



RATING ACTION COMMENTARY

Fitch Rates Arada Sukuk Limited's Senior Unsecured Sukuk 'BB-(EXP)'

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Fitch Ratings - London - 24 May 2022: Fitch Ratings has assigned Arada Developments LLC's (Arada, B+(EXP)/Stable) upcoming senior unsecured sukuk an expected rating of 'BB-(EXP)'/RR3. The sukuk will be issued through the trustee, Arada Sukuk Limited (ASL). Fitch has also assigned Arada a senior unsecured rating of 'BB-(EXP)'.

ASL is incorporated in the Cayman Islands as an exempted company with limited liability for the sole purpose of issuing the certificates. Walkers Fiduciary Limited is acting as the corporate administrator of the trustee, while Aljada Development and Masaar Developments (wholly-owned subsidiaries of Arada) are the sellers and Arada is the obligor, lessee, buyer and service agent. The subsidiaries act in their capacities as sellers in the sukuk documentation.

The assignment of a final rating is contingent on i) the assignment of Arada's final IDR; ii) the successful issuance of the sukuk; and iii) the repayment of all secured debt (amounting to AED902 million as of FY21). The assignment of a final rating is also contingent on the receipt of final documents materially conforming to information already reviewed. If these conditions are not met, Fitch will review the rating.

KEY RATING DRIVERS

The sukuk's expected rating is linked to Arada's Long-Term IDR, which reflects Fitch's view that a default of the senior unsecured obligations would reflect a default of Arada in accordance with Fitch's rating definitions. Arada's rating is also an expected rating and it will be assigned a final rating upon successful issuance of the sukuk, part of which will be used to repay the majority of the secured term loans.

Fitch has given no consideration to any underlying assets or collateral provided, as the agency believes that the trustee's ability to satisfy payments due on the certificates will ultimately depend on Arada satisfying its unsecured payment obligations to the trustee under the transaction documents described in the draft prospectus.

In addition to Arada's propensity to ensure repayment by ASL, the company would be required to ensure full and timely repayment of ASL's obligations due to Arada's various roles and obligations under the sukuk structure and documentation, especially but not limited to the below features:

- Pursuant to the lease agreement, murabaha agreement and the service agency agreement, the rental due on a rental payment date, will be an amount equal to the periodic distribution amount, which together with the murabaha profit instalment, will be sufficient to fund the periodic distribution amounts payable by the trustee in respect of the relevant certificates.
- On any dissolution or default event, the aggregate amounts of deferred payment price then outstanding will become immediately due and payable; and the trustee will have the right under the purchase undertaking to require Arada to purchase all of its rights, title, interests, benefits and entitlements, present and future, in, to and under the relevant lease assets in consideration for payment by the obligor of the relevant exercise price.
- The exercise price payable by Arada under the purchase undertaking and the outstanding deferred sale price payable by Arada under the murabaha agreement, together are intended to fund the dissolution amount payable by the trustee under the relevant certificates, which should equal the sum of the outstanding face amount of such certificate; and any due but unpaid periodic distribution amounts for such certificate.
- In a total loss event or partial loss event (unless the relevant lease assets have been replaced by Arada), if there is a shortfall from the insurance proceeds, Arada will irrevocably and unconditionally be required to pay the total loss or the partial loss shortfall amount directly into the transaction account. If the service agent is not in compliance with the obligation to insure the assets against total and partial loss event, it will immediately deliver

written notice to the trustee and the delegate of such non-compliance and the details thereof, and this will constitute an obligor event.

- Arada's payment obligations under the service agency agreement, purchase undertaking and the murabaha agreement will be direct, unconditional, unsubordinated and unsecured obligations and at all times rank at least equally with its other outstanding present and future unsecured and unsubordinated obligations.

- The sukuk documents also include an obligation on Arada to ensure that at all times, the tangibility ratio is more than 50%. However, if the tangibility ratio falls to 50% and below but stays above 33%, the services agent will take the steps (in consultation with the Shari'a advisor) required to ensure the tangibility ratio is restored to more than 50%. If the ratio falls below 33% (tangibility event), the certificates will be delisted and each certificate holder can exercise a put option to have their holdings redeemed, in whole or in part, on the tangibility event put option date at the dissolution distribution amount. In this event, there would be also implications for tradability and listing of the certificates.

- Fitch expects Arada to maintain the tangibility ratio above 50% throughout the tenor of the sukuk. Fitch notes that there is moderate headroom for the tangibility ratio, which would be expected to be at least 55% depending on the planned sukuk issuance amount. At end-2021, Arada had sufficient eligible and available assets, providing additional headroom of 2.1x to the tangibility ratio of 51%. The underlying tangible assets are mainly land plots located in Sharjah.

The sukuk documentation includes covenants, negative pledge and cross-acceleration provisions. Some of the transaction documents will be governed by English law and others by UAE and Sharjah laws. Fitch does not express an opinion on whether the relevant transaction documents are enforceable under any applicable law. However, Fitch's rating on the certificates reflects the agency's belief that Arada would stand behind its obligations. Fitch does not express an opinion on the certificates' compliance with sharia principles when assigning ratings to the certificates to be issued.

Average Recovery Estimate: Fitch applies a one-notch uplift to the senior unsecured notes compared with the IDR. Fitch's recovery estimate is based on a liquidation approach, mainly supported by the value of land and investment properties, to which we applied a 50% discount. Since the United Arab Emirates is a 'Group C' country, the Recovery Rating is capped at 'RR3'. This results in a senior unsecured rating of 'BB-' with 'RR3'.

DERIVATION SUMMARY

The issuance ratings are derived from Arada's Long-Term IDR and are in line with its senior unsecured rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The senior unsecured rating would not be upgraded if Arada's IDR was upgraded to 'BB-'.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The rating could be downgraded if Arada's Long-Term IDR was downgraded.

Adverse changes to the roles and obligations of Arada under the sukuk's structure and documents.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

ISSUER PROFILE

Arada is a master-plan community developer currently focusing on the Emirate of Sharjah, UAE.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY
Arada Sukuk Limited				
senior unsecured	LT	BB-(EXP)	Expected Rating	RR3
Arada Developments LLC				
senior unsecured	LT	BB-(EXP)	Expected Rating	

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA[Country-Specific Treatment of Recovery Ratings Criteria \(pub. 05 Jan 2021\)](#)[Sukuk Rating Criteria \(pub. 15 Feb 2021\)](#)[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\) \(including rating assumption sensitivity\)](#)[Corporate Rating Criteria \(pub. 16 Oct 2021\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[Corporate Monitoring & Forecasting Model \(COMFORT Model\), v8.0.2 \(1\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Arada Developments LLC

UK Issued, EU Endorsed

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