

Research Update:

# Ezdan Holding Downgraded To 'CCC' From 'B-' On Higher Risk Of Default; Issue Rating Lowered To 'CCC-'; Outlook Negative

February 24, 2021

## Rating Action Overview

- Qatari real estate company Ezdan Holding Group Q.S.C. has not yet secured a new credit line and, in our view, faces near-term refinancing risk related to its \$500 million senior unsecured sukuk maturing May 18, 2021.
- In addition, Ezdan has about Qatari rial (QAR) 900 million of secured debt maturing in 2021 and QAR2.7 billion of sukuk and debt maturing in 2022.
- Despite discussing payment option plans, the company is still in the negotiation stage of securing a committed credit line to address its significant upcoming debt maturities and amortization schedule.
- We are lowering our long-term issuer credit rating on Ezdan to 'CCC' from 'B-' and our issue ratings on its sukuk to 'CCC-' from 'CCC+' and removing them from CreditWatch, where we placed them with negative implications May 5, 2020.
- The negative outlook on Ezdan reflects narrowing liquidity and high debt balances, which could lead to a distressed exchange, debt restructuring, or default over the next 3-12 months.

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## Rating Action Rationale

**The downgrade reflects our view that near-term refinancing risk is high because Ezdan is still in negotiations to secure a new credit line.** Its US\$500 million senior unsecured sukuk matures May 18, 2021. In addition, Ezdan has about QAR900 million of debt maturing in 2021. While we understand that discussions are ongoing and the shareholder remains committed to support the company, Ezdan does not have access to any committed credit facilities at this stage. With less than three months remaining to maturity, we believe the company's refinancing options are narrowing and the risk of restructuring, distressed exchange, or default is increasing. Without a committed refinancing plan or an equity contribution from its shareholder, we do not believe that Ezdan has sufficient cash or liquid assets on its balance sheet to repay its debt.

**We expect that there will be no covenant compliance breach , as per information provided by the company for year-end 2020.** However, based on the recent track record, we do not expect potential covenant compliance issues would lead to debt acceleration. The covenant breach at year-end 2019 did not result in debt acceleration. We understand that investors preferred not to accelerate the debt given that some instruments are subordinated to the rest of the debt and have near-term maturities. The company has continued to service its debt.

**Ezdan's liquidity is insufficient to repay its large maturing debt.** Over the 12 months from Dec. 31, 2020, we anticipate the company will need more than QAR2.8 billion to cover its maturing debt and scheduled amortization. As per the preliminary financial results for year-end 2020, we believe that cash of about QAR600 million and operating cash flows that we estimate as a liquidity source will be insufficient. In 2022 Ezdan has QAR2.7 billion of maturing debt of which \$500 million (about QAR1.8 billion) is sukuk maturing April 5, 2022. Despite some progress on refinancing of bank facilities over the past couple of years, the company has significant debt repayment obligations in the near term, elevating the prospects of a distressed exchange, debt restructuring, or default.

**We expect Ezdan's operating performance to improve slightly in 2021-2022, but not enough to materially reduce the very high leverage.** We expect the company's revenue will increase by about 10% in 2021 due to expected deliveries (2,500 units in 2021), an incremental recovery in residential rental rates, and improved occupancy for hotels, suites, and malls. We expect revenue to grow by about 20% in 2022 leading up to the FIFA World Cup in 2022, where we anticipate seeing positive growth in all segments, supported by an additional residential delivery (2,000 units). We expect Ezdan to generate annual EBITDA of QAR1.0 billion-QAR1.1 billion and positive free operating cash flow (FOCF) of QAR140 million-QAR300 million in each of 2021 and 2022. In our view, the pace of expected performance improvement will be overshadowed by Ezdan's substantial debt of QAR14.6 billion as of Dec. 31, 2020. At year-end 2020, adjusted debt to EBITDA was about 18.1x, from 14.5x in 2019, and we expect that it will remain at 14.0x-16.0x in the forecast period.

## Outlook

The negative outlook on Ezdan reflects near-term refinancing risk, which could lead to a debt restructuring, distressed exchange, or default over the next 3-12 months.

## Downside scenario

We could lower the rating if Ezdan engages in a debt restructuring or exchange that we consider distressed, or misses an interest or principal payment.

## Upside scenario

We could raise the rating if Ezdan refinances its sukuks maturing in 2021 and 2022. An upgrade would depend on our expectation of stable operating performance--for instance, EBITDA interest coverage nearing 1.0x with positive FOCF.

## Liquidity

We continue to assess Ezdan's liquidity as weak because we foresee significant shortages over the next 12 months. This reflects sizable debt maturities of about QAR2.8 billion in 2021, of which QAR1.8 billion is the May 2021 sukuk repayment. The company also faces significant debt maturities over the next 24 months, including the \$1 billion of sukuk (May 2021 and April 2022). Ezdan has a record of refinancing bank debt, so we see lower liquidity risk to its bank debt. We expect sources of liquidity to uses to be well below 1.0x over the coming 12 months from Dec. 31, 2020.

Principal liquidity sources are:

- Unrestricted cash and cash equivalents of about QAR600 million.
- Funds from operations of QAR300 million-QAR400 million over the coming 12 months.

Principal liquidity uses are:

- Capital expenditure of QAR180 million in the next 12 months.
- Debt maturities of about QAR2.8 billion in the next 12 months.
- Working capital outflow of QAR60 million.
- Dividends payable of QAR60.1 million (dividends are amortized and related to previous dividends payable, and not new ones).

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Research Update: Ezdan Holding Group 'B-' Rating Remains On Watch Negative Because Of Ongoing Uncertainty About Sukuk Repayment Options, Nov. 26, 2020

## Ratings List

### Downgraded; CreditWatch/Outlook Action

	To	From
<b>Ezdan Holding Group Q.S.C.</b>		
Issuer Credit Rating	CCC/Negative/--	B-/Watch Neg/--
<b>Ezdan Sukuk Co. Ltd.</b>		
Senior Unsecured	CCC-	CCC+/Watch Neg

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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