

## CREDIT RATING ANNOUNCEMENT

GCR affirms UPDC Real Estate Investment Trust's national scale long term Issuer rating of A<sub>(NG)</sub>, Outlook Stable.

### Rating Action

Lagos, Nigeria, 28 April 2023 – GCR Ratings (GCR) has affirmed the national scale long-term and short-term Issuer ratings of A<sub>(NG)</sub> and A2<sub>(NG)</sub> 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 <sub>(NG)</sub>	Stable Outlook
	Short Term Issuer	National	A2 <sub>(NG)</sub>	-

### Rating Rationale

The ratings affirmation of UPDC Real Estate Investment Trust (UPDC REIT or the REIT) balances its strong leverage, solid liquidity assessment, and high-quality asset base against a relatively weak portfolio performance, as well as its small size.

UPDC REIT remains the largest REIT fund in Nigeria, but it is relatively small when compared with property funds in the frontier and developed markets, with only six properties and net assets value of less than USD60m (@NGN448.08/1USD)<sup>1</sup> at financial year 2022, which ended 31 December 2022. The REIT is exposed to significant income volatility due to the concentrated nature of the tenant base, with short lease maturity and volatility in the investment property value. Vacancy rates remain high within its commercial assets due to consolidation of space requirements by the tenants following the adoption of work-from-home model. Furthermore, upward review of rental rates to compensate for the effects of the rising inflation and energy cost is also putting pressure on rental renewal at its pearl hostel property. Notwithstanding, the property portfolio appears to be of strong quality in terms of condition and location, supporting strong potential for lease renewal. The REIT manager, Stanbic IBTC Asset Management Limited, expects conservative rental income for financial 2023 on account of the subdued occupancy position amid slow economic recovery. However, the REIT is developing a new property, and there are efforts towards portfolio optimization and cost efficiency to enhance earnings and returns.

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 NGN17.2M in lease liabilities was reported at financial 2022 (2021: NGN14.7M). The liabilities represent future lease payments of more than 2 years' tenor. While the 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.

The REIT's sources versus uses liquidity coverage is estimated at 1.7x for the 12-month period to December 2023. This is predicated on relatively strong cash flows of around NGN1.0bn by financial 2023 and existing cash holding of about NGN2.0bn at financial 2022, which should be utilised to finance its ongoing capital investment (estimated at NGN787M)

<sup>1</sup> Source: Central Bank of Nigeria

and for distributions to unitholders, estimated at NGN950M. We expect the REIT to maintain sufficient 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

A positive rating migration could follow addition of new income generating assets, a significant reduction in tenant concentration, and attainment of longer-tenured leases which 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.

## Analytical Contacts

**Primary analyst** Femi Atere Sector Head: Corporate and Public Sector Ratings  
Lagos, Nigeria Femi@GCRratings.com +234 1 9049462

**Committee chair** Adekemi Adebambo Chief Ratings Officer  
Lagos, Nigeria Adekemi@GCRratings.com +234 1 9049462

## 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 2022

GCR Country Risk Scores, March 2023

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 <sub>(NG)</sub>	Stable	March 2013
Long Term Issuer	Last	National	A <sub>(NG)</sub>	Stable	April 2022
Short Term Issuer	Last	National	A2 <sub>(NG)</sub>	--	

## RISK SCORE SUMMARY

<b>Risk score</b>	
<b>Operating environment</b>	<b>6.00</b>
Country risk score	3.50
Sector risk score	2.50
<b>Business profile</b>	<b>(3.00)</b>
Portfolio quality	(3.00)
Management and governance	0.00
<b>Financial profile</b>	<b>4.25</b>
Leverage & capital structure	3.00
Liquidity	1.25
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Peer analysis	0.00
<b>Total Risk Score</b>	<b>7.25</b>

## 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 RATINGS

GCR affirms that a.) no part of the ratings 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 tele-conferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from UPDC Real Estate Investment Trust and other reliable third parties to accord the credit ratings included:

- 2022 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.

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