



Credit Rating Announcement

GCR affirms Centum Investment Company Plc's national scale long-term and short-term Issuer ratings of A^{+(KE)}/A1^(KE); Outlook Stable

Rating Action

Johannesburg, 15 December 2021 – GCR Ratings ("GCR") has affirmed Centum Investment Company Plc's national scale long and short term Issuer ratings of A^{+(KE)} and A1^(KE) respectively; Outlook Stable.

| Rated Entity / Issue | Rating class | Rating scale | Rating | Outlook / Watch |
|-------------------------------|-------------------|--------------|--------------------|-----------------|
| Centum Investment Company Plc | Long Term Issuer | National | A ^{+(KE)} | Stable Outlook |
| | Short Term Issuer | National | A1 ^(KE) | |

Rating Rationale

The ratings of Centum Investment Company Plc ("Centum") balance its concentrated investment portfolio against its strong financial profile.

Centum's investment portfolio is sizeable in regional terms, with a valuation of just over KES45bn (including the marketable securities portfolio) at September 2021, but is highly concentrated. The majority of investments are located and operate within Kenya, while there are very large single name (and therefore industry) concentrations within the portfolio. As of September 2021, Centum RE (rated BBB^{+(KE)} by GCR) accounted for around half of the total investment portfolio, with the exposure to real estate comprising around 65%. In addition, all the real estate investees are property developers, which GCR considers to be a particularly risky segment of the real estate market, given its susceptibility to economic cycles and changes in consumer confidence. Centum has indicated its intention to rebalance its portfolio, with real estate investments expected to moderate to 45-55% over the next two years, as it looks to unlock capital from selling an interest in its key asset for redeployment into other growth avenues. GCR would expect the new investments to contribute to a more diverse investment portfolio, which would be important in offsetting the potential loss of scale post the Centum RE unbundling.

GCR considers Centum's proven track record of developing new projects and selling mature investments as a rating strength, as demonstrated by the significant capital gains realised from past exits. Notwithstanding pressures caused by COVID-19 disruptions, half of the investee companies continued to record profits in FY21 and all remained self-funded with no capital calls to Centum. Subsequently improved performances have been evidenced by most companies for the year to date. This attests to the quality of the investment pool, albeit largely underpinned by the dominant asset, Centum RE and the group's commitment to maintain a high amount of high-quality liquid investments. GCR does note that the forthcoming progressive dilution as the most mature asset is sold down will most likely weaken the overall quality of the investment portfolio over the medium term, the extent to which will depend on the growth achieved in the other assets and the new investee companies brought on board.

Centum's debt to investment asset ratio (after applying a conservative haircut to the investment portfolio value) increased to 30% at 1H FY22 from below 25% at 1H FY21, and although remains consistent with the current rating, indicates limited rating headroom. The group is actively involved in evaluating potential investment exits, which should support deleveraging over the next two years as per its stated strategy commitment, however, we do note the current market conditions may exacerbate the timing of such. The group reported KES4bn in gross debt on the company

balance sheet at 1H FY22 (1H FY21: KES1bn), whilst GCR has also included c.KES4.9bn in guaranteed subsidiary debt as part of the debt exposure. GCR also views positively the stronger interest cover ratio of 2.7x reported at 1H FY22 (FY21: 1.4x), uplifted from strong returns generated from the enlarged liquid investment holdings.

Ample liquid cash equivalent holdings support sound liquidity coverage of at least 1.8x over a 12-month basis. Nevertheless, this strong assessment is somewhat mitigated by the inherent cash flow variability in Centum's strategy, given the reliance on asset sales to generate returns.

Outlook Statement

The stable outlook reflects GCR's view that Centum's liquidity will remain robust, with sufficient financial resources to meet debt requirements.

Rating Triggers

We could lower the ratings if the debt to investment asset ratio is not brought back closer to 25% in line with the planned deleveraging, and/or there are any signs that Centum's liquidity is deteriorating. Rating pressure could also result from a substantial loss in scale or deterioration in the quality of the investment portfolio on account of the disposal of any of Centum's core investments. Should the lack of diversification in the investment portfolio worsen, this would also be viewed negatively.

A rating upgrade is unlikely in the short to medium term and would only be considered once Centum evidences a much larger and more diversified portfolio; whilst leverage metrics are sustained at very low levels.

Analytical Contacts

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Risk Score Summary

| Rating Components and Factors | Risk Scores |
|-------------------------------------|-------------|
| Operating environment | 6.50 |
| Country risk score | 4.00 |
| Sector risk score | 2.50 |
| Business profile | 0.00 |
| Portfolio size and diversification | (2.50) |
| Investment quality and track record | 2.50 |
| Management and governance | 0.00 |
| Financial profile | 2.50 |
| Leverage and capital structure | 1.00 |
| Liquidity | 1.50 |
| Comparative profile | 0.00 |
| Group support | 0.00 |
| Government support | 0.00 |
| Peer analysis | 0.00 |
| Total risk score | 9.00 |

Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019

Criteria for Rating Investment Holding Companies, November 2019

GCR Ratings Scales, Symbols & Definitions, May 2019

GCR Country Risk Scores, December 2021

GCR Kenya Corporate Sector Risk Scores, May 2021

Centum Investment Company Plc

| Rating class | Review | Rating scale | Rating class | Outlook | Date |
|-------------------|---------|--------------|--------------------|----------|--------------|
| Long Term Issuer | Initial | National | A _(KE) | Positive | July 2012 |
| Short Term Issuer | Initial | National | A1 _(KE) | | |
| Long Term Issuer | Last | National | A+ _(KE) | Stable | October 2020 |
| Short term Issuer | Last | National | A1 _(KE) | | |

Glossary

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|-------------------|---|
| 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. |
| Interest | Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan. |
| Issuer | The party indebted or the person making repayments for its borrowings. |
| Leverage | With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt. |
| Liquidity | The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price. |
| Long Term Rating | See GCR Rating Scales, Symbols and Definitions. |
| Maturity | The length of time between the issue of a bond or other security and the date on which it becomes payable in full. |
| 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. |
| Rating Outlook | See GCR Rating Scales, Symbols and Definitions. |
| Short Term Rating | See GCR Rating Scales, Symbols and Definitions. |
| Weighted Average | An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities. |

SALIENT POINTS OF ACCORDED RATINGS

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;

Subsequent to an appeal by the rated entity, the ratings on the national scale issuer ratings was revised as reflected in the announcement. The credit ratings have been disclosed to Centum Investment Company Plc. 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.

Centum Investment Company Plc participated in the rating process through management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Centum Investment Company Plc and other reliable third parties to accord the credit ratings included:

- The audited financial results to 31 March 2020
- Full breakdown of investment portfolio and valuation
- Analyst presentations
- Detailed facility breakdown
- Financial information and presentations pertaining to Centum Real Estate Limited

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