

Moody's downgrades KIPCO's ratings to Ba3 from Ba2, maintains negative outlook

Rating Action | 6 min read | 14 Dec 2023 | Moody's Investors Service

Paris, December 14, 2023 -- Moody's Investors Service (Moody's) has today downgraded Kuwait Projects Company (Holding) K.S.C.P.'s (KIPCO) Corporate Family Rating (CFR) to Ba3 from Ba2 and the Probability of Default Rating (PDR) to Ba3-PD from Ba2-PD. Concurrently, Moody's downgraded to (P)Ba3 from (P)Ba2 the provisional ratings assigned to the backed senior unsecured \$3 billion Euro Medium Term Note (EMTN) program issued by Kuwait Projects Co SPC Limited and to Ba3 from Ba2 the ratings on the backed senior unsecured bonds due in 2026 and 2027 issued by Kuwait Projects Co SPC Limited. Moody's also affirmed Kuwait Projects Co SPC Limited's (P)NP backed other short term rating. The outlook on all entities remains negative.

RATINGS RATIONALE

Today's rating action reflects Moody's expectation that KIPCO's market value leverage (MVL) will remain above 40%, which is higher than what the rating agency originally anticipated. This is partially driven by (1) a negative free cash flow of around \$75 million in 2023; and (2) KIPCO's investments in its holding companies such as Panther Media Group Ltd (OSN), including its investment in Anghami Inc. (Anghami). KIPCO announced in November that OSN signed a conditional binding agreement with Anghami to combine its streaming platform OSN+ with Anghami and to inject up to \$50 million in Anghami for a majority stake in the company.

Moody's estimates net debt to reduce by around \$150 million in 2023. This is offset by a decrease in the company's portfolio value, partly because of the decrease of the market value of some of KIPCO's holdings. The combination of these factors will lead to KIPCO's MVL ratio remaining elevated above 40%, which more appropriately positions KIPCO at the Ba3 rating level. Assuming KIPCO is able to further divest some non-core assets, Moody's expects MVL to remain at around 43%-45% in 2024, a level similar to what is forecasted for 2023.

Moody's also expects KIPCO to generate a negative free cash flow of around \$75 million in 2023. This is because dividend and interest income in total of about \$112 million will not be sufficient to cover the company's interest expense of around \$164 million and operating costs (rent, personnel, other overhead such as legal costs) of around \$23 million. Moody's forecasts an improvement in free cash flow in 2024,

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maintaining a strong liquidity profile with the expectation of around \$500 million in cash at holding level as of December 2023 and the propensity to actively prefund debt maturities to remove refinancing risk; (3) pro-active steps being taken by the KIPCO's management to strengthen operating and financial performance of major holdings; and (4) shareholder linkages with Kuwait's ruling family.

The ratings also capture (1) the high asset concentration with KIPCO's three largest holdings making up close to 50% of KIPCO's investment portfolio value (excluding cash); (2) capital reinvestment strategy within its subsidiaries which results in low dividends up streamed and the expectation of a low FFO interest coverage ratio at holdco level as of December 2023; and (3) the geographical concentration in MENA, that has areas of heightened geopolitical and macroeconomic risks.

LIQUIDITY

KIPCO at the holding level has an adequate liquidity position. Moody's expects KIPCO to have cash balances of around \$500 million relative to about \$2.6 billion in debt at the end of 2023. These cash balances include the cash proceeds from the sale of GIG and will be sufficient to cover the holding company's debt obligations over the course of the next 12 months as well as potential equity injections into some of its holdings. Moody's expects KIPCO to have a negative free cash flow in 2023 and 2024 as operating costs (rent, personnel, other overhead such as legal costs) and interest expense will be lower than dividend and other income. KIPCO has not paid dividends in 2023.

The Ba3 CFR assumes that KIPCO will continue to take a pro-active approach in financing its upcoming debt maturities, benefitting from the increased liquidity in the Kuwaiti banking sector on the back of the significant increase in oil prices since the beginning of 2022.

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 MVL and the low interest coverage ratio.

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 below 40% on a sustainable basis; and (2) its liquidity position remains healthy, with management addressing upcoming debt maturities well in advance.

The ratings could be upgraded if (1) KIPCO's MVL metric decreases to below 35% on a sustained basis; (2) FFO interest coverage well above 1.5x; and (3) liquidity remaining healthy.

The ratings could be downgraded if (1) KIPCO's MVL metric increases to above 45% on a sustained basis; (2) the company's portfolio concentration becomes more material; (3) FFO interest coverage fails to

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The principal methodology used in these ratings was investment holding companies and conglomerates published in April 2023 and available at <https://ratings.moody.com/rmc-documents/401316>.

Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

The local market analyst for these ratings 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 stable), Saudia Dairy and Foodstuff Company (SADAFCO) and EQUATE Petrochemical Co. K.S.C.C (Baa2 stable). 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, with direct holding of 31.9%.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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24 May 2023 Moody's Investors Service

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