Middle East Rating & Investors Service) Assigns the National Scale Rating (NSR) of Cairo for Investment & Real Estate Development S.A.E. (CIRA), at "A", with a "Stable Outlook" For Both the Entity and the Ijara Sukuk Instrument, to be Issued by EFG Hermes Sukuk Company (Second Issue).

MERIS assigns Senior Unsecured Local Currency Issuer Rating of "A" on a National Scale to the entity (CIRA), with a **Stable Outlook**. Moreover, the same rating has been assigned to the Ijara Sukuk issue at "A", with a **Stable Outlook**. The assigned rating is considered investment grade on the National Rating Scale. "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.

CIRA rating reflects the company's dominant position in the education for profit sector in Egypt, offering its services to K-12 (Kindergarten to Grade 12 Schools) education in both the national and international curriculums, operating through 21 schools spread across six governorates. The national platform is operating, mostly, through its brand "Future Schools (Future)", while the International curriculum is offered through different brands (namely British Columbian Canadian International School "BCCIS", Mavericks, Future International). In addition, the company has an established presence in the Higher Education (Higher Ed) platform through its arm "Badr University in Cairo (BUC)", composed of 13 faculties which are all located in Greater Cairo and enjoying close proximity to Ismaileya and Suez governorates. CIRA has historically demonstrated solid enrollment growth evidenced by the steady revenue and net income growth, which has recorded on average an increase of 46% and 25%, respectively during the past three years. The company competitive position lies mainly in its decent quality service with affordable fees to the lower and upper middle segment within Egypt.

The group is going through an ambitious expansion mode with plans to grow the business inside Egypt across all education sectors. This plan will be executed through green field investments in nine schools; three of them will be serving the international platform, while the remaining will cater to the national segment. It is worth mentioning that CIRA's experience in the international sector is still immature, and need to be tested, compared to the Company's strong footprint in the national education. With equal note, management will continue to expand geographically to penetrate the Delta and Upper Egypt areas with four new schools within the medium term horizon, enhancing the group diversification. On the other hand, the Higher Ed expansion will be conducted through BUC new extension, which will add another 16 new faculties over the coming six year, in addition to the new campus in Assiut, which will inaugurate 14 new faculties over the coming five years. The investment plan, in aggregate, will cost roughly EGP 4.0bn, which will be financed through a mix of internal, as well as external funding sources. **MERIS** believes that this strategy, if successfully executed, while maintaining its conservative leverage balance sheet, could be credit-positive in the medium to long-term, as larger scale and wider geographic diversification generally add greater stability to earnings by mitigating the impact of a potential downturn in one area. However, it might overstretch the management capacity and put a strain on the company's daily operations and resources.

It is of note that the company's experienced management team, clear business model and execution discipline, as well as a sound financial profile, low leverage and very strong liquidity position, which reflects the management's moderate financial risk appetite, are supportive factors for the rating grade. The company operates within a strategic sector with significant importance to the economy and the government. Moreover, the domestic education sector faces shortages in supply due to the high investment cost required and low government finance to the public sector.

On another note, the rating incorporates the key challenges facing the Company, including the new/different business dynamics associated with the remote/hybrid learning model, which might expose the company to different challenges. Furthermore, the education sector in Egypt is considered highly regulated industry, exposing the business to high risk of government interference, especially with regard to setting prices/tuition fees limits, which may impose extra pressure on the operating environment.

Currently, CIRA is in the process of tapping the debt capital market with its first Ijara issue. The Sukuk issue is in the size of EGP 600mn, which will be directed to the expansion plan and refinancing existing debt. The 82-month Sukuk issue will carry a variable rate of return, to be paid semiannually, with a margin of 0.75% plus the Central Bank of Egypt (CBE) lending rate. The Sukuk issue enjoys a two years grace period; accordingly the Sukuk principal will be paid over 10 semi-annual equal installments starting from April 2023. According to the latest valuation report, published by Prime Company in December 2020, the combined value of the schools is approx. EGP 887mn; covering almost one time the Sukuk principal and partially returns. From **MERIS** point of view, CIRA is the ultimate obligor for paying the lease obligations (rental payment), which is the primary source of Sukuk repayment, as the net revenues of the leased assets will barely cover the Sukuk return.

Furthermore, the corporate guarantee which will be issued by the same exact corporate entity that is committing to the underlying lease obligation; is considered a key driver to the Sukuk issue rating. Therefore, the rating assigned to the Ijara Sukuk is the same as the entity rating of CIRA, “**A**” with a Stable Outlook.

Copyright 2020 Middle East Rating and Investors Service (“**MERIS**”). All rights reserved.

CREDIT RATINGS AND PUBLICATIONS ISSUED BY MERIS ARE OR CONTAIN MERIS' CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MERIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MERIS' OPINIONS INCLUDED IN MERIS' PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MERIS' PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MERIS' PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MERIS' PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MERIS ISSUES ITS CREDIT RATINGS AND PUBLISHES MERIS' PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MERIS' CREDIT RATINGS AND MERIS' PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND RETAIL INVESTORS SHOULD NOT CONSIDER MERIS' CREDIT RATINGS OR MERIS' PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MERIS' PRIOR WRITTEN CONSENT .

All information contained herein is obtained by **MERIS** from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided “as is” without warranty of any kind. **MERIS** adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources **MERIS** considers to be reliable including, when appropriate, independent third-party sources. However, **MERIS** is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the **MERIS** publications .

To the extent permitted by law, **MERIS** and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if **MERIS** or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by **MERIS**.

To the extent permitted by law, **MERIS** and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, **MERIS** or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MERIS IN ANY FORM OR MANNER WHATSOEVER.