



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. Ratings also factor in sound revenue sustainability and business diversification supported by Kingdom's wide geographical presence, adequate segment, and operational diversity. In addition, the financial profile is supported by healthy margins, low leveraged capital structure and a low working capital intensity business model. However, room for improvement exists in the governance framework. Ratings are also constrained by elevated sector risk for the real estate sector which is characterized by high cyclicity, competitive intensity and elevated execution and selling risk.

The governance framework is considered sound and is expected to improve, given the ongoing listing process for Tadawul. However, in line with international best practices, the governance framework has room for improvement through documentation of succession planning and family charter, along with establishing an internal audit department.

The business risk profile incorporates a low business risk model with limited exposure to volatility in raw material prices and selling risk given sizeable proportion of development management fees in overall business mix. Revenue visibility is reflective of a growing revenue profile and healthy project pipeline. Most revenue comes from development management fees, whereby the company charges a fixed portion of the project value. Going forward, development management will be the key growth driver while the share of developer and builder projects will remain relatively low. In addition, the company has a reasonable land bank and investments which can further develop while some of it is already under development, supporting the company's business plans and financial profile going forward.

Financial risk profile factors in healthy margins, although the quantum of margins depends on the revenue mix. Capitalization indicators are supported by sizeable paid-up capital and low-leveraged capital structure. The liquidity profile draws comfort from the business model whereby sizeable income is from development management; comfort is also drawn from a healthy cash balance.

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 weak 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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