# GCC Real Estate

## How Credit Stories Have Evolved

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March 11, 2024

S&P Global Ratings

*This report does not constitute a rating action*

# Contents



S&P Global Ratings

# Key Takeaways

- Real estate markets in various Gulf Cooperative Council (GCC) countries exhibit different dynamics. But rated sector companies enjoy relatively stable credit quality after a volatile few years that saw downgrades, recovery, and restoration of credit profiles for most of the rated real estate companies in the region.
- All but one GCC real estate company rated back in 2019 were downgraded by a notch during the pandemic amid our expectations of declining revenues, cash flow and EBITDA leading to higher leverage.
- Larger players with more diversified business mixes and bigger shares of more stable revenues demonstrated relatively better resilience.
- As of today, most of the GCC rated real estate companies have returned to or exceeded their 2019 rating level and we have stable outlooks on all companies, except for one which is on positive outlook.
- The Dubai real estate market, in particular, has benefited from fast price increases and volumes momentum since 2021, which has been supportive to a rapid recovery of the credit quality of local players.

# 2024 Outlook For GCC Real Estate

## Key Opportunities

- We see economic growth of 2%-3% in the GCC region this year, with a sustained oil-related growth and a solid 4%-5% increase in the non-oil economic activity in the UAE and Saudi Arabia on the back of large public investments and FDIs.
- Population growth of 2%-3% is a boost to the real estate sector. This is sustained by GCC governments' reforms to support new businesses and expat inflow, including new visas, corporate-ownership rules, as well as new technology regulations.
- Strong rebound in tourism, underpinned by government initiatives, will continue to enhance prospects for airline, leisure and hospitality, as well as retail sectors.
- Limited cost inflation will preserve consumer purchasing power and developers' margins, given construction costs have subsided.
- Potential for interest rate declines from H2 2024, which would improve affordability and could support demand.
- Improving financial health of developers in Dubai due to record pre-sales and faster cash collections.

## Key Risks

- Geopolitical tensions with uncertain fallout for global and regional economies, and tail risks to the supply chain.
- The sluggish global economy could weaken demand from foreign buyers.
- A decline in oil prices may reduce demand from regional buyers.
- Oversupply risks in Dubai could precipitate a cyclical reversal.
- Shortage of real estate in Riyadh will keep upward pressure on prices, deterring some buyers amid high mortgage rates.
- Oversupply in Doha will slow new construction and weigh on prices.
- Fast-reducing land banks for Dubai-based developers and need to purchase new land parcels at high costs.
- Contractor shortages in some regions.
- More stringent environmental requirements, which could represent additional costs, administrative hurdles, and technical challenges for developers.
- Liquidity crunches and funding gaps could hit if demand slumps beyond our base case. The higher interest costs would exacerbate any such scenario.

# 2024 Outlook (cont.)

## UAE

- Dubai's residential property market is expected to cool over the next 12-18 months due to increased supply and global economic pressures that could affect the demand. Dubai developers beefed up their cash balances due to record pre-sales over the past 3 years, improving their credit health ahead of the next cyclical slowdown.
- Abu Dhabi residential real estate appreciation has not been as fast as in the neighboring Dubai, and therefore the market has not yet reached previous peak cycle, suggesting limited risk of reversal.

## Saudi Arabia

- Sensitivity to high interest rates and price increases led to a reduction in real estate transactions in 2023. We expect the demand to remain robust backed by Vision 2030 investments attracting new businesses and expats to the country.
- Interest rate decline from H2 2023 could revive the mortgage after 35% drop in 2023 (SAMA). New visa regime opens the way to real estate ownership for foreigners, which will spur further increase in demand. New off-plan construction will grow significantly.

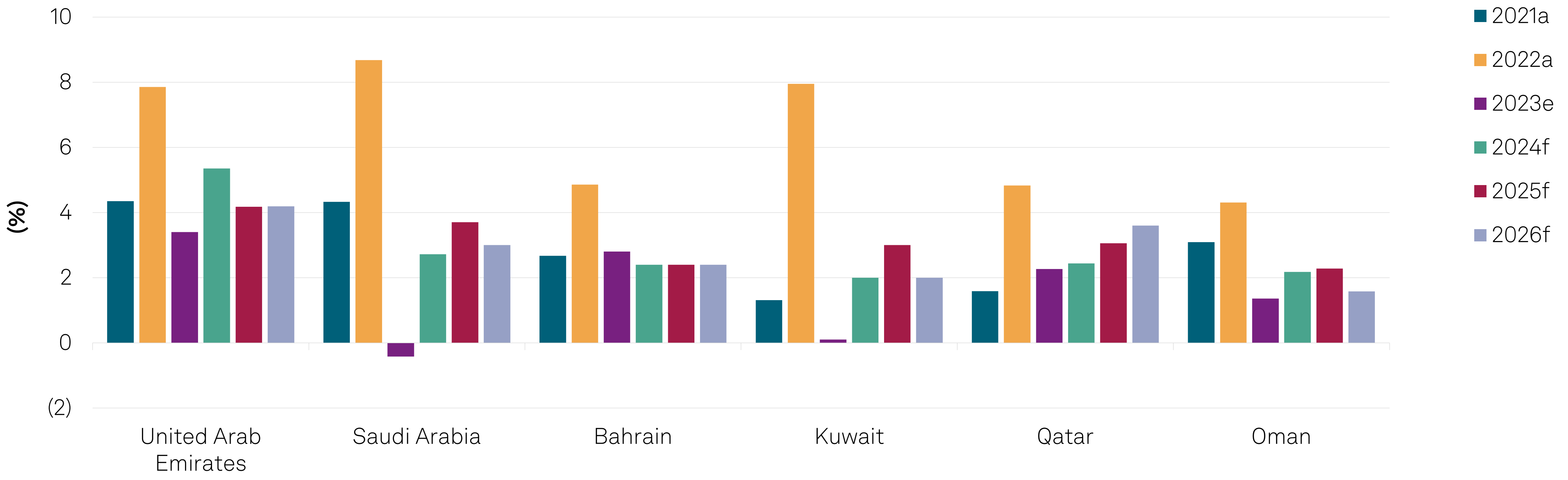
## Qatar

- Qatari real estate is undergoing a cyclical correction after the boost related to the World Cup in November-December 2022. Oversupplied real estate properties have seen price and rental declines, as more new units were delivered in 2023.
- We expect pressures to persist over the next two to three years, even if the new supply is expected to be limited.

# Macro Settings Are Supportive Of Real-Estate Markets

## GCC real GDP growth by country

Real growth expected between 2%-5% in 2024-2026




Source: S&P Global Ratings.

# Rating Change Summary

## Ratings now versus the start of 2020

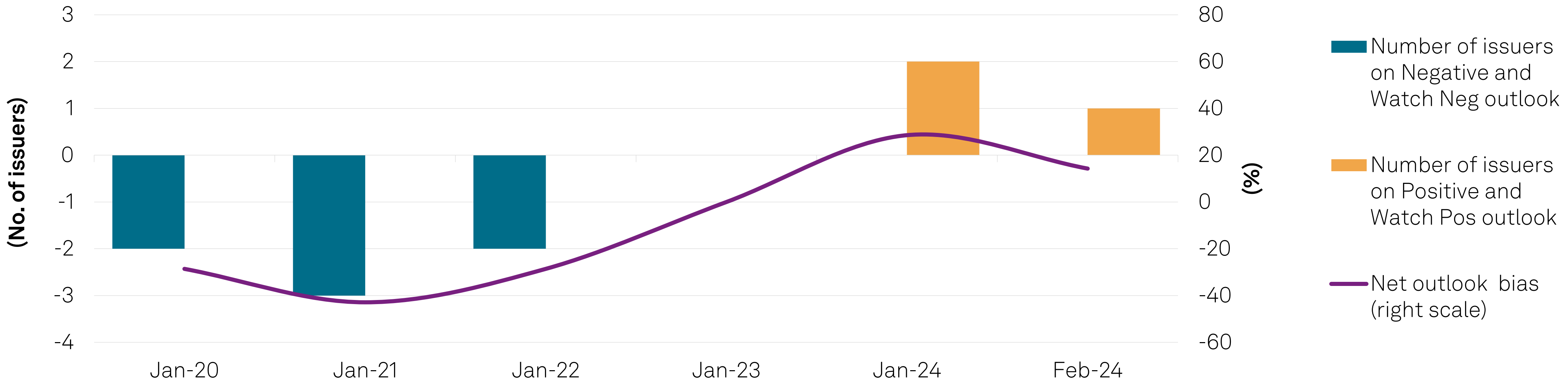
| -2 notches | -1 notches | 0 notches | +1 notches | +2 notches |
|---|---|---|---|---|
| **Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC**<br>BB to B+ | | **Majid Al Futtaim Holding LLC**<br>BBB unchanged | **Emmar Properties PJSC**<br>BBB- to BBB | **Damac Real Estate Development Ltd.**<br>B+ to BB |
| | | **PNC Investments LLC***<br>BB- unchanged | **Emaar Malls Management LLC†**<br>BBB- to BBB | |
| | | **Five Holdings BVI Ltd.***<br>B+ unchanged | | |
| | | **Ezdan Holding Group Q.S.C.§**<br>B- before withdrawal | | |

*Rated since 2023. §Rating withdrawn in February 2024. †Previously Emaar Malls PJSC.

# Outlook Overview | New challenges have slowed post-pandemic recovery

- Over 85% of GCC rated real estate companies are on stable outlook indicating our expectation of steady operating performance
- Close to two thirds of our portfolio is exposed to Dubai real estate, where stable outlooks (only one positive) indicate limited upside potential in the next 12 months given our expectation of cyclical slowdown.

## Stable outlooks prevail indicating steady operating performance




Net outlook bias is calculated as (number of issuers on Positive outlook or Watch Pos) – (number of issuers on Negative outlook or Watch Neg) / Portfolio size.

# Issuers

Publications as of Mar. 8, 2024

# Majid Al Futtaim Holding LLC (1/2)

No rating or outlook change | Rating or outlook change

| 2020 | 2021 | | 2022 | |
|---|---|---|---|---|
| July | March | November | March | October |
| BBB/Stable/A-2 | BBB/Stable/A-2 | BBB/Stable/A-2 | BBB/Stable/A-2 | BBB/Stable/A-2 |
| **Full Analysis** | **Full Analysis** | **Full Analysis** | **Research Update** | **Research Update** |
| We expected an 11% GDP contraction in Dubai and double- digit drop in mall leasing revenue due to relief measures provided to tenants, as well as a slowdown in retail and hospitality segments. Significant rating headroom limited the rating downside risks. | Despite our forecast of a moderate recovery and high capex plans, the company's ability to generate small, albeit positive, free cash flow, along with prudent liquidity management, helped maintain ratios in line with the rating. Headroom narrowed however. | Strong recovery in mall leasing thanks to the ramp-up of new assets, while significantly weaker retail was mitigated by strong hospitality rebound helped by Dubai Expo. We anticipated a return to prepandemic level not before 2022, as the conditions gradually normalize. Leverage ratios remained borderline. | Ratings affirmed following change in our country- risk assessment approach. The overall country risk assessment is unchanged given exposure to other countries that have higher country risk scores than the UAE. | Strong economic rebound across GCC countries in 2022 and expected steady growth in 2023 underpinned growth prospects. Revenue uplift from ramp-up of new malls and real estate development Tilal Al Ghaf. Inflationary pressures on the margin partly offset by cost and capex control, but working capital requirements increased due to real estate development ramp-up. |

Click on the article type to read the full article.

# Majid Al Futtaim Holding LLC (2/2)

No rating or outlook change | Rating or outlook change

| 2023 | | |
|---|---|---|
| January | May | October |
| BBB/ Stable/A-2 | BBB/Stable/A-2 | BBB/ Stable/A-2 |
| **Bulletin** | **Full Analysis** | **Full Analysis** |
| Changes in top management with new CEO just a year after shareholder change introduced potential for unpredictability in corporate governance. We began monitoring the developments, but no rating impact at this stage. | Solid revenue growth in 2022 offset inflationary pressures and weaker margins in its large retail segment as the company incurred additional costs for digital initiatives. We expect stronger cash flow generation and lower leverage in 2023-2024 as working capital requirements subside. | Steady recovery and single digit growth with positive dynamics across all businesses. FX pressures in international retail subsidiaries will be offset by strong growth in Tilal Al Ghaf, while footfall and rental rates are supportive; and hospitality remains strong. Deleveraging expected in 2024-2025 given no major greenfield capex. |

Click on the article type to read the full article.

# Emaar Properties PJSC (1/2)

No rating or outlook change | Rating or outlook change

| 2020 | | | 2021 | | 2022 |
|---|---|---|---|---|---|
| March | July | September | March | June | March |
| BBB-/CW Negative | BB+/Negative | BB+/Negative | BB+/Negative | BB+/Stable | BB+/Stable |
| Research Update | Research Update | Full Analysis | Bulletin | Research Update | Research Update |
| Placed on CreditWatch as market trend weakened with expectation of steeper price drops amid the pandemic. Hence, we expected revenue and EBITDA strain that will lead to significantly lower FFO to debt. | Downgrade reflecting our forecast of weakening performance across all businesses--development, mall leasing and hospitality. Negative outlook is due to the uncertain pace of recovery in demand and broader economy, while the management implements offsetting measures. | A significant negative impact on all business segments looked likely owing to COVID-19-induced economic pressure in Dubai. Consequently, we anticipated a significant dip in EBITDA leading to margin contraction. As well as material weakening of the group's credit metrics in 2020-2021. | Credit-neutral impact from the announced delisting of Emaar Malls PJSC and acquisition of about 15% by Emaar Properties in a non-cash transaction, raising its ownership to 100%. | Outlook revised to stable on improving demand and real estate price pick-up in Dubai, leading to rebound in presales. A recovery in company's earnings and credit metrics looked set to follow 2021. | Ratings affirmed following change in country risk approach at the level of UAE given broadened geographic footprint. Also, we no longer consider Emaar Properties as a government related entity. |

Click on the article type to read the full article.

# Emaar Properties PJSC (2/2)

No rating or outlook change | Rating or outlook change

| 2022 | | | 2023 | 2024 |
|---|---|---|---|---|
| June | July | December | June | January |
| BBB-/Stable | BBB-/Stable | BBB-/Stable | BBB/Stable | BBB/Stable |
| Research Update | Full Analysis | Full Analysis | Research Update | Full Analysis |
| Upgraded on strong performance amid a rebound in demand for residential real estate and expectation of further improvement in leverage metrics, supported by debt repayment. | A dynamic real estate sector, a rebound in hospitality, international development, as well as a strong recovery in mall leasing from a low base in 2021. This trend looked set to last the rest of 2022 and into 2023. Debt reduction was expected using excess cash. | Improved revenue backlog and boosted land bank with two acquisitions to address future demand in Dubai. This is offset by slower growth in international real estate development. New progressive dividend policy linking payouts to net profits was announced. | Upgraded on the back of record high revenue backlog in residential real estate development. Our expectation was for strong operating cash flow in 2023-2024, supported by healthy demand trend. Strong balance sheet thanks to debt repayments. | Strong cash flow, debt reduction, and healthy profits should sustain low leverage in 2024-2025. Unfavorable FX movements in international operations has hindered growth, and we anticipate this will extend into 2024. Presales will likely slow down over the next 12-18 months following a record increase in the first nine months of 2023. |

Click on the article type to read the full article.

# Emaar Malls Management LLC (1/2)

No rating or outlook change | Rating or outlook change

| 2020 | | | 2021 | |
|---|---|---|---|---|
| March | July | September | March | June |
| BBB-/CW Negative | BB+/Negative | BB+/Negative | BB+/Negative | BB+/Stable |
| **Research Update** | **Research Update** | **Full Analysis** | **Bulletin** | **Research Update** |
| Placed on CreditWatch as market trend weakened on leasing pressures and rent relief provided to tenants amid a much weaker retail sector outlook. Movement and travel were restricted and footfall in malls expected to contract sharply. | Downgraded in line with the parent Emaar Properties given their close link, while the SACP remained one notch above at 'bbb-'. We expected a 40% EBITDA decline in 2020 given significant slowdown in international travel and high reliance on tourists for the largest asset Dubai Mall, which accounts for the bulk of profits. | A significant disruption looked likely for the traditionally very stable operating performance of Emaar Malls. We forecast relief measures provided to tenants would materially erode revenue and EBITDA. Material weakening of the group's credit metrics in 2020-2021 was foreseen. | Credit-neutral impact from the announced delisting of Emaar Malls PJSC and acquisition of about 15% by Emaar Properties in a non-cash transaction, raising its ownership to 100%. | Outlook revised to stable on improving demand and price pick-up in Dubai, leading to rebound in presales. A recovery in the company's earnings and credit metrics looked on the cards in 2021. |

Click on the article type to read the full article.

# Emaar Malls Management LLC (2/2)

No rating or outlook change | Rating or outlook change

| 2021 | 2022 | | | 2023 |
|---|---|---|---|---|
| November | March | June | December | June |
| BB+/Stable | BB+/Stable | BBB-/Stable | BBB-/Stable | BBB/Stable |
| Research Update | Research Update | Research Update | Full Analysis | Research Update |
| Emaar Malls PJSC was delisted and merged with its parent Emaar Properties. Emaar Malls Management LLC assumed all its assets and liabilities. We assigned a 'BB+' long-term issuer credit rating, in line with the parent on our assessment of core subsidiary; its SACP is 'bbb-'. | Country risk unchanged for Emaar Malls following the change for the parent. Emaar Malls is solely exposed to Dubai where all its assets are located. | Upgraded in line with the parent and with the SACP 'bbb-'. Retail sector was recovering from lows with notable pick-up in luxury products from pent-up demand. This supported a likely rental rates recovery, as footfall improved. | Notable revenue growth in the first nine months of 2022 amid a strong rebound in Dubai's retail sector. However, global economic setbacks induce some uncertainty. We forecast stronger EBITDA margins and cash flows following the Namshi disposal, planned for first-quarter 2023. | Upgraded in line with the parent, one notch above the 'bbb-' SACP. Emaar Malls benefits from continued rebound in tourism, strong retail sector performance, and population growth. As a result, rental rates recovered above pre-pandemic levels in 2022. |

Click on the article type to read the full article.

# Damac Real Estate Development Ltd. (1/2)

No rating or outlook change | Rating or outlook change

| 2020 | 2021 | | 2022 | |
|---|---|---|---|---|
| March | February | June | March | June |
| B/Negative | B/Negative | B/Negative | B+/Positive | BB-/Stable |
| Research Update | Research Update | Bulletin | Research Update | Research Update |
| Downgraded on our expectation of weak EBITDA and higher leverage due to pandemic-related uncertainty and fallout for demand from international buyers. | Rating affirmed as revenue was anticipated to decline in 2021-2022 due to weak presales and limited new project launches. Cash released from escrow and new deliveries to support positive DCF to repay short term debt. | Damac's delisting from the stock exchange via minority buy-out by the founding shareholder is credit neutral, in our view. This is because we don't expect changes to the financial policy. | Upgraded on high presales in 2021 and we expected the same for 2022, new project launches, and return to growth. The positive outlook hinged on improvement in market position, steady revenue growth and stronger profitability. | Rating raised on improving growth prospects on strong presales in late 2021 and the first five months of 2022 leading to enhancement of revenue visibility for the next two to three years. Strong free cash flow generation and deleveraging forecast. |

Click on the article type to read the full article.

# Damac Real Estate Development Ltd. (2/2)

No rating or outlook change | Rating or outlook change

| 2023 | 2024 |
|---|---|
| February | February |
| BB-/Positive | BB/Stable |
| Research Update | Research Update |
| The positive outlook hinges on sustainable deleveraging and steady momentum in the real estate sector in Dubai. Margin improvement and EBITDA growth demonstrating strengthening market share could also lead to an upgrade. | Rating raised on the back of continued strong growth in profits, sizable cash flow generation and our estimate of deleveraging to about 1.0x for 2023 and 0.8x-1.2x in 2024-2025. High revenue visibility supported by record revenue backlog. |

Click on the article type to read the full article.

# PNC Investment LLC (Shoba)

No rating or outlook change | Rating or outlook change

| 2023 |
|---|
| July |
| BB-/Positive |
| **Research Update** |
| Rating assigned to  PNC Investments LLC (PNCI), the parent company of Dubai-based residential developer Sobha. The rating supported by very strong presales in 2022 which expected to continue in 2023. Cash- flow generation looked set to keep accelerating,  bolstered by working capital inflows on strong receivable collections. The positive outlook hinges on supportive market and resilient demand, as well as further deleveraging, as we expect the company  to launch new projects and boost their limited land bank with land purchases. Good quality of assets, stable historical profitability, rising market share and solid brand value support the rating. |

Click on the article type to read the full article.

# Private Department of H.E. Sh. Mohammed Bin Khalid Al Nahyan LLC (PD)

No rating or outlook change | Rating or outlook change

| 2021 | 2022 | | | 2023 |
|---|---|---|---|---|
| July | June | September | December | June |
| BB/Stable | BB-/Stable | BB-/Stable | BB-/Stable | B+/Stable |
| Research Update | Research Update | Research Update | Research Update | Research Update |
| Rating assigned to PD which owns and manages a portfolio of residential, hotel, and commercial assets in the UAE. We viewed the ratings as constrained by the company's limited portfolio size in a fragmented and weak Abu Dhabi real estate market and its high leverage; but supported by good asset quality, locational advantage, and strong shareholders. | Downgraded on our expectation that PD's financial risk profile would weaken over the following 12 months given higher interest rates in 2022-2023. Still, revenue from residential property portfolio looked set to increase thanks to new asset deliveries in 2022-2023, stable occupancy rates, and stable operating performance. | Issue rating on the US$300 million sukuk and program lowered to 'B+' . This was due to increased subordination risk given the issuance amount was lower than expected resulting in higher priority debt. Affirmed the 'BB-' rating on the company, but noted reduced headroom under EBITDA interest coverage metrics. | Issue rating on PD's sukuk and program raised to 'BB-' on lower subordination risk given US$50 million tap on sukuk and other unsecured debt. Affirmed the rating on PD despite our expectation of weakening interest coverage. | Downgraded due to significant deterioration in interest coverage metrics expected at 1.0x-1.2x in 2023-2024. Positively, revenue and EBITDA expected to increase as it delivers new assets in 2023-24. |

Click on the article type to read the full article.

# FIVE Holdings (BVI) Limited

No rating or outlook change

Rating or outlook change

| 2023 | |
|---|---|
| September | September |
| B+(Prelim)/Stable | B+/Stable |
| **Research Update** | **Research Update** |
| New preliminary rating assigned to FIVE and its planned bond. Three high-quality hotels in Dubai and Zurich, with strong occupancy rates, and good brand recognition are offset by the company's relatively small scale in a global context, and high concentration with over 80% of hospitality EBITDA generated from a single asset. We expect a diversification benefit from development and apartment management operations. Strong EBITDA growth expected on new hotel delivery, offsetting high leases and reducing reliance on single asset . | Final 'B+' ratings assigned to FIVE and its US$350 million senior secured bond following successful issuance (in line with the preliminary ratings). The bond proceeds will be used for debt refinancing and make potential acquisitions. |

Click on the article type to read the full article.

# Ezdan Holding Group Q.P.S.C. (1/2)

No rating or outlook change | Rating or outlook change

| 2020 | | | 2021 |
|---|---|---|---|
| May | August | November | February |
| B-/CW Negative | B-/CW Negative | B-/CW Negative | CCC/Negative |
| **Research Update** | **Research Update** | **Research Update** | **Research Update** |
| Downgraded to 'B-' and placed on Watch negative. We were anticipating a decline in adjusted EBITDA in 2020 as the company navigated pandemic-related economic uncertainties. In addition, looming refinancing and covenant- breach risks. We lowered the issue rating on two sukuks to 'CCC+'. CreditWatch hinged on progress in sukuk repayment options for its 2021 sukuk. | We extended the Watch negative as Ezdan moved forward on refinancing options for its US$500 million sukuk (due May 2021), but hasn't concluded yet. Debt-acceleration risk related to a covenant breach under some of its debt agreements as of end-2019 had not materialized and we determined this risk remains remote. | The company remained on Watch Negative ahead of its US$500 million sukuk maturity in May 2021. The sukuk repayment options still hadn't been finalized. We aimed to resolve the CreditWatch by the end of January, once the repayment plan for the 2021 sukuk was finalized. | Downgrade on higher risk of default as refinancing of its US$500 million sukuk (May 2021) hasn't been finalized. It has further debt maturing in 2021 and 2022. The negative outlook reflects narrowing liquidity and high debt balances, which could lead to a distressed exchange, debt restructuring, or default over the next 3-12 months. |

Click on the article type to read the full article.

# Ezdan Holding Group Q.P.S.C. (2/2)

No rating or outlook change | Rating or outlook change

| 2022 | 2023 | | 2024 |
|---|---|---|---|
| March | May | November | February |
| B-/ Stable | B-/ Stable | B-/ Stable | Not rated |
| **Research Update** | **Full Analysis** | **Tear Sheet** | **Research Update** |
| Rating upgrade on improved liquidity following partial financing secured for 2022 sukuk refinancing, with the remainder to be repaid from free cash. We expected Ezdan's revenue to increase in 2022, supported by rental rate rises in its residential segment and upside from the World Cup for its hotels. | Strong performance in 2022 supported increased cash flow, used for debt repayment, leading to improved leverage. Noncash settlement of related-debt further helped to reduce S&P adjusted debt. A slower revenue growth was anticipated in 2023, after a strong 2022, spurred by the World Cup. Exposure to floating rate interest on 100% of debt looked set to weigh on interest coverage metrics. | We expected Qatari real estate to remain under pressure in 2023-2024 due to oversupply; but Ezdan's first nine months of 2023 were supported by new units delivered and high occupancy rates in residential, malls and hotels. Its capital structure remains highly leveraged and interest expense will likely increase significantly, limiting rating upside. | Withdrawal of 'B-' long-term issuer credit rating on Ezdan Holding Group Q.S.C. at the company's request. The outlook was stable at the time of the withdrawal. |

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