

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades Saudi Real Estate Refinance Company's long-term issuer ratings to A1; changes outlook to stable

03 Dec 2024

Limassol, December 03, 2024 -- Moody's Ratings (Moody's) has today upgraded Saudi Real Estate Refinance Company's (SRC) long-term issuer ratings to A1 from A2 and changed the issuer outlook to stable from positive. We have also affirmed the P-1 short-term issuer ratings, as well as the Aa2.sa/SA-1 long-term and short-term national scale issuer ratings.

The rating action was primarily driven by our upgrade of the issuer rating for Public Investment Fund (PIF) – the parent and support provider of SRC – to Aa3 from A1, and change in its outlook to stable from positive on 27 November 2024 (for details please refer to the press release: <https://ratings.moodys.com/ratings-news/433546>).

RATINGS RATIONALE

RATINGS UPGRADE

The upgrade of SRC's long-term issuer ratings follows the upgrade of PIF to Aa3 from A1, indicating stronger capacity to provide support at times of stress. SRC's A1 long-term issuer ratings now incorporate five-notches (previously four) of rating uplift from its baa3 standalone assessment, derived from our assumption of a very high probability of support from its 100% shareholder, PIF. Our support assumptions also capture SRC's important policy mandate of increasing home ownership among Saudi nationals.

SRC's standalone assessment of baa3 captures the company's solid asset quality (non-performing financings of 0.80% of gross loans as of June 2024) and strong capitalization (tangible common equity to total tangible assets of 19% as of June 2024). These strengths are moderated by a still evolving profitability profile, high reliance on wholesale funding and concentrated exposure to the relatively new mortgage market in Saudi Arabia.

STABLE OUTLOOK

The stable outlook of SRC mirrors the stable outlook on its parent and support provider, Public Investment Fund. The stable outlook also captures our expectation that the resilience of operating conditions in Saudi Arabia and SRC's strong capital should balance risks associated with its high reliance on wholesale funding and evolving profitability.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

SRC's ratings could be upgraded if PIF's capacity to support it further improves. Upward pressure on SRC's issuer ratings could also materialise following improvements in SRC's funding and profitability metrics, while maintaining its strong asset quality and capitalisation.

Downward pressure on SRC's ratings could develop through severe losses on its mortgage portfolio that erode a significant portion of its capital; and/or the company failing to adequately manage mismatches in its assets and liabilities maturity profile, leading to heightened liquidity and market risks.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425167>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in August 2022 entitled "Mapping National Scale Ratings from Global Scale Ratings Methodology". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1280297.

The local market analyst for this rating is Ashraf Madani, +971 (423) 795-42.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Christos Theofilou, CFA

Vice President - Senior Analyst

Constantinos Kypreos
Senior Vice President

Releasing Office:
Moody's Investors Service Cyprus Ltd.
Porto Bello Building
1, Siafi Street, 3042 Limassol
PO Box 53205
Limassol, CY 3301
Cyprus
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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