

AREF Energy Holding Company

Capital Standards assigns BB+ to AREF Energy Holding Company

Kuwait, December 14, 2011: Capital Standards (CSR) has assigned, on a standalone basis, a first-time Corporate Credit Rating of “BB+” on an international scale and “BBB+_{KW}” on a national scale to AREF Energy Holding Company K.S.C (Closed). The outlook for the rating is Stable.

The rating reflects the low amount of debt at the holding company level, the liquid balance sheet and the risk mitigating mechanisms embedded in the organizational structure. However, the above strengths are offset by the company’s lack of long track-record and the inherently high risk nature of its business.

As of Sep-2011, AREF Energy’s asset portfolio of KWD 60.16 mn is spread across 9 investments. A number of investments in AREF Energy’s existing portfolio were transferred from the parent company in 2007. The investment portfolio exhibits geographic, sector and value-wise concentration. The management has however taken steps to mitigate the concentration risks in the portfolio. Investment and exposure limits are currently embedded in the investment decision-making process to reduce the value-wise concentration, and the recent acquisitions have been in diverse sub-sectors within the energy services sector, thereby improving the portfolio diversification.

Only one investment of AREF Energy – Kuwait Energy Company – paid dividends from its FY2010 earnings. The dividend paying ability of the rest of the portfolio components is limited, and therefore, the core income of AREF Energy is primarily driven by net gain on sale of investments. In FY2010, the company divested DeWitt Oil & Gas Projects profitably and hence, the liquidity position of the company is currently strong for the assigned rating. Furthermore, the debt level relative to the portfolio value is low and is expected to remain supportive of the rating during the rating horizon.

CSR has assigned a stable outlook for AREF Energy, as all the identified major risks are reflected in the currently assigned rating. CSR does not anticipate the risks to exacerbate from the existing levels, owing to the management focus on mitigating the risk exposures of the company. Furthermore, CSR believes AREF Energy would be able to maintain the financial flexibility indicators of leverage and coverage ratios at levels required by the assigned rating. Potential for a rating upgrade is limited in the medium term, unless the credit quality of the portfolio improves significantly and the company develops a long track record of profitable divestments. A negative rating action would be warranted if AREF Energy is unable to successfully divest investments as planned over a prolonged period, the credit quality of the portfolio further weakens and/or the liquidity of the company considerably deteriorates.

According to CSR’s national scale, the rating of ‘BBB+_{KW}’ reflects AREF Energy’s credit worthiness relative to its domestic peers. CSR developed the National Rating Scale to facilitate the assessment of rated entities in the country, giving local and foreign investors a tool to make finer credit distinctions between local issuers.

CSR’s Investment House methodology was used in rating AREF Energy Holding Company. The methodology can be found at <http://www.capstandards.com/meth-investmentHouses.php>.

AREF Energy is a Sharia-compliant Investment Holding company, which was incorporated in 1996 as 'Excellent Education Foundation Company' to focus on the education sector in Kuwait. The company was listed on the Kuwait Stock Exchange in 2005 and was subsequently renamed in 2007 as 'AREF Energy Holding Company', with the altered mandate of investing in energy sector companies. AREF Investment Group (AIG), which owns 72.60% stake in AREF Energy, is in the process of selling its stake to Development Enterprise Holding Company (DEHC). The ultimate parent would continue to be Kuwait Finance House (KFH), as both AIG and DEHC are subsidiaries of KFH.

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Additional information is available at www.capstandards.com.

A detailed Credit Opinion Report, explaining the key rating considerations along with an in-depth financial analysis is available for CSR's subscribers.