



RATING ACTION COMMENTARY

Fitch Rates Arabian Centres Company's Upcoming Sukuk 'BB+(EXP)'

Thu 25 Mar, 2021 - 10:59 AM ET

Fitch Ratings - London - 25 Mar 2021: Fitch Ratings has assigned Arabian Centres Company's (ACC) Limited's sukuk trust certificates to be issued through Arabian Centres Sukuk II Limited (ACSL2) an expected rating of 'BB+(EXP)'. The expected rating is in line with ACC's Long-Term Issuer Default Rating (IDR) and senior unsecured rating of 'BB+'.

The assignment of the final rating is contingent on the successful issuance of the sukuk, final documents materially conforming to information already reviewed and confirmation of the availability of tangible assets eligible in case the tangibility ratio (as defined in the documentation) falls below 51%. If these conditions are not met, Fitch would review the rating.

ACSL2, which is the issuer of the certificates and the trustee, is an exempted company with limited liability, incorporated in the Cayman Islands and has been established for the sole purpose of issuing the certificates. Its shares are held by Maples FS Limited as share trustee.

KEY RATING DRIVERS

The sukuk rating is driven by ACC's IDR (for ACC's Key Ratings Drivers see 'Fitch Revises Arabian Centres's Outlook to Negative; Affirms at 'BB+'; Assigns 'A-(sau)'

National Rtg' dated 2 December 2020 at www.fitchratings.com). This is because a default of these senior unsecured obligations would reflect a default of ACC in accordance with Fitch's rating definitions.

Fitch has not considered any underlying assets or collateral provided, as we believe the issuer's ability to satisfy payments due on the certificates will ultimately depend on ACC satisfying its unsecured payment obligations to the issuer under the transaction documents described in the prospectus and other supplementary documents. The sukuk is a hybrid Murabaha-Wakala Structure where a minimum of 55% of the sukuk proceeds will be covered under the terms of the wakala agreement and a maximum of 45% of the sukuk proceed will covered under the terms of the murabaha agreement.

In addition to ACC's propensity to ensure repayment of ACSL2, Fitch believes it would also be required to ensure full and timely repayment of ACSL2's sukuk obligations, due to its role and obligations under the sukuk structure and documentation, especially but not limited to the features below:

- ACC as a servicing agent shall ensure the timely receipt and recording of all revenues in respect of the Wakala Portfolio and murabaha profit instalment payments and also applying such amounts to the payment into the transaction account which is intended to be sufficient to fund the periodic distribution amount payable under the certificates.

- On the business day prior to the relevant scheduled dissolution date in relation to each series, the trustee will have the right to require the obligor (ACC) to purchase all of the trustee's interests, rights, title, benefits and entitlements in, to and under the wakala assets; and the aggregate amounts of the deferred sale price then outstanding, if any, shall become immediately due and payable.

- The exercise price payable by ACC to the trustee and the aggregate amounts of the deferred sale price then outstanding, are intended to fund the dissolution amount payable by the trustee under the certificates, which should equal: a) the aggregate face amount of certificates then outstanding on the relevant dissolution date for the relevant series; b) plus all accrued but unpaid periodic distribution amounts (if any) relating to such, c) plus an amount equal to the sum of any outstanding in respect of any liquidity facility and service agency liabilities, d) plus an aggregate amount equal to all amounts owed by the obligor, e) less the aggregate amounts of deferred sale price then outstanding, on the relevant dissolution date.

- Additionally, the sukuk documentation has delisting and tangibility events. The certificates may be redeemed prior to the scheduled dissolution date of the certificates following the occurrence of a delisting event. The documentation includes an obligation on ACC to ensure that at all times the tangibility ratio remains more than 51%. If the

tangibility ratio (the aggregate value of the wakala assets to the aggregate value of the wakala assets and the aggregate amounts of the deferred sale price outstanding) shall fall below 33% (tangibility event), the certificates will be delisted and each certificate holder can exercise a put option to have their holdings redeemed at the delisting event dissolution distribution amount, within 30 days after notification.

This could occur if the company disposes assets or if there is a partial, or total, loss of an asset. ACC has a large pool of unsecured assets which, subject to Sharia compliance, could substitute for any disposed assets and make good any shortfalls. The company's unencumbered asset ratio currently exceeds 5.0x.

- The delisting event dissolution distribution amount is, for each certificate, the sum of the outstanding face amount of such certificate; any accrued, unpaid periodic distribution amounts relating to certificates to the relevant delisting event put option date; and an amount equal to one per cent of the outstanding face amount of those certificates.

- In a total loss event, if there is a short fall from the issuance proceeds, ACC will irrevocably and unconditionally be required to pay the total loss shortfall amount directly to the transaction account.

- The payment obligations of ACC (acting in any capacity) under the transaction documents will be direct, unconditional, unsubordinated and unsecured obligations of the obligor which at all times rank at least pari passu with all other unsecured and unsubordinated obligations of ACC.

- The sukuk issuance includes negative pledge provision, financial reporting obligations, ACC event, change of control clause, restrictive covenants, asset disposition events and cross-default terminology.

DERIVATION SUMMARY

For ACC's Derivation see 'Fitch Revises Arabian Centres's Outlook to Negative; Affirms at 'BB+'; Assigns 'A-(sau)' National Rtg' dated 2 December 2020 at www.fitchratings.com

Certain aspects of the transaction will be governed by English law, while other aspects will be governed by the laws of the Kingdom of Saudi Arabia and the Cayman Islands. Fitch does not express an opinion on whether the relevant transaction documents are

enforceable under any applicable law. However, Fitch's rating on the certificates reflects the agency's belief that ACC would stand behind its obligations.

When assigning ratings to the sukuk issuance, Fitch does not express an opinion on its compliance with sharia principles.

By assigning ratings to the programme and certificates issued under it, Fitch does not express an opinion on the programme structure's compliance with sharia principles or whether the relevant transaction documents are enforceable under any applicable law.

KEY ASSUMPTIONS

For ACC's key assumptions see 'Fitch Revises Arabian Centres's Outlook to Negative; Affirms at 'BB+'; Assigns 'A-(sau)' National Rtg' dated 2 December 2020 at www.fitchratings.com

RATING SENSITIVITIES

Factors That May, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

For ACSL2:

The rating could be upgraded if ACC's Long-Term Foreign-Currency IDR was upgraded

Favourable changes to the roles and obligations of ACC under the sukuk's structure and documents.

For ACC (the issuer):

Occupancy rates consistently above 95%

FFO adjusted leverage consistently below 4.5x

A sustained improvement of the operating environment

A material reduction in asset concentration

A smoother lease maturity profile

Factors That May, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

For ACSL2:

The rating could be downgraded if ACC's Long-Term Foreign-Currency IDR was downgraded. - adverse changes to the roles and obligations of ACC under the sukuk's structure and documents

For ACC (the issuer):

Deterioration in the operating environment

FFO adjusted leverage exceeding 7.0x on a sustained basis

FFO fixed charge coverage of under 1.75x

Occupancy rates below 90%

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

In November 2019, ACC issued debut USD500 million (SAR1.875 billion) 5.375% sukuk trust certificates (due in 2024), as well as USD1.2 billion (SAR4.5 billion) of new secured bank loans. The proceeds were used to refinance debt. The company also issued a USD200 million (SAR750 million) committed revolving credit facility (RCF).

The refinancing significantly improved the company's liquidity score, which now exceeds 2x. As of 31 December 2020 (3QFY21), the company had SAR794 million of cash on the balance sheet, having fully drawn on its RCF as a precaution against the effects of COVID-19. Despite the reduction in capex, Fitch forecasts ACC to have a free cash flow outflow of more than SAR350 million in FY21, mainly owing to working capital and dividend pressure. With only SAR45 million of debt amortisations due in FY21 and SAR119 million in FY22, cash comfortably covers these obligations. The first significant debt repayment will be the sukuk in FY25.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY/DEBT	RATING		
Arabian Centres Sukuk II Limited			
● senior unsecured	LT	BB+(EXP)	Expected Rating
● ● USD bond/note	LT	BB+(EXP)	Expected Rating

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub. 21 Dec 2020\)](#)
[Corporate Rating Criteria \(pub. 21 Dec 2020\) \(including rating assumption sensitivity\)](#)
[Sukuk Rating Criteria \(pub. 15 Feb 2021\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)
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Arabian Centres Company	UK Issued, EU Endorsed
Arabian Centres Sukuk Limited	UK Issued, EU Endorsed

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