

Rating Action: Moody's confirms ACC's Ba2 CFR; negative outlook

10 Sep 2020

London, 10 September 2020 -- Moody's Investors Service ("Moody's") has confirmed Arabian Centres Company's (ACC) Ba2 corporate family rating (CFR). Moody's has also confirmed the Ba3 rating on the USD500 million sukuk due in 2024 issued by Arabian Centres Sukuk Limited. At the same time, Moody's has changed the outlook to negative from ratings under review. This concludes the review initiated on 26 May 2020.

"The negative outlook reflects the challenging operating environment ACC will face due to the business disruptions caused by the outbreak of the coronavirus", says Julien Haddad, a Vice President -- Senior Analyst, and the local market analyst on ACC. "The confirmation of the CFR reflects the view that ACC has good liquidity to withstand the cash flow impact stemming from discounts on rents provided to the retailers and that leverage will increase to a level still commensurate with the Ba2 CFR".

RATINGS RATIONALE

The rapid and widening spread of the coronavirus outbreak and the deteriorating global economic outlook are creating a severe and extensive credit shock across many sectors, regions and markets. The retail real estate segment is one of the sectors most affected by the shock given the closure of malls and falling retail sales which has been putting negative pressure on the financial health of retailers. Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

The confirmation of the Ba2 CFR reflects the company's progress in renewing leases despite the challenging operating environment and Moody's understanding that lease renewal rates have been relatively stable. During the first quarter of FY2021, ACC renewed 750 leases, decreasing the percentage of leases expiring in calendar year 2020 to 21.1% from 38.5% as of March 2020.

The confirmation of the ratings also reflects ACC's good liquidity despite the lost rental income because of discounts agreed with tenants for the lock down months. As of June 2020, ACC had SAR921 million of cash and cash equivalents, which, in addition to an expected SAR1 billion of funds from operations are more than sufficient to cover debt repayments of SAR90 million, capital spending of SAR610 million and dividend payments of SAR423 million over the course of the next twelve months. However, Moody's notes that ACC has limited headroom under some of its maintenance covenants. The rating assumes that ACC will obtain waivers or amendments from its lenders sufficiently in advance of the next reporting period.

With the exception of food anchors and other essential service providers, ACC's shopping centres have been closed for a period of six weeks between March and April because of lock down measures imposed by the local authorities. Footfall fell by more than 75% and collections decreased significantly during the lockdown months. While both metrics have improved during the month of July, they are yet to recover to pre-lockdown levels.

In order to support its tenants, ACC has waived 6 weeks of rent to all its tenants affected by the lockdown and provided additional discounts to tenants in the fashion, food and beverage as well as the entertainment sectors. ACC also suspended any lease escalations for calendar years 2020 and 2021. ACC estimates the total impact of those measures on revenues to be around SAR420 million, with SAR144 million already recorded up to June 2020. ACC also recorded a cash outflow of SAR320 million during the same period.

As a result, ACC's leverage (Moody's adjusted net debt to EBITDA) deteriorated to 6.7x for the last twelve months (LTM) ending June 2020 from 5.4x for FY2019. The increase in leverage was also driven by an increase in impairment loss on account receivables, with ACC recording a one-time impairment of more than SAR60 million in the fourth quarter FY2020 related to COVID. Moody's expects ACC's leverage to weaken further to 7.3x for FY2021 before improving to levels around 6.6x in 2022, driven by further pressure on rents and collections. Moody's notes that the amount of overdue receivables remains sizeable and that ACC has only partly provided for those receivables despite some overdue for up to two years. In addition, Moody's prior expectation that the balance of receivables with related parties would reduce materially has not been met over

the last twelve months. As of June 2020, gross receivables from third parties were SAR451 million, with an additional SAR209 million for rentals due from related parties (on which no provisions were taken). Moody's understands that management is taking actions to improve collections including moving to monthly billing and that overdue rent from related parties will materially decline over the next few quarters.

ACC's Ba2 CFR is underpinned by (1) the long-term positive fundamentals for shopping mall operators in Saudi Arabia, supported by favorable demographics and low retail GLA per capita; (2) the company's strong market position as the largest retail mall operator in Saudi Arabia with good growth opportunities in the medium to long term; (3) ACC's high-quality retail property portfolio, with a stable, albeit slightly decreasing, portfolio occupancy rates of around 91.4% as of 30 June 2020; (4) a diversified tenant base representing local and international brands; and (5) a diversified asset base made up of three super-regional, twelve regional and six community malls in the largest cities of Saudi Arabia with a market value of SAR22.1 billion (\$5.9 billion) as of June 2020.

The Ba2 CFR also factors in (1) ACC's concentration in a single country, Saudi Arabia, Government of (A1 negative); (2) renewal risk on land leases, with the Mall of Dhahran's land lease due in five years and representing 15% of revenue; (3) a high portion of tenant leases expiring over the next two years; (4) a high level of secured debt of 74% of total debt (excluding lease liabilities); and (5) significant related party transactions.

The Ba3 rating on the outstanding sukuk is one notch lower than the CFR to reflect its subordination to secured debt which represent the predominant class of debt in the capital structure.

RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook reflects the challenging operating environment that ACC continues to face, despite the re-opening of all the malls in its portfolio. Moody's expects Saudi Arabia's GDP to contract in 2020 by 4.5% in 2020 and to rebound by 2.9% in 2021.

The negative outlook also reflects the risk of ACC's rent collections not increasing to levels in line with pre-COVID resulting in an increase in the company's receivables book (including related-party receivables), which was already high compared to peers as of June 2020.

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

In light of the negative outlook, an upgrade is unlikely at the moment. The outlook could change to stable from negative if ACC's operating performance continues improving, in line with July, reflected by increasing footfall, rent collections and occupancy ratios. At the same time, other factors that could lead to changing the outlook to stable from negative include (1) Net debt to EBITDA decreasing to below 6.5x; and (2) Fixed charge coverage remaining above 2.5x.

ACC's ratings could be under pressure if the operating environment in Saudi Arabia deteriorates, leading to lower occupancy rates and deteriorating operating cash flows, including lower collections and higher receivables from related and third party tenants. At the same time, other factors that could lead to downgrading ACC's ratings include (1) Net debt to EBITDA increasing above 7.5x; and (2) Fixed charge coverage decreasing below 2.0x.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2018 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1095505. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

CORPORATE PROFILE

Arabian Centres, listed on the Tadawul Stock exchange, is the largest owner and operator of retail malls in Saudi Arabia with a total of 21 existing malls that cover a total leasable area (GLA) of over 1.2 million square meters (sqm). The portfolio has an estimated fair value of SAR22.1 billion (\$5.9 billion) as of 30 June 2020.

For the LTM ending June 2020, ACC reported revenues were SAR 2.1 billion (\$560 million) with net income of SAR 563.7 million (\$150 million).

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

REGULATORY DISCLOSURES

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Mikhail Shipilov
Asst Vice President - Analyst
Corporate Finance Group
Moody's Investors Service Limited, Russian Branch
7th floor, Four Winds Plaza
21 1st Tverskaya-Yamskaya St.
Moscow 125047
Russia
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Mario Santangelo
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR

REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an

entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.