MERIS
Middle East Rating & Investors Service

Cairo, June 2021

Press Release: **SODIC Securitization Company - 1st Issue 2021-2024**

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) ASSIGNS NATIONAL SCALE RATINGS (NSR) TO THE FIRST ISSUE OF THE FIRST MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION PROGRAM ISSUED BY SODIC SECURITIZATION COMPANY AND BACKED BY A PORTFOLIO OF REAL ESTATE RECEIVABLES ORIGINATED BY SOREAL AND TABROUK (WHOLLY OWNED SUBSIDIARIES OF SODIC)

MERIS (Middle East Rating & Investors Service) has assigned the following ratings on the national scale to the multiple-tranche asset backed securitization bond issued by SODIC Securitization Company S.A.E. (1st Issue of the 1st Program) and backed by a single pool of real estate receivables in the amount of EGP 387,143,276 originated by Sixth of October for Development and Real Estate Projects Co. (SOREAL) and Tabrouk Development Company (Tabrouk), two of Sixth of October for Development and Investment Company (SODIC)'s fully owned subsidiaries:

Tranche A: "**AA+ (sf)**" to the EGP 234.955 million Senior Fixed-Rate Notes due 13 months from the date of issuance, representing 68.5% of the aggregate issue size, with a coupon of 9.55% p.a. payable quarterly starting from the 4th month. Tranche A is non-callable.

Tranche B: "**A (sf)**" to the EGP 108.045 million Subordinated Fixed-Rate Notes due 36 months from the date of issuance, representing 31.5% of the aggregate issue size, with a coupon of 9.90% p.a. payable monthly. Tranche B is callable from the coupon number 14th;

The notes will be redeemed sequentially in order of seniority. Tranche A will follow a predetermined quarterly amortization schedule and Tranche B 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.

SODIC Securitization Company S.A.E. – a special purpose entity – was incorporated in Egypt in 2014 in accordance with the Capital Market Law 95/1992. The current notes are backed by a static pool of real estate receivables arising from installment sale contracts related to 682 primary homes and 71 holiday units located in the Originators' projects Eastown Residence in New Cairo and Caesar in the North Coast.

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 2.65% net of expenses; (ii) subordination of tranche B to the more senior tranche; (iii) availability of a default reserve account (Letter of Guarantee) in the amount of EGP 24,010,000 representing 7.0% of the original notes' balance; (2) the liquidity support in the form of a cash reserve account in the size of 4% of the notes' initial balance which is to be funded from the first month of cash inflows to reach the target level of EGP 13,720,000, and to be adjusted on a monthly basis thereafter to measure 4% of the outstanding notes' balance; (3) the relatively low weighted average loan-to-value (LTV) ratio (24%) 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; (4) 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; (5) the relatively high weighted average seasoning (41 months) of the receivables, (6) the availability of a contractually appointed back-up servicer.

The assigned ratings also take into consideration the following weaknesses of the transaction: (1) notably high individual obligor concentrations, with the top 20 obligors accounting for 14.8% of the portfolio; (2) the lack of relevant and consistent historical data tracking the performance of the receivables through the economic cycle; (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 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 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.