FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Emirates REIT Sukuk 'BB+(EXP)'/'RR2'

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Fitch Ratings - London - 05 Dec 2024: Fitch Ratings has assigned Emirates REIT (CEIC) PLC's (Emirates REIT) USD205 million senior secured sukuk (trust certificates), issued through Emirates REIT Sukuk III Limited (ERS3L), an expected rating of 'BB+(EXP)'. The Recovery Rating is 'RR2'.

ERS3L, also the trustee and purchaser, is a bankruptcy-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 MaplesFS Limited as share trustee.

Emirates REIT plans to use proceeds from the issue primarily to refinance its outstanding USD200 million sukuk that matures in December 2025.

The assignment of the sukuk's final rating is contingent on the amount of the planned debt issue being largely in line with our assumptions and the receipt of final documentation conforming to information already received.

KEY RATING DRIVERS

The sukuk's expected rating is at the maximum two notches above Emirates REIT's Long-Term IDR of 'BB-', which is on Stable Outlook, in line with our criteria. This reflects Fitch's expectation of superior recoveries in the event of a default, which is denoted by its 'RR2'.

Fitch believes that the trustee's ability to satisfy payments due on the certificates ultimately depends on Emirates REIT satisfying its secured payment obligations to the trustee under the transaction documents. The issue will refinance the outstanding USD200 million of certificates issued in December 2022 for an initial total USD380 million, which have been partially redeemed over the past two years. As the new debt will mature in December 2025, it will extend Emirates REIT's debt maturities and improve its liquidity, but will not affect Fitch's overall view of its leverage or funding profile.

The underlying assets in this transaction are described as wakala assets. These assets include the commercial office space within the Index Tower, located in Zabeel Second, DIFC, Dubai. Emirates REIT is responsible for managing the wakala portfolio to maintain the value of the wakala assets at least equal to the aggregate face amount of the outstanding certificates.

In addition to Emirates REIT's propensity to ensure repayment of the sukuk, the company is required to ensure full and timely repayment of ERS3L's obligations, due to its role and obligations under the sukuk structure and documentation, especially, but not limited to the features below:

Under the servicing agency agreement, Emirates REIT, as servicing agent, will ensure sufficient funds are available to meet the periodic distribution amounts payable by the trustee under the certificates on each periodic distribution date. It can take other measures to ensure that there is no shortfall and that the payment of principal and profit are paid in full and in a timely manner.

The trustee will have the right, under a purchase undertaking, to require Emirates REIT to purchase all of the trustee's rights, title, interests, benefits, and entitlements in, to, and under the wakala assets on the dissolution date at an exercise price.

The exercise price payable by Emirates REIT to the trustee is intended to fund the dissolution distribution amount payable by the trustee under the certificates, which should equal the sum of (a) the outstanding face amount of the certificates; and (b) any accrued, but unpaid, periodic distribution amounts; and (c) any other amounts payable following a total loss event.

Following the occurrence of a total loss event, the proceeds of the insurances and any total loss shortfall amount will be credited to the transaction account and will be used by the trustee to redeem all of the certificates at the dissolution distribution amount on the 61st day after the total loss event.

If the servicing agent fails to insure the assets against a total loss event, it will immediately deliver a written notice of this non-compliance, along with details, to the trustee and the delegate. This will constitute an obligor event. It will also be an obligor event if Emirates REIT repudiates or challenges the validity, legality, the binding nature, enforceability or sharia compliance of any part of a transaction document to which it is a party. It will also be an obligor event if Emirates REIT performs or causes any action that indicates an intention to repudiate or challenge, these conditions or any transaction document to which it is a party.

The payment obligations of Emirates REIT under the transaction documents will be direct, unconditional, unsubordinated and secured obligations of the obligor. These obligations will at all times rank as follows:

senior to all its present and future unsecured obligations from time to time outstanding, to the extent of the value of the mortgages

at least equally with all its other present and future unsecured and unsubordinated obligations from time to time outstanding, to the extent such obligations are in excess of the value of the mortgages

effectively subordinated to all its present and future unsecured obligations from time to time outstanding that are secured by property and assets that do not secure the obligor's obligations, to the extent of the value of the property and assets securing such obligations.

The sukuk issue includes negative pledge provisions, financial reporting obligations, Emirates REIT events, change- of-control clauses, restrictive covenants, asset disposal events, and cross-default terminology.

The sukuk requires Emirates REIT to maintain a profit coverage ratio - calculated as free cash flow (excluding acquisitions or proceeds from disposals) before deducting finance charges/finance charges - above 1.75x for the first three years, and above 2.25x afterwards. The improving portfolio's leasing activity should allow the company to operate within this covenant, although with limited headroom. Fitch does not forecast valuation changes in its credit assessment; however, we acknowledge management's intention to operate under a prudent financial policy that is compatible with the 40% financing-to-value threshold indicated in the obligor covenant. Liquidity is expected to remain above the USD10 million liquidity covenant. Emirates REIT's management plans to retain minimum liquidity, primarily cash, of USD15 million.

Certain aspects of the transaction will be governed by English law, while other aspects will be governed by the laws of DIFC 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 trust certificates reflects the agency's belief that Emirates REIT would stand behind its obligations.

Fitch does not express an opinion on the trust certificates' compliance with sharia principles when assigning ratings to the certificates to be issued.

DERIVATION SUMMARY

The sukuk's rating is derived from Emirates REIT's Long-Term IDR and is in line with its senior secured rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

ERS3L's Rating:

-A downgrade of Emirates REIT's senior secured rating

- Adverse changes to the roles and obligations of Emirates REIT and ERS3L under the sukuk's structure and documents

Emirates REIT's IDR:

- Largest single asset at more than 70% of the portfolio value

- Office WALB decreasing to less than 2.5 years, combined with vulnerability to falling rental values

- Net debt/EBITDA at more than 8x

- Net interest cover lower than 1.5x

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

ERS3L's Rating:

-An upgrade of Emirates REIT's senior secured rating

Emirates REIT's IDR

- Meaningful reduction in asset concentration risk

- Office WALB of over three years, high occupancy, and rental stability

- Net debt/EBITDA at less than 6x

- Net interest cover higher than 2.0x

LIQUIDITY AND DEBT STRUCTURE

Emirates REIT's liquidity consisted of USD22.5million cash at end-1H24. The cash balance was boosted by the AED74 million (USD20 million) proceeds from the disposal of Trident Grand Mall, which partly reduced its outstanding sukuk to USD305 million, and by the Office Parks disposal proceeds of AED720 million (USD196 million), which repaid associated debt and reduced the sukuk further to around USD200 million.

The existing sukuk matures in December 2025 and the Islamic financing (USD50 million) matures in March 2033. The profit share on the existing sukuk had risen to 11%, incentivising Emirates REIT to refinance its December 2022 restructured debt. The planned four-year USD205 million sukuk will refinance the existing sukuk with the collateral of Index Tower. The Islamic financing is secured by the GEMS school.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visithttps://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY
Emirates REIT Sukuk III Limited				
senior secured	LT	BB+(EXP)	Expected Rating	RR2

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Diego Della Maggiore
Director
Primary Rating Analyst
+44 20 3530 1797
diego.dellamaggiore@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

John Hatton
Managing Director
Secondary Rating Analyst
+44 20 3530 1061
john.hatton@fitchratings.com

Manu Nair
Senior Director
Committee Chairperson
+44 20 3530 1255
manu.nair@fitchratings.com

MEDIA CONTACTS

Tahmina Pinnington-Mannan
London
+44 20 3530 1128
tahmina.pinnington-mannan@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Sukuk Rating Criteria (pub. 13 Jun 2022)

Country-Specific Treatment of Recovery Ratings Criteria (pub. 03 Mar 2023)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Emirates REIT Sukuk III Limited	-

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