

**Rating Action: Moody's downgrades KIPCO's ratings to Ba2 from Ba1, maintains negative outlook**

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19 Aug 2021

London, 19 August 2021 -- Moody's Investors Service ("Moody's") has today downgraded Kuwait Projects Company (Holding) K.S.C.P. (KIPCO) Corporate Family Rating (CFR) to Ba2 from Ba1 and the Probability of Default Rating (PDR) to Ba2-PD from Ba1-PD. Concurrently, Moody's downgraded to (P)Ba2 from (P)Ba1 the provisional ratings assigned to the senior unsecured \$3 billion Euro Medium Term Note (EMTN) program issued by Kuwait Projects Co SPC Limited and to Ba2 from Ba1 the ratings on the backed senior unsecured bonds due in 2023, 2026 and 2027 issued by Kuwait Projects Co SPC Limited. Moody's also affirmed Kuwait Projects Co SPC Limited's (P)NP backed short term rating. The outlook on all ratings remains negative.

"Today's rating action reflects the view, that despite the rights issue which KIPCO recently announced, the company's market value leverage will remain elevated above what is required for the Ba1 CFR." says Julien Haddad, a Moody's Vice President - Senior Analyst and local market analyst for KIPCO. "The rating action also reflects KIPCO's continued cash burn and weak interest coverage on the back of a substantial decrease in dividend income in 2021."

A full list of affected ratings is provided at the end of this press release.

#### RATINGS RATIONALE

On 4 August, KIPCO announced that it is planning to raise its capital by KD80 million (\$266 million). This amount will not be sufficient to improve market value leverage (MVL) significantly from 48.5% as of June 2021 in order for it to remain below the guidance for downgrade of 40% at the Ba1 CFR level. Moody's expects that KIPCO's MVL, following the increase in capital, will be in the 40%-45% by end of 2021, depending on KIPCO's cash burn and the recovery of the valuation of some of KIPCO's listed assets, or the lack thereof.

Moody's expects KIPCO to generate negative free cash flow (FCF) in 2021, in line with previous years, driven by much lower dividend income in 2021, partially offset by lower interest expense. Moody's also anticipates KIPCO to use some of its cash to inject equity into its subsidiaries, such as Panther Media Group Limited (PMGL, parent company of Orbit Showtime Network (OSN)), or Gulf Insurance Group (GIG), which will result in lower cash amounts at KIPCO level.

While not sufficient to improve the MVL below Moody's guidance for a downgrade, the rights issue nevertheless shows that its majority owners, Al Futtooh Holding (AFH), which along with its affiliates owns a 65% stake in KIPCO and is linked to Kuwait's royal family, remains supportive. AFH has a track record in providing KIPCO with support in the past, including purchasing treasury shares over time, flexibility in adjusting dividend payments and fully underwriting the rights issue in 2019, and more recently acquiring a piece of land from KIPCO, which is another form of implicit support from the shareholders.

KIPCO's Ba2 CFR continues to reflect (1) the portfolio of companies' dominant market positions in the financial services and pay TV industries within the MENA region; (2) the historical track record of maintaining a strong, albeit weakening, liquidity profile with \$589 million in cash at holding level as of June 2021 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 more than 50% of KIPCO's investment portfolio value (excluding cash); (2) capital reinvestment strategy within its subsidiaries which results in low dividends up streamed and a negative FFO interest coverage ratio at holdco level as of June 2021; and (3) the geographical concentration in MENA, that has areas of heightened geopolitical and macroeconomic risks.

#### LIQUIDITY

KIPCO at the holding level has a healthy liquidity position, with about \$589 million of cash while gross debt stood at about \$2.2 billion as of June 2021. These cash balances, in addition to the KD80 million (\$266 million)

that the company will raise from the rights issue can cover the holding company's debt obligations up until the \$500 million bond due in March 2023. Moody's expects dividend and other income in 2021 to be well below the sum of operating costs (rent, personnel, other overhead such as legal costs) at the holding level of approximately \$30 million to \$35 million and interest expense of \$115 million to be paid in 2021.

#### RATIONALE FOR NEGATIVE OUTLOOK

The negative rating outlook reflects Moody's view that the rating is currently weakly positioned in its category because of the high leverage and the very low interest coverage. The negative outlook also reflects the challenging operating environment that KIPCO will continue to face over the course of the next 12-18 months.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

It is unlikely for KIPCO's ratings to be upgraded given the negative outlook. The outlook could be changed to stable if (1) KIPCO's MVL decreases to around 35% on a sustainable basis, in line with the company's stated financial policy; and (2) its liquidity position remains healthy, with management addressing upcoming debt maturities well in advance.

The ratings could be downgraded if (1) KIPCO's MVL metric remains above 40% on a sustained basis; (2) the company's portfolio concentration becomes more material; (3) FFO interest coverage fails to improve to 1.0x; and (4) liquidity deteriorates because of negative free cash flows, upcoming debt maturities or additional equity injections into OSN or other investments.

#### LIST OF AFFECTED RATINGS

##### Affirmations:

..Issuer: Kuwait Projects Co SPC Limited

...BACKED Other Short Term, Affirmed (P)NP

##### Downgrades:

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

...LT Corporate Family Rating, Downgraded to Ba2 from Ba1

...Probability of Default Rating, Downgraded to Ba2-PD from Ba1-PD

..Issuer: Kuwait Projects Co SPC Limited

...BACKED Senior Unsecured Medium-Term Note Program, Downgraded to (P)Ba2 from (P)Ba1

...BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to Ba2 from Ba1

##### Outlook Actions:

..Issuer: Kuwait Projects Co SPC Limited

...Outlook, Remains Negative

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

...Outlook, Remains Negative

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Investment Holding Companies and Conglomerates published in July 2018 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1125855](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1125855). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

The local market analyst for this rating is Julien Haddad, +971 (423) 795-39.

#### COMPANY 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 negative), 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.

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