MERIS
Middle East Rating & Investors Service

Cairo, December 7th, 2017

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

MERIS (Middle East Rating & Investors Service) affirmed 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.

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 suggest a forecasted rating direction based on current information 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 provided that 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 over the last years, compared to the initial bond assumptions, as evident from the fluctuation in the cash flow metrics. Moreover, the leakage of the cash flow from the holding company to the subsidiaries also has negatively affected the standalone cash flow metrics, as well as the profitability margins and the coverage ratios. With equal note, the corporate guarantee issued by "Golden Coast Company", a majority owned subsidiary (92%) of the issuer, also supports the issuer financial fundamentals. The second bond's outstanding balance stands at US$ 223mn as of June 2017, with the fourth principal installment under the amortization schedule due on January year 2018. The bond is to be fully redeemed be matured 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.

The assigned rating reflects Citystars Properties' position as a pioneer 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 slowdown, the company still boasts sound operating margins and financial strength metrics that reflect its robust operating efficiency taking into consideration that the drop is driven mainly by non-cash items. Despite the decline in the cash flow metrics, the

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company’s operating profile is still supported by a committed medium-to long-term leasing contracts, which are considered another driving force for the stability of the rating grade. In addition, the company benefits from strong shareholders’ commitment, ensuring high probability of financial support, which was proven several times over the last couple of years, through the increase in paid in capital and the subordinated cash injections to support the expansions as well as the financing gap.

MERIS views positively, “AUR Capital Holding Ltd. (AUR)” partnership agreement which was signed in April 2017. Through this agreement AUR will resume Citystars Properties expansion plans for “Arab Company for Real Estate Development (ARCO)” while exerting extra effort/focus on the daily operations through its dedicated management team, which will ease the pressure on the holding management capacity as well as the operational and financial resources, especially since the projects backlog requires significant financial outlays. Management is planning to launch several projects over the coming five years with a total investment cost of more than EGP 30bn. **MERIS** believes that the outcome of the partnership in the overall group is positive on the medium to long term horizon. **MERIS** views Citystars Properties’ growth strategy as promising on a long-term basis, as wider scale and diversification will result in greater stability in earnings. Consolidating all the projects under the domain of Citystars Properties group will create a new giant in the Egyptian Tourism/Real Estate market.

It is worth mentioning that Citystars Properties’ business operation has been sustainable over that last years despite the challenging macroeconomic conditions. Year 2017 is foreseen to be another tough year, in light of the government reform measures (i.e. the devaluation of the Egyptian pound coupled with the increase in the custom duties …etc.) which hit the tenants’ business fundamentals and financial capacity significantly. As such, management has soften some payment terms to be able to ease the pressure imposed on the lessees to a certain extent, which is expected to reflect negatively on 2017 earnings. Going forward, management believes that the initiatives to enhance the merchandizing mix, in both the commercial center and the office facilities, through stretching the capacity areas to add more leasable space by reducing/ redesigning the public areas and reallocating the existing tenants will start to bear fruits in 2018, which will counter effect the macro economic challenges highlighted earlier.