MERIS
Middle East Rating & Investors Service

Cairo, 24th of August, 2021

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

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

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

The "**BBB**" rating denotes an **Average Creditworthiness** relative to other domestic issuers. The (+/-) signs denote relative status within each rating category.

The stable outlook is driven by Citystars Properties' pressured operational and financial performance over the short- to medium-term with the prospects for moderate improvement in the company's cash flow metrics to be gained following the renovation.

The COVID Pandemic hit the issuer operations significantly, which was reflected in a notable drop in the financial performance in 2020, as operating profit dropped to US$ 29.1mn reporting more than 50% negative growth, while net income was below US$ 3.0mn down from US$ 32.7mn. Going forward, management expects that the performance will improve slightly by the end of 2021 to reach roughly US$ 83.0mn. According to management, business went back to normal since the reopening of the commercial center in August 2020. In terms of the office business, it showed resilience to the volatile local macroeconomic conditions, with steady performance and a very minimal default rate. While the hotel segment experienced the worst hit, and is expected to have very little prospects of recovery within this year. As per management assumption the business operations will be back to 2017 average trend (revenue to be in the range of US$ 125mn) by year 2025 following the completion of the renovation program in both the mall and the hotels which is supposedly to reflect positively on performance. It is worth mentioning that the company will continue the renovation plan initiated earlier, to be executed over the coming three to five years with a total cost of US$ 100mn to be sourced mainly from internal, as well as external resources. Management believes that this renovation initiative, along with the enhancement in the merchandizing mix, as well as redesigning the capacity of the leasing areas to add more leasable space replacing public areas and reallocating the existing tenants, will positively reflect on the business performance.

In 2020, the group signed a strategic agreement with (China Chemical Engineering Second Construction "CNCEC"), according to which it will assume most of the ongoing projects of the group; including ARCO, Golden Coast, in addition to the renovation programs in the complex. The CNCEC scope of work varies between design, build, construct and finance, in addition to assisting in securing overseas (Chinese) finance, if needed, on a softer term basis. The total agreement value is around US$ 2bn, to cover the subsidiaries ongoing projects to be expensed between 2020 and 2024. The partnership is going on the agreed on track, with a slower base due to the repercussions of the Pandemic. **MERIS** believes that if this strategic agreement achieves its objectives; it can positively affect the overall performance of the group; as it will support management in clearing its expansion backlog. Although this agreement should ease the construction risk, to a certain extent; the holding company management will continue to carry the execution challenges, along with handling the pressure on the operational, administrative and financial resources. This raises the red flag of overstretching the holding company management capacity back again, especially in a stressed timing at the holding level.

With regard to the financing strategy, management has decided that each business unit will secure the funding needed for their projects on a standalone basis, in order to ease the pressure imposed on the holding level. This has started by the Funding Agreement with "Riyad Capital" signed in April 2020, to support ARCO business operations, while Golden Coast to follow by the same structure before the end of 2021. It is of note that the holding company shifted its funding philosophy to support the subsidiaries in securing their funding on a non-recourse basis, which is viewed positively by **MERIS**. However, in case the parent company changes this strategy to offer recourse or guarantee to any of these subsidiaries, this may hit the issuer adjusted leverage metrics and accordingly would have a negative effect on the rating outcome.

With equal note, **MERIS** also has concerns regarding the arbitration outcome, which has negative shades on the company's operating, as well as the financial fundamentals; given that the timeframe for settling this situation is not clear yet. In **MERIS's** view, the outcome of the abovementioned arbitration case, if materialized and in case the shareholders' did not meet their commitment, it will have a significant adverse impact on the creditworthiness of the company. Nevertheless, 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.

The assigned rating reflects Citystars Properties' robust position in multi-use projects in Egypt with strong brand recognition, with good track record, a well-diversified and integrated product mix which helps in reducing economic cycle sensitivity. Despite the recent slowdown, the company still boasts reasonable operating margins and financial strength metrics that reflect its robust operating efficiency, supporting the company's investment grade credit rating. Even with the decline in the cash flow metrics, the company's operating profile is still supported by committed medium-to long-term leasing contracts, which are considered another driving force for the assigned rating grade. In addition, the company benefits from its strong renowned shareholders' commitment, which should ensure a reasonable probability of financial support, and it was proven several times over the years, through the increase in paid in capital and the subordinated cash injections.

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