MERIS
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Press Release: Sarwa Securitization Company S.A.E. – 21th Issue 2016-2021

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE 21st 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

MERIS (Middle East Rating & Investors Service) has affirmed the following ratings on the national scale to the 21st multiple-tranche asset backed securitization bond issued by **Sarwa Securitization Company S.A.E.** and backed by a single pool of real estate receivables originated by **Palm Hills Development Company** and its subsidiaries:

Tranche A: fully redeemed in January 2018;

Tranche B: "**AA (sf)**" to the EGP 71.9 million Subordinated Fixed-Rate Notes due in January 2020, representing 42.6% of the aggregate issue size, with a coupon of 16.69% p.a. payable monthly.

Tranche C: "**A (sf)**" to the EGP 97 million Junior Subordinated Fixed-Rate Notes due in December 2021, representing 57.4% of the aggregate issue size, with a coupon of 17.39% p.a. payable monthly.

The notes are redeemed sequentially in order of seniority. Tranche A, which was fully amortized as of January 31, 2018, followed a pre-determined quarterly amortization schedule, whereas Tranches B and C 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 281 residential units located in six of the Originator's new projects (New Cairo Katameya Ext., North Coast Hacienda Bay 1, Golf Ext., Katameya, North Coast Hacienda White 2, October Golf View).

As of 30/11/2018, the date of our review, the transaction benefits from credit enhancement in the form of overcollateralization net of expenses in the size of 1.8% of the outstanding bond size, compared to 1.5% upon issuance. Thus calculated, the overcollateralization takes into account the net present value of the future cash flows, the residual cash with the Custodian in the amount of EGP 5,638,305, as well as the Liquidity Reserve Account in the amount of EGP 10,707,473. In addition the transaction benefits from an external credit enhancement in the form of a Default Reserve Account amounting to EGP 45,579,056, which represents 27.0% of the outstanding bond balance. Thus, the total credit support available to the transaction measures 28.8% of the outstanding bond size compared to 12.8% at the closing of the transaction. In view of the steady amortization of the bond and the reasonable performance of the receivables, there has been a buildup of credit enhancement that is currently above the requirements for the ratings of the notes. To maintain the existing ratings of the transaction the external credit enhancement in the form of a bank letter of guarantee can be adjusted downwards by 23% to EGP 35 million effective immediately. Following the adjustment, the overall credit support will measure 22.5% of the outstanding principal balance of the bond.

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 1.8% net of expenses; (ii) subordination of tranche C to the more senior tranche B; (iii) availability of a default reserve account in the amount of EGP 45,579,056 representing 27.0% of the notes' outstanding 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 currently in the size of 6.3% of and the outstanding notes' balance; (4) the relatively low weighted average loan-to-value (LTV) ratio (33% 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 6 projects, set in 3 different geographic locations across Egypt, (7) the relatively high seasoning (55 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 17.6% 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) 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 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.