

TMG Holding, through its subsidiary, successfully completes first corporate Islamic sukuk issuance worth EGP2.0bn, the largest EGP-denominated corporate debt issuance by a private sector company in the history of Egypt's capital market

Talaat Moustafa Group Holding (TMG Holding) is pleased to announce that its subsidiary, Arab Company for Projects and Urban Development (Arab Company), the owner of Madinaty and Rehab projects, has successfully issued Islamic sukuk worth EGP2.0bn in a first-of-its kind transaction in Egypt.

The issuing company and the sukuk received an "A+" rating from the Middle East Rating & Investor Service (MERIS), a regional arm of Moody's Investor Service. The rating incorporates the strong fundamentals of the company and its position as a leading real estate developer in Egypt, as per the attached press release issued by MERIS.

The sukuk is the largest EGP-denominated debt issuance in the history of Egypt's capital market, successfully executed in challenging times and market conditions and providing further strong testimony to TMG Holding's unmatched investment appeal and creditworthiness.

The sukuk has an Ijara structure, compliant with Islamic Shariah, and a tenor of 5 years. The proceeds will be used to accelerate the completion of Open Air Mall, a flagship retail property of a unique design, hosting prominent international brands and located in a prime spot in Madinaty, and raise the mall's estimated market value to over EGP8.5bn at its full inauguration. The mall is the newest addition to the already sizable portfolio of recurring income assets within TMG Holding's projects. This falls in line with the group's announced strategy to expand its recurring income lines and capitalize on the massive populations and growth already present in these projects and expand residents' access to high-quality services, retail, entertainment and infrastructure of international standards.

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Cairo, April 2020

Press Release: The Arab Company for Projects and Urban Development

MERIS (Middle East Rating & Investors Service) Assigns the National Scale Rating (NSR) of The Arab Company for Projects and Urban Development (Arab Company), at "A+", with a "Stable Outlook" For Both the Entity and the Ijara Sukuk Instrument, to be Issued by EFG Hermes Sukuk Company (First Issue).

MERIS (Middle East Rating & Investors Service) assigns senior unsecured local currency issuer rating of "A+" on a national scale to the long-term "Senior Unsecured" obligations to **the Arab Company for Projects and Urban Development (Arab Company) S.A.E.**, with a **Stable Outlook**. Moreover, the same rating has been assigned to **EFG Hermes Sukuk Company's Ijara Sukuk (First Issue)**, at "A+", with a **Stable Outlook**.

An "A" rated issuer or issue is considered **Above Average in Creditworthiness** relative to other domestic issuers or issues. The (+/-) signs denote relative status within each rating category.

The Ijara Sukuk assigned rating reflects **MERIS** assessment of the Sukuk structure, which is based on an Ijara agreement that has been signed between EFG Hermes Sukuk company (the Sukuk issuer) and the Arab Company over the Open Air Mall (the "Asset"), in Madinaty in New Cairo, which is owned by the Arab Company. **The assigned rating is based on the Arab Company Long Term Senior Unsecured Rating.** The Arab Company is the ultimate obligor for paying the lease obligations (rental payment), which is the primary source of Sukuk repayment. The 57-month Sukuk issue is in the size of EGP two billion; it has a variable rate of return to be paid semiannually. The Sukuk principal will be paid on three annual installments starting from December 2022. The Sukuk issue is callable from the date of issuance. It is worthy to mention that the Ijara Sukuk transaction in hand is the first Sukuk issue in Egypt.

As per the issuance agreement, the Arab Company will enter with the issuer a sale / purchase agreement on Madinaty Open Air Mall, to be funded from the Sukuk proceeds. The issuer will then lease back the Asset to the Arab Company for a tenor and amount equal to the Sukuk tenor and size of the rental/lease payment. Upon the maturity of the Sukuk, the issuer will sell back the Asset to the Arab Company after the full settlement of all the Sukuk holders' dues.

The assigned entity rating incorporates the Arab Company strong fundamentals and pioneer position in the real estate sector in Egypt. Established in 1995 as a joint stock company, the Arab Company is a reputable real estate company in developing and managing fully-integrated cities and communities in Egypt, with a solid track record demonstrated in its two well-known cities, Al Rehab and Madinaty, among other predominant real estate projects. The Arab Company enjoys a well-recognized brand name, associated with the well-known family name - Talaat Moustafa Group (TMG) Holding, (TMG owns 99.99% of the Arab Company). TMG is a leading conglomerate in developing integrated communities, mixed-use real estate and hospitality projects across Egypt's key cities, with the largest sales backlog at EGP 49.5 billion (2019), among the local developers. This backlog is expected to be delivered within the coming five years, ensuring stable and visible revenue stream to the Company over this period.

On the human resources front, the Arab Company is privileged with a strong management team, demonstrated in the robust performance of the Company, along with the relatively stable operating and financial performance over several economic cycles. Furthermore, the Company has put in place a well-designed succession plan to all the key functions within the organization.

Recently, the Company created a new profit stream, the recurring income business line, including but not limited to, retail and admin lease revenues, as well as sporting clubs, utilities, and transportation, to diversify its income sources and to even out the Company's cash flow. **MERIS** views this step positively, as the Company is expected to receive a secure and stable income from the recurring income business line.

On the other hand, the assigned rating takes into consideration the main challenges facing the entity. The macroeconomic challenge is the most significant impediment to the growth in the domestic real estate sector. Monetary policy, in terms of interest rates that targets high inflation, along with removing energy subsidies and increasing the government services' fees, have taken their toll on the consumers' purchasing power and are negatively impacting the consumer's behavior towards investing in the real estate sector. Another downward pressure on the ratings is the cyclical nature of the real estate sector and the associated volatility in performance, reflecting the volatile raw materials costs, exchange rate, interest rates and liquidity risks. Moreover, the Company has a limited geographic diversification, as its development and existing land bank are located mostly in East Cairo, with minor presence in the other governorates in Egypt.

The Arab Company enjoys a relatively comfortable level of leverage and coverage ratios, depending on the off-plan sales model. However, since 2018, and in line with the Company strategy to diversify its business lines by adding the recurring income business, which entails a different funding model than the real estate business that is funded by the off-plan sales model, the Company's financial obligations witnessed an upward trend, triggered by the lease agreements inked to finance the initial investments of these businesses (construction of mall and clubs), which in turn may increase pressure on the Arab Company financing capacity on the medium to long terms. Although the new business line might entail additional challenges, we believe that the Company is allocating the proper resources to manage all foreseen challenges, in addition to capitalizing on the prime location of the mall and clubs within the Company's residential projects and the substantial footfall guaranteed by its growing residential community, which increases its economic viability. Additionally, as per the Sukuk structure, the Sukuk investors will get paid after fulfilling all other existing financial obligations given that it is mostly a bullet payment structure, where 70% of the Sukuk issue will be paid at the end of the Sukuk tenor, while the amortizing structure of the existing financial obligations is due before the end of the Sukuk tenor.

MERIS notes that there are some recent developments in Egypt which took place after the rating committee date, these circumstances might impose new risks to the market. We refer to the spread of the corona virus in Egypt and its potential repercussions on the overall economy and the real estate sector in specific on the short term. **MERIS** believes that these recent developments will not affect the assigned long-term rating, i.e. "Senior Unsecured" long term obligations of the Arab Company/Sukuk, driven by the fact that the assigned credit rating to the Arab Company is a long-term rating and that most of the Sukuk principal will be paid at the end of the Sukuk tenor (mostly a bullet payment). Thus, we believe that the assigned ratings reflect fairly the creditworthiness of the Arab Company and the Sukuk issue over the long term horizon. While **MERIS** anticipates somewhat negative implications on the real estate sector and the issuer over the short term horizon, we expect matters to settle down and the economy to adapt to the new givens, whereby the businesses to resume work as usual over the medium and long terms.

It is worthy to mention that the projected business plan of the Arab Company is quite conservative, since it does not include any new sales, and is only based on the existing backlog, which is positively viewed by **MERIS**, as it is in favor of the investors.

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