



## Credit Rating Announcement

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

### Rating Action

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Johannesburg, 17 October 2022 – GCR Ratings ("GCR") has affirmed Centum Investment Company Plc's national scale long and short term Issuer ratings of A<sup>+(KE)</sup> and A1<sup>(KE)</sup> respectively; Outlook Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Centum Investment Company Plc	Long Term Issuer	National	A <sup>+(KE)</sup>	Stable Outlook
	Short Term Issuer	National	A1 <sup>(KE)</sup>	

### Rating Rationale

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The ratings of Centum Investment Company Plc ("Centum") balance its concentrated investment portfolio against an expected moderation of gearing and its strong liquidity position.

Centum's investment portfolio is sizeable in regional terms, with a valuation as per GCR's calculation of just over KES42bn (including less risky marketable securities and net proceeds from the Sidian Bank exit). Whilst the underlying investee companies span a range of sectors, including the likes of property development, financial services, automotive, publishing and agriculture, the portfolio 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. With the recent divestment of its stake in Sidian Bank, Centum's exposure to Centum RE (rated BBB<sup>+(KE)</sup> by GCR) has increased slightly, accounting for a substantial 54% (1H FY22: 50%) of the total investment portfolio as calculated by GCR, with the exposure to real estate comprising a higher 67% (1H FY22: 65%). In part, the concentrations reflect the relative success of the investments, however, GCR remains cautious of Centum's exposure to property developers, and the elevated construction and financial risks that these entities carry. However, we continue to acknowledge that part of Centum's strategy for FY19-FY24 remains to rebalance its portfolio, aimed at reducing its exposure to real estate investments. Although still at an early stage, there has been interest shown by third parties in the potential Centum RE unbundling. To this end, a key evaluator going forward will be the extent to which diversification improves in the investment portfolio, which would be important in offsetting the potential loss of scale.

GCR considers Centum's track record of exiting mature investments successfully as a rating strength. Whilst investment activity (both acquisitions and exits) has been broadly limited since the onset of the pandemic, GCR would expect to see this resume with more frequency, with the proposed unbundling of one of its most mature assets being a key deliverable. Moreover, the quality of the investment pool is currently underpinned by the dominant asset and the group's commitment to maintain a high amount of high-quality liquid investments. GCR does note that the forthcoming progressive dilution as Centum Re is sold down will most likely weaken the overall quality of the investment portfolio over the medium term, but the extent of this will depend on the growth achieved in the other assets and investment of proceeds to new ventures.

The financial profile is a positive ratings factor. As per Centum's stated strategy commitment to completely de-gear the balance sheet by FY24, the group plans to apply part of the proceeds (KES2.3bn) from the recent sale of its investment in Sidian Bank to debt repayment in FY23. This is expected to see the debt to investment asset ratio (after

applying a conservative haircut to investee valuations and total marketable securities) moderate to around 25% from 30% at FY22. The group reported KES4bn in gross debt on the company balance sheet at FY22 (FY21: KES4bn), whilst GCR has also included c.KES4.6bn in guaranteed subsidiary debt as part of the debt exposure.

GCR also believes that liquidity uses versus sources are likely to be maintained well above 1.5x going forward. Underpinning Centum's strong liquidity profile is its large and liquid marketable securities investment portfolio, which continues to generate robust annuity-like returns. As such, coverage of interest and operating expenses is sound at 2.4x at FY22 (FY21: 2.3x).

## Outlook Statement

The stable outlook reflects GCR's view that Centum will maintain a more conservative market value leverage ratio in line with its planned deleveraging and robust liquidity headroom.

## Rating Triggers

Rating pressure could 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 or investment activity remain lackluster, this would also be viewed negatively. Additionally, if the debt to investment asset ratio climbs above 30%, this could result in negative rating action.

A rating upgrade is unlikely 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
<b>Operating environment</b>	<b>6.50</b>
Country risk score	4.00
Sector risk score	2.50
<b>Business profile</b>	<b>0.00</b>
Portfolio size and diversification	(2.50)
Investment quality and track record	2.50
Management and governance	0.00
<b>Financial profile</b>	<b>2.50</b>
Leverage and capital structure	1.00
Liquidity	1.50
<b>Comparative profile</b>	
Group support	0.00
Government support	0.00
Peer analysis	0.00
<b>Total risk score</b>	<b>9.00</b>

## Related Criteria and Research

Criteria for the GCR Ratings Framework, Jan 2022  
Criteria for Rating Investment Holding Companies, November 2019  
GCR Ratings Scales, Symbols & Definitions, May 2022  
GCR Country Risk Scores, August 2022  
GCR Kenya Corporate Sector Risk Scores, May 2022

Centum Investment Company Plc					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term Issuer	Initial	National	A <sub>(KE)</sub>	Positive	July 2012
Short Term Issuer	Initial	National	A1 <sub>(KE)</sub>		
Long Term Issuer	Last	National	A+ <sub>(KE)</sub>	Stable	Dec 2021
Short term Issuer	Last	National	A1 <sub>(KE)</sub>		

## Glossary

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;.

The credit ratings have been disclosed to the rated entity. The ratings above were solicited by, or on behalf of, the rated entities, 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 2022
- Full breakdown of investment portfolio and valuation
- Analyst presentations
- Detailed debt breakdown including guarantees
- Financial information and presentations pertaining to Centum Real Estate Limited

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