



Rating Rationale

**Sumou Real Estate Company
(Closed Joint Stock Company)**

October 2022

1.1 TASSNIEF Opinion:

<i>Sumou Real Estate Company – Entity Rating</i>	
<i>Domicile</i>	<i>Saudi Arabia</i>
<i>Long-Term Rating</i>	<i>BBB+</i>
<i>Outlook</i>	<i>Stable</i>
<i>Short-Term Rating</i>	<i>T-3</i>
<i>Rating Watch</i>	<i>No</i>
<i>Action Type</i>	<i>Assigned</i>
<i>Last Rating Action</i>	<i>N/A</i>

Tassnief has assigned a long-term entity rating of "Triple B Plus" (BBB+) and short-term entity rating of "T-3" to Sumou Real Estate Company. The outlook on the rating is "Stable".

1.2 Rating Rationale:

The assigned ratings are underpinned by the established track record, strong market position, experienced management team, and strong sponsor profile of the company. The Ratings also take into consideration the Company's revenue sustainability and business diversification supported by Kingdom's wide geographical presence, adequate segment, and operational diversity. In addition, the financial profile of the company is supported by healthy margins, low-leveraged capital structure and a low working capital intensity. Ratings are also constrained by elevated industry risk characterized by high cyclical, competitive intensity and elevated execution and selling risk.

The governance framework is considered satisfactory and is expected to improve over the next few years, given the ongoing listing process for Tadawul. However, in line with international best practices, the governance framework has room for improvement through establishment of an independent internal audit function and development of a succession plan and a family charter.

In addition, the ratings reflect the Company's low-risk business profile supported by a low-risk business model, limited exposure to volatility in raw material prices and good revenue visibility based on growing project pipeline. Most revenue comes from the management fees that it receives from customers as project Development Management Fee, as a fixed portion of the project's value, which continues to be the main growth driver for the Company. In addition, the Company maintains a sizeable land-bank and key investments in line with company's strategic growth plans.

Furthermore, financial risk profile factors in the Company's healthy margins, although the quantum of margins depends largely on the revenue mix. Capitalization indicators are supported by sizeable paid-up capital and low-leveraged capital structure. The liquidity profile is adequate with a table cashflow from operations and satisfactory liquidity buffer on balance sheet.

1.3 Rating Triggers

Ratings remain dependent on increasing scale of operations while sustaining the current low business and financial risk profile. Room for improvement exists in overall governance framework through establishment and effective functioning of internal audit department. Any significant increase in leverage indicators and resultant weakening in cash flow coverages may exert pressure on ratings.

1.4 About the Company

Sumou Real Estate Company ("Sumou Real Estate" or the "Company") is a Saudi Joint Stock Company operating under CR# 2051034841 dated June 2007, issued in Al-Khobar. It is listed on the "Nomu" exchange and in the process of listing on Tadawul. The Head office is in Al-Khobar, with one branch each in Riyadh and Jeddah. It is engaged in the general construction of residential and non-residential buildings, purchasing and selling land and real estate.

RELATED CRITERIA AND METHODOLOGY

Rating Methodology for Corporate (v.2. 2019) can be found on the website:

www.tassnief.com

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