MERIS
Middle East Rating & Investors Service

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Press Release: Al Rehab Securitization Company - Fifth Issue 2017-2021

MERIS (MIDDLE EAST RATING & INVESTORS SERVICE) AFFIRMS THE NATIONAL SCALE RATINGS (NSR) TO THE FIFTH MULTIPLE-TRANCHE ASSET-BACKED SECURITIZATION BOND ISSUED BY AL REHAB SECURITIZATION COMPANY AND ORIGINATED BY UNITED INTERNATIONAL TRADING COMPANY "ELMOBASHER" LLC (SECOND ISSUE)

MERIS (Middle East Rating & Investors Service) has reviewed the performance of the 5th multiple-tranche notes issued by Al Rehab Securitization Company S.A.E. and backed by a single pool of receivables, originated by United International Trading Company "elmobasher" LLC (Second Issue) and has affirmed the following national scale ratings:

Tranche A: Redeemed in April 2018;

Tranche B: "AA (sf)" to the Subordinated Fixed-Rate Notes in the amount of EGP 30.8 million, representing 54.0% of the aggregate issue size, with a coupon of 17.44% p.a. payable monthly, due 36 months after issuance date, and is callable after 19 months;

Tranche C: "A (sf)" to the Junior Subordinated Fixed-Rate Notes in the amount of EGP 26.3 million, representing 46.0% of the aggregate issue size, with a coupon of 17.94% p.a. payable monthly and due 60 months after issuance date, and is callable after 19 months;

The notes are redeemed sequentially in order of seniority and follow 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's structure allows for timely payment of interest and ultimate repayment of principal with respect to the bond maturity.

Al Rehab Securitization Company S.A.E. – a special purpose entity – was incorporated in Egypt in 2008 in accordance with the Capital Market Law 95/1992. The bond issue is backed by a portfolio of auto receivables, originated by United International Trading Company "elmobasher," between 2015 and 2016. The installment sale contracts are concluded with clients domiciled in Egypt to finance the purchase of brand new (94%) and used (6%) passenger vehicles.

As of March 31st, 2019, the coupon and principal of the bond have been paid according to schedule. The bond issue is amortizing on a monthly basis, and currently stands at EGP 57,060,840, equivalent to 68.8% redemption of the original balance. The asset pool backing the issue has been amortized at 71.3%, and equals EGP 71,022,443 as of March 31st, 2019. The pool's delinquencies above 30 days have been relatively steady and currently overdue installments above 30 days stand at 1.82% of the pool outstanding balance, or 0.52% of the initial pool balance. It is worth noting that there are 26 clients transferred to the legal department, with a total overdue amount of EGP 468,864, corresponding to only 0.66% of the outstanding portfolio amount.

The credit enhancement currently available to the transaction, as measured by the NPV of the portfolio receivables plus the accumulated cash surplus accounts (residual cash balance and liquidity reserve) less the NPV of the transactions senior fees and expenses, stands at 11.3% of the outstanding bond size as of March 31st, 2019 compared to 2.4% at closing of the transaction. In addition, the transaction benefits from an external credit enhancement in the form of a Letter of Guarantee in the favour of the bondholders (EGP 8,315,000), representing 14.6% of the outstanding bond size. In view of the 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 Letter of Guarantee can be adjusted downwards to reach EGP 5 million effective immediately. Following the adjustment, the overall credit support will measure around 20% of the outstanding principal balance of the bond.

The assigned ratings are based on: (1) the level of protection provided to investors in the form of (i) over-collateralization (net of expenses) in the amount of 11.3% of the bond size at the outset of the transaction; (ii) an irrevocable and unconditional letter of guarantee in favour of the bondholders in the amount of EGP 8,315,000 (14.6% of the outstanding bond balance); (iii) the structural subordination of tranche (C) to the more senior tranche (B); (2) the liquidity reserve account in the size of 7.1% of the outstanding aggregate notes balance,; (3) the relatively low weighted average loan-to-value ratio at origination (67.42%), which accelerates the build-up of owner's equity into the assets and hence increases the recovery potential in case of defaults; (4) the relatively high granularity of the pool with individual concentrations not exceeding 0.80% and the top 30 clients accounting collectively for 8.54% of the total principal outstanding balance; (5) all of the receivables are backed by post-dated checks, which ensures timely payment of installments as bounced checks/bills constitute a criminal offence under the Egyptian law; (6) the experience of the Servicer, in addition to the availability of a back-up servicing agreement with CIB (CIB is rated B2 on a Global Scale by Moody's, April 2019).

The ratings assigned by **MERIS** also take into consideration the following limitations of the transaction: (1) limited data available regarding historical arrears, default and recovery through the full economic cycle; (2) the generally greater uncertainty associated with unrated Originators and the use of securitization proceeds to fund the Originator's growing phase; (3) lack of total loss insurance for 33% of the contracts, mitigated by the low loan to value ratio of the pool; (4) 6% of the securitized receivables are related to the sale of used cars, which are associated with a greater probability of default, due to the relatively riskier credit profile of the buyers; nevertheless overall impact of used cars on the probability of default is negligible in view of the small size; (5) the existence of legal uncertainties, given that the key legal concepts underpinning securitization transaction enforcement 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.