

CREDIT RATING ANNOUNCEMENT

GCR affirms UPDC Real Estate Investment Trust's national scale long term Issuer rating of A_{-(NG)}, Outlook Stable.

Rating action

Lagos, Nigeria, 26 April 2024 – GCR Ratings (GCR) has affirmed the national scale long-term and short-term Issuer ratings of A_{-(NG)} and A2_(NG) respectively accorded to UPDC Real Estate Investment Trust (UPDC REIT or the REIT), with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
UPDC Real Estate Investment Trust	Long Term Issuer	National	A _{-(NG)}	Stable Outlook
	Short Term Issuer	National	A2 _(NG)	-

Rating rationale

The ratings accorded to UPDC Real Estate Investment Trust (UPDC REIT or the REIT) reflect its high-quality asset base, strong leverage profile and improved liquidity assessment. However, these ratings strengths are counter balanced by its relatively small portfolio size when compared with property funds in more developed market.

Our assessment of UPDC REIT's portfolio quality is constrained by its relatively small size, comprising just five properties with a net asset value of NGN27.47Bn (equivalent of USD30.53m) at financial year 2023, which ended 31 December 2023 (2022: NGN26.9Bn). Subsequent to December 2023, one of the commercial properties was sold, although the net asset value increased to NGN30.72Bn as of 31 March 2024 due to revaluation gain, as well as capital gain from the sale of the commercial property. Whilst its portfolio remains concentrated, UPDC REIT is the largest REIT fund in Nigeria.

UPDC REIT's occupancy rate across its properties improved in financial 2023 on the back of an uptick in economic activity and greater demand for space by corporates as employees return to the office. Rental rates have been adjusted upward to reflect the rising inflationary pressure, and the property portfolio appears to be of strong quality in terms of condition and location, supporting the potential for lease escalations. Nevertheless, we believe that the concentrated nature of the tenant base and short lease maturity exposes UPDC REIT to significant income volatility. The REIT manager, Stanbic IBTC Asset Management Limited, anticipates conservative rental income growth for financial 2024, with earnings to be driven by portfolio optimization and cost efficiencies. UPDC REIT is developing an additional asset which is expected to be completed by October 2024. While there are no further developments in the pipeline, UPDC REIT is considering acquisition opportunities in the near term.

Leverage and capital structure are key ratings support. UPDC REIT has maintained ungeared position since inception and its investment policy does not anticipate the need for debt. However, a negligible NGN34.8M in lease liabilities was reported at financial 2023 (2022: NGN17.3M), with future lease payments extending for more than 2 years. While UPDC REIT's ungeared position underpins the accorded ratings, additional rating support is constrained by the unproven ability to manage debt, and lack of demonstrated access to diverse funding sources or the debt capital market.

Liquidity improved slightly with GCR's sources versus uses liquidity coverage estimated at 2.58x over the 12-month period to December 2024. This is on the back of the strong cash holding of about NGN3.6Bn at 31 December 2023 and estimated

cash flows of around NGN1.4Bn for 2024, which should be sufficient to finance its ongoing capital investment (estimated at NGN500M) and for distributions to unitholders, estimated at NGN1.1Bn by 2024. We expect UPDC REIT to maintain adequate liquidity over the outlook period but there could be pressure if portfolio performance weakens.

Outlook statement

The Stable Outlook reflects GCR's view that UPDC REIT will continue to maintain a high-quality property portfolio in terms of condition and location, underpinning lease renewals, earnings sustainability, and future cash flows. Moreover, potential risk factors are limited by the lack of debt.

Rating triggers

Positive rating migration could follow the addition of new income generating assets, a significant reduction in tenant concentration, and contracting longer-tenured leases. These factors would support strong rentals and performance metrics on a sustainable basis.

The ratings would be downgraded if vacancy rates deteriorate further due to non-renewal of any of the maturing leases. This would further constrain earnings and cash flow, and adversely impact liquidity assessment in view of the ongoing capital spending.

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Related criteria and research

Criteria for the GCR Ratings Framework, January 2022

Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, January 2022

GCR Ratings Scales, Symbols & Definitions, May 2023

GCR Country Risk Scores, February 2024

GCR Nigeria Corporate Sector Risk Scores, April 2023

Ratings history

UPDC Real Estate Investment Trust

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	BBB _(NG)	Stable	March 2013
Long Term Issuer	Last	National	A _{-(NG)}	Stable	April 2023
Short Term Issuer	Last	National	A2 _(NG)	--	

Risk score summary

Risk score	
Operating environment	6.00
Country risk score	3.50
Sector risk score	2.50
Business profile	(3.00)
Portfolio quality	(3.00)
Management and governance	0.00
Financial profile	4.50
Leverage & capital structure	3.00
Liquidity	1.50
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Total Risk Score	7.50

Glossary

Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Credit Rating	See GCR Rating Scales, Symbols and Definitions.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Issuer	The party indebted or the person making repayments for its borrowings.
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Horizon	The rating outlook period, typically 18 to 24 months.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Real Estate Investment Trust	A REIT is a company that owns or finances income-producing real estate. REITs are subject to special tax considerations and generally pay out all of their taxable income as distributions to shareholders.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.
Vacancy	In commercial property, usually expressed as a percentage of unoccupied floor space in relation to the GLA.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to UPDC Real Estate Investment Trust. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

UPDC Real Estate Investment Trust participated in the rating process via person interaction and/or via online virtual interaction and via electronic and verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- 2023 audited annual financial statement, and prior four years annual financial statements.
- Full details of the property portfolio.
- Internal and/or external management reports.
- Industry comparative data and regulatory framework.
- Exchange rate source: Central Bank of Nigeria USD1.00 = NGN899.393 (30 December 2023), NGN448.55 (30 December 2022)

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