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CREDIT OPINION
20 January 2020

Update

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RATINGS

Kuwait Projects Company (Holding) K.S.C.P.

Domicile	Kuwait
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Kuwait Projects Company (Holding) K.S.C.P.

Update to discussion of key credit factors following change of outlook to negative

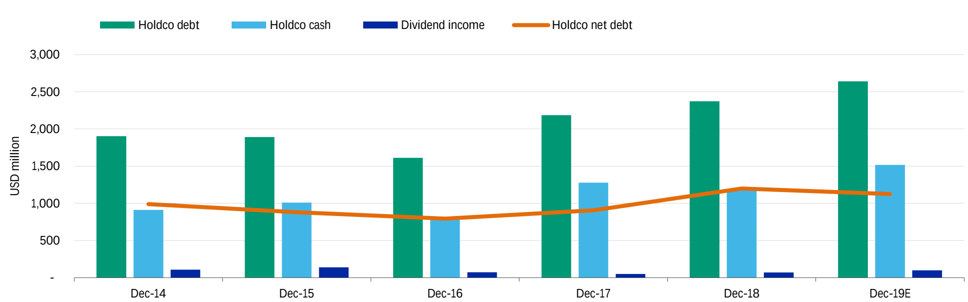
Summary

On 16 January, Kuwait Projects Company (Holding) K.S.C.P. (KIPCO)'s outlook changed to negative from stable reflecting an elevated market based leverage (MVL) of around 31%, above Moody's downward rating guidance of less than 25%, and slow progress made in turning around Orbit Showtime Network (OSN)'s financial performance since November 2018, which remains unprofitable and has required financial support.

The affirmation of the Baa3/P-3 ratings reflect (1) the portfolio of companies' dominant market positions in the financial services and pay TV industries within the Middle East and North Africa (MENA) region; (2) the historical track record of maintaining a strong liquidity profile with around $1.5 billion in cash at the holding level as of 31 December 2019 and the propensity to actively pre-fund debt maturities to remove refinancing risk; and (3) shareholder linkages with Kuwait's ruling family.

The ratings also capture (1) the high asset concentration in the financial services industry, making up approximately 60% of KIPCO's investment portfolio value (excluding cash) with OSN making up another 18% (at carrying value); (2) capital reinvestment strategy within its subsidiaries which results in low dividends up streamed and a weak funds from operation (FFO) interest coverage ratio at holdco level of 0.6x; and (3) the geographical concentration in MENA, that has areas of heightened geopolitical and macroeconomic risks.

Exhibit 1
KIPCO's holding level liquidity has remained healthy despite low dividend income



Periods are financial year-end. Dec-19E figure uses market prices of listed investments as of 31 Dec 2019 with the cash, debt and unlisted investment values based on Moody's estimates.
Sources: Moody's Investors Service, Company data, FactSet

Credit strengths

» Improving operational profile of core companies with a growing number of investments paying dividends

» Conservative financial policy of maintaining strong cash position at parent level that covers debt obligations up to 2023

» Supportive shareholder through Al Futtooh Holding (AFH), an investment vehicle associated with members of Kuwait's ruling family

Credit challenges

» High investment concentration with top three investments comprising around 66% of the investment portfolio value (excluding cash)

» Weak FFO interest coverage relative to investment grade peers

» Turnaround strategy of OSN which is facing competitive pressures that has eroded profitability

Rating outlook

The negative outlook reflects our view that the rating is currently weakly positioned in its category because leverage is above guidance and because the turnaround of OSN or a potential sale may take time.

Factors that could lead to an upgrade

The ratings could be upgraded if (1) KIPCO's MVL decreases below 20% on a sustainable basis and the company has a proven track record of creating value from its investments; (2) its FFO interest coverage improves to well above 3.0x; and (3) its liquidity position remains healthy, with management addressing upcoming debt maturities well in advance. However, an upgrade is unlikely while the portfolio retains its current investment concentration and in the absence of the portfolio providing the holding company with a regular diversified dividend income stream.

Factors that could lead to a downgrade

The ratings could be downgraded if (1) there is continued uncertainty around OSN's weak financial performance; (2) KIPCO's MVL metric trends above 25% on a sustained basis; (3) the company's portfolio concentration becomes more material, and/or credit quality of its core holdings weakens; and (4) liquidity deteriorates because of upcoming debt maturities, lower dividends from investments or as a result of M&A activities.

Key indicators

Exhibit 2

KEY INDICATORS [1]

Kuwait Projects Company (Holding) K.S.C.P.

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19E [3]
Estimated Portfolio Value (USD bn) [2]	4.1	3.6	3.2	3.6	3.3	3.6
Market Value Leverage (MVL)	24.0%	24.6%	24.7%	24.9%	35.8%	31.0%
Asset Concentration	59.5%	55.5%	53.9%	51.1%	49.1%	46.8%
(FFO + Interest Expense) / Interest Expense	0.8x	0.9x	0.5x	0.2x	0.4x	0.6x

[1] Calculations are based on parent level (stand-alone) numbers
[2] Estimated value of investment portfolio excludes holdco cash balances. Dec-14 to Dec-17 uses $908 million as fair value for KIPCO's stake in OSN which was calculated in 2009 during the merger of Showtime Arabia and Orbit. Dec-18 and Dec-19E figures uses the carrying value of OSN.
[3] Based on market prices of listed investments as of 31-Dec-19 with cash, debt and unlisted investments based on Moody's estimates.
Source: Moody's Investors Service, Company data, FactSet

Profile

KIPCO is a Kuwait-based investment holding company with investments in Kuwait, the Gulf Cooperation Council (GCC) countries and across the Middle East and North Africa (MENA) region. The company's most significant assets by value are Burgan Bank K.P.S.C. (A3 stable), United Gulf Holding Company B.S.C. and Panther Media Group Ltd. (OSN media asset). Almost all of the activities of investees are located in the MENA region. KIPCO's principal shareholder is Al Futtooh Holding (AFH), a company owned by members of Kuwait's ruling family, which along with its affiliates holds a 65% stake in the company, of which 45% is direct.

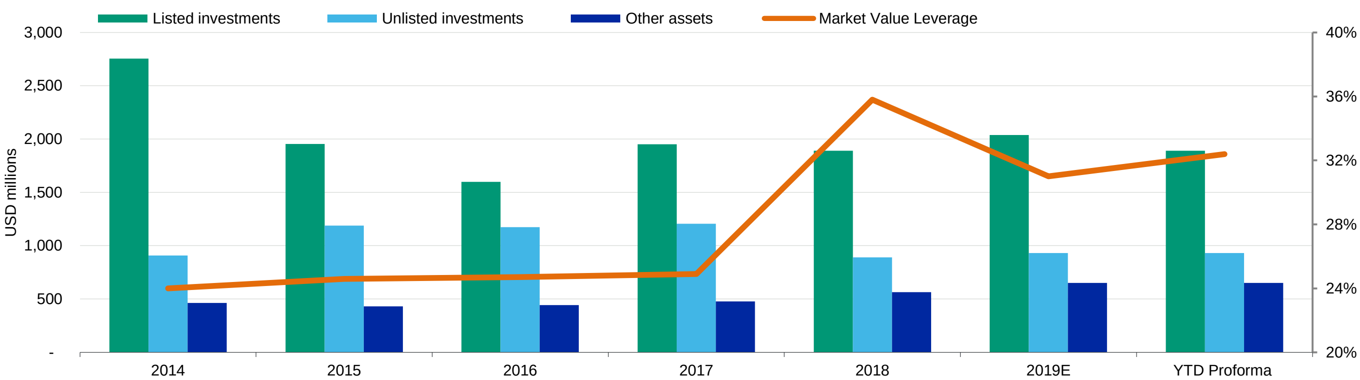
Detailed credit considerations

MVL remains elevated above rating guidance despite benefiting from rights issue

A number of KIPCO's core investments are publicly quoted and hence a current market valuation can be easily obtained. These valuations are based on KIPCO's direct stakes in these companies. The exception is OSN, a jointly owned company in which KIPCO owns 60.5% and where depending on the valuation assumptions used, our market value-based leverage (MVL, as measured by net debt to estimated investment portfolio value) metric would vary between 29% to 31% as of 2019. This is higher than the 25% levels in the past due to higher net debt levels for 2019, despite a KD95.1 million rights issue in July 2019.

Exhibit 3

MVL remains elevated around 30% despite the KD95.1 million rights issue



All figures are as of year-end. 2019E figures uses market prices of listed investments as of 31-Dec-19 while cash, debt and unlisted investments are Moody's estimates. For 2018, 2019 and YTD 2020 proforma we assume the lower carrying value for OSN. Year to date (YTD) figures uses market prices of listed investments as of 6 January 2020.
Sources: Moody's Investors Service, Company data

Given there is limited visibility and elevated execution risks associated with OSN's return to profitability, it is difficult to assign an accurate fair value to OSN. For our calculation of MVL, we have used OSN's book value reported in KIPCO's financial statements ($665 million as of 30 September 2019 for KIPCO's stake), which results in an estimated MVL of 31% for 2019. This compares to an MVL of 29% when using the fair value calculated in 2009 at the time of the Showtime Arabia and Orbit merger ($908 million for KIPCO's stake). A full or partial disposal of OSN at book value would increase the cash balance at the holding level and would lower the MVL well below 25% [1]. While we would expect KIPCO to continue to hold a sizable cash balance, our expectation is that management will likely look to invest the proceeds to improve its investment returns and business diversity, which will impact the MVL and portfolio composition.

Uncertainty around the future of OSN weighs negatively on KIPCO's credit profile

Since September 2018, KIPCO has accounted for OSN as a discontinued operation and has been exploring various strategic options to maximize OSN's value proposition. These included 1) refocusing the business back to profitability through right sizing, content optimization and digital product offerings; 2) introducing strategic partners to broaden its subscriber base; and 3) a potential disposal. Management have indicated that positive progress has been made on right sizing the operations and resetting of content rights with the studios. While this has reduced the cost base, OSN remains loss making and continues to be a drag on KIPCO's business profile. In addition, with the recent geopolitical tensions in the middle east, any escalation in the region will likely frustrate the process to engage with potential partners or buyers.

We recognize that OSN has broad footprint across the Middle East region with 1.2 million subscribers and broad exclusive content offering major Hollywood studios. While OSN was profitable from 2013 to 2015, higher content costs and changing viewership trends towards over the top operators (OTT) such as Netflix has resulted in losses since 2016 which has driven the need for OSN to transform the business. We view the transformation strategy as important to maximize the value of OSN as well as for the long term sustainability of the business.

Investments highly concentrated by asset and industry

KIPCO's equity portfolio is highly concentrated around investments in the financial services industry (Burgan Bank and United Gulf Bank B.S.C.) and the Middle East (Ba for business diversity sub-factor). The three most significant equity investments make up around 66% of the portfolio value and about 47% if holding level cash is also included in the asset pool as of 31 December 2019 (weak Baa for asset concentration sub-factor). Around 59% of the underlying investment's revenues are based in Kuwait and other countries of the Gulf Cooperation Council (GCC) and another 41% in other countries (MENA 21%, Europe 19% and other 1%) (sub-factor Ba for geographic diversity sub-factor).

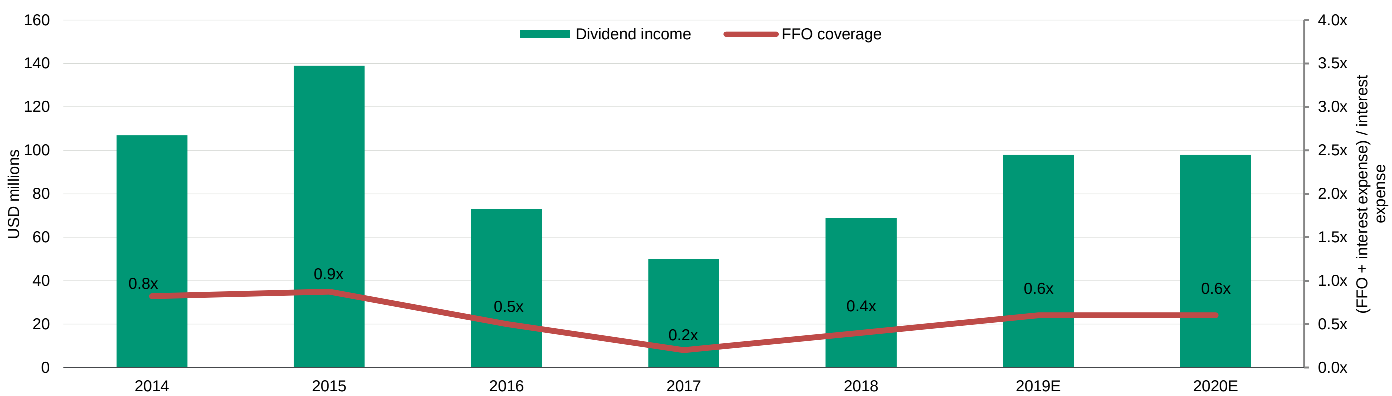
A disposal of OSN would further increase KIPCO's portfolio concentration towards financial services to around 70% from 60% of total portfolio value (excl cash), reducing the business diversification under our Investment Holding Companies methodology. However, the split between listed and unlisted investments will shift to 70%:30% from 57%:43% which will provide a greater degree of transparency in terms of public information and market valuation, allowing for a more accurate estimate of market based leverage (MVL, net debt/ estimated value of investment portfolio) going forward.

FFO interest coverage remains weak for the rating category but healthy liquidity is an off-setting factor

FFO interest coverage (dividends received plus interest income less opex and tax expense / interest expense) has historically been weak for KIPCO and primarily reflects the low dividend income generated from underlying investments relative to debt funding costs (Caa for FFO Interest Coverage sub-factor). We estimate as 31 December 2019, this ratio stood at 0.6x and is projected to gradually increase to 0.8x by 2021 which is still fairly weak given KIPCO's investment grade rating. KIPCO's large cash balance of around $1.5 billion as of 31 December 2019 and long dated debt maturity profile is an offsetting factor.

Exhibit 4

Dividend income growing but FFO cover expected to remain weak



FFO is defined as the sum of dividends, interest and other income less interest, operating and tax expense. All figures are as of year end. 2019 and 2020 numbers reflect Moody's estimates and do not represent the views of the issuer.
The decline in dividends for 2016 was mainly due to United Gulf Holding Company and OSN not distributing any dividends.
Sources: Moody's Investors Service, Company data, FactSet

We recognize that KIPCO could exercise its control over some investments by up streaming higher dividend payments. The company has so far largely refrained from doing so as it retains ample liquidity at the parent level and opts to maintain financial flexibility.

Dividend income has been weak and reflects a degree of structural weakness at investees

We believe that the low absolute cash dividend payout of KIPCO's investments is a structural weakness as it results in low cash income for the holding company and consequently a weak FFO interest coverage ratio. KIPCO's dividend income was around $98 million for 2019 with Burgan Bank, KIPCO's most reliable and largest dividend provider, increasing its dividend to $41 million in 2019 (versus $20 million in 2018 but still lower than $50m in 2016). Positively, the number of investments paying dividends has increased which reduces KIPCO's income reliance on Burgan Bank (36% of total income at holding level).

We expect dividend income to gradually improve for 2020 and 2021 mainly from higher dividends from Burgan Bank, however, the holding company cash flows will remain susceptible to capital requirements from a number of KIPCO's growth investments which may include OSN. Rather than distributing dividends, the investees have generally been redeploying operational cash flows into the businesses themselves. However, we do expect that management will use various levers to upstream cash to the holding level should there be a need - for instance through special dividends if the holding company is facing refinancing risk.

ESG considerations

KIPCO continues to benefit from support from its majority shareholder which is linked with Kuwait's ruling family. Three of the five board directors are part of Kuwait's ruling family with the Chairperson, Sheikh Hamad Sabah Al Ahmad Al Sabah, being the son of the ruler of Kuwait Members of the family and the uncle of the other two directors, Sheikh Abdullah Nasser Sabah Al-Ahmed Al-Sabah and Sheikha Futtouh Nasser Sabah Al-Ahmad Al-Sabah. Through Al Futtooh Holding (AFH), which along with its affiliates owns a 65% stake in KIPCO, of which 45% is direct. Specifically, the rating takes into account support given to KIPCO by AFH in the past, which includes purchasing treasury shares over time, more recently flexibility in adjusting dividend payments (25 fils to 10 fils per share) and fully underwriting the rights issue. In addition, we recognize that KIPCO's shareholders could provide it with access to support, either directly or indirectly, at the level of some of its investments.

The company has a financial target of 20% to 30% net debt to portfolio value, of which Moody's estimates was around 29% as of 31 December 2019.

Liquidity analysis

KIPCO at the holding level has a healthy liquidity position, with about $1.5 billion of cash (post KD 95.1 million rights issuance and $500 million EMTN raised October 2019) while gross debt stood at about $2.6 billion. These cash balances can cover the holding company's debt obligations up until 2023 (Baa for Liquidity sub-factor). Operating costs (rent, personnel, other overhead such as legal costs) at the holding level are manageable at about $30 to $35 million per year. Together with interest expense to be paid in 2020, we expect this to be higher relative to the dividend income, other income and interest income expected to be received in the same year.

KIPCO has a good track record of pre-financing upcoming debt maturities, most recently issuing a $500 million 7-year bond in October 2019 to repay the $500 million bond due in July 2020 and the rights issue in July 2019 to boost its cash balance. Proactive pre-funding and maintaining material cash balance at all times has to a large extent removed refinancing risk (weighted average debt maturity of 4.4 years) and is a mitigating factor to the weak FFO interest coverage.

Rating methodology and scorecard factors

In determining KIPCO's rating, we have applied our Investment Holding Companies and Conglomerates industry methodology, published in July 2018. The scorecard-indicated outcome for KIPCO is Ba1 while the actual assigned rating is a Baa3. The one notch difference indicates KIPCO's weakly positioned business profile supported by its strong liquidity profile and positive considerations around shareholder support.

Exhibit 5

Rating Methodology Grid

Rating Factors				
Kuwait Projects Company (Holding) K.S.C.P.				
Investment Holding Companies Industry Grid	Current 09/30/2019		Moody's 12-18 Month Forward View	
Factor 1 : Investment Strategy (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Investment Strategy	Ba	Ba	Ba	Ba
Factor 2 : Asset Quality (40%)				
a) Asset Concentration	Baa	Baa	Baa	Baa
b) Geographic Diversity	Ba	Ba	Ba	Ba
c) Business Diversity	Ba	Ba	Ba	Ba
d) Investment Portfolio Transparency	Baa	Baa	Baa	Baa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Estimated Market Value-based Leverage (MVL) (20%)				
a) Estimated Market Value-Based Leverage	Baa	Baa	Baa	Baa
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	0.6x	Caa	0.6x - 0.8x	Caa
b) Liquidity	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard Indicated Outcome		Ba1		Ba1
b) Actual Rating Assigned				Baa3

This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures. All figures are based on parent level (stand-alone) numbers.
Source: Moody's Investors Service

APPENDIX

Exhibit 6

Peer Group

Peer Comparison	KIPCO (Baa3, Sta)	Koc Holding (B1, neg)*	OYAK (B1, neg)*
In $ millions	**Dec-19E**	**Sep-19**	**Dec-18**
Estimated Portfolio Value (excluding cash)	3,623	8,219	7,610
Listed vs unlisted % (excluding cash)	57% / 43%	92% / 8%	39% / 61%
Gross Debt (incl. guarantees)	2,642	2,250	1,545
Cash	1,517	2,668	1,982
Net Debt / (Cash)	1,125	-418	-437
Methodology Scorecard			
Investment Strategy	Ba	Baa	Baa
Asset Concentration	46.8% (Baa)	45.3% (Baa)	53% (Ba)
Geographic Diversity	Ba	B	B
Business Diversity	Ba	Baa	Baa
Investment Portfolio Transparency	Baa	A	Baa
Financial Policy	Baa	A	A
Market Value Leverage	31% (Baa)	-5.1% (Aaa)	-5.7% (Aaa)
FFO Coverage	0.6x (Caa)	5.9x (Aa)	3.3x (Aa)
Liquidity	Baa	Aaa	Aaa
Scorecard Indicated Outcome	Ba1	A2	A3

*Koc Holding and OYAK's ratings are constrained by the Government of Turkey's foreign currency ceiling of B1 neg. For Koc Holding, the data is based on market prices of listed investments as of 31 Dec 2019.

Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
KUWAIT PROJECTS COMPANY (HOLDING) K.S.C.P.	
Outlook	Negative
Issuer Rating	Baa3
ST Issuer Rating	P-3
KUWAIT PROJECTS CO SPC LIMITED	
Outlook	Negative
Bkd Senior Unsecured	Baa3
Bkd Other Short Term	(P)P-3

Source: Moody's Investors Service

Endnotes

1 Issuer comment: OSN disposal scenario would improve financial flexibility but increases concentration to financial services

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