CREDIT RATING ANNOUNCEMENT

GCR affirms Shelter Afrique's international scale long and short-term issuer credit ratings of B-/ B with a Positive Outlook, on improving asset quality and business stability.

Rating action

Johannesburg, 30 June 2023 – GCR Ratings (GCR) has affirmed The Company for Habitat and Housing in Africa's (Shelter Afrique) international scale long and short-term issuer ratings of B- and B respectively, with the outlook accorded as Positive. At the same time, the following long and short-term national scale issuer ratings have been affirmed:

- Kenyan National Scale ratings at $A+_{(KE)}/A1_{(KE)}$, with outlook accorded as Positive.
- Nigerian National Scale ratings at $AA_{(NG)}/A1+_{(NG)}$, with outlook accorded as Positive.
- Mauritian National Scale ratings at $BB_{(MU)}/B_{(MU)}$, with outlook accorded as Positive.

GCR has also affirmed the Nigerian national scale long term issue rating on the Series 1 Tranche A and Tranche B Senior Unsecured Notes, at the same level as the Nigerian issuer credit rating, issued under Shelter Afrique's NGN200billion Domestic Bond Issuance Programme, with outlook accorded as Positive.

Rated Entity/ Issue	Rating class	Rating scale	Rating	Outlook/Watch
The Company for Habitat and Housing in Africa	Long- and short-term issuer	International	B-/B	Positive Outlook
	Long- and short-term issuer	National	$A+_{(KE)}/A1_{(KE)}$	Positive Outlook
	Long- and short-term issuer	National	$AA_{(NG)}/A1+_{(NG)}$	Positive Outlook
	Long- and short-term issuer	National	$BB_{(MU)}/B_{(MU)}$	Positive Outlook
Series 1 Tranche A Senior Unsecured Notes	Long term issue	National	$AA_{(NG)}$	Positive Outlook
Series 1 Tranche B Senior Unsecured Notes	Long term issue	National	$AA_{(NG)}$	Positive Outlook

Rating rationale

The ratings on Nairobi based, The Company for Habitat and Housing in Africa (Shelter Afrique) balance inconsistent history of timely member support, moderate track record of preferential creditor treatment (PCT), poor asset quality with strong capitalisation. The ratings also reflect a diverse membership base, adequate liquidity, weak earnings and improvements in risk management. The outlook is positive, underpinned by the company’s new strategy and staffing that looks set to improve its weak asset quality, status, and track record, at least over the medium-term horizon.

Shelter Afrique is a Pan African institution that has a mandate to provide affordable housing in Africa. It is uniquely positioned as the only African DFI attending to the need for affordable housing in Africa. Developments exposures are relatively low at US$260m and negative earnings limit the company’s ability to self-fund large scale projects and rapidly build status within its space, given a significant deficit of affordable housing in Africa. We note that the new strategy developed and executed by a new senior executive team, may improve the status and diversity of the company through product diversification and increasing stakeholder confidence. Both the new strategy and MD are less than 6 months old, and the strategy is yet to be embedded and pushed through, but we view it positively.

The mandate is strong, underpinned by social, environment and economic developmental focus, but it is moderated for weak track record. The company had developmental exposures of only US$270m at 31 December 2022, and we expect disbursements of US$80m by end 2023, indicating a willingness to execute mandate, constrained by loan product pricing. Inflows from shareholder capital injections will assist in raising affordable money to fund operations and execution of mandate. Evidence of improved execution and the building of a positive track record through a monitoring framework will be viewed positively.

The company is exposed to relatively higher risk operating environments of member states. Membership is diverse comprising 44 African states and two institutional shareholders. Negatively, shareholder support hasn't been historically timely, evidenced by only nine (9) fully paid members and the rest in arrears of varying amounts totalling US$280m from two capital calls. Positively, capital receipting has trended moderately strong over the last 2 years indicating a renewed shareholder willingness to support. However, we will need to see material clearance of outstanding arrears for a positive assessment to be considered. The assessment is also constrained by the limited examples of PCT from member countries.

Capitalisation is strong, balancing a very high GCR leverage ratio with a loss of US$11m recorded in 2022. The leverage ratio dipped to 53% from 93% due to high losses and asset growth. The company was aggressive in provisioning (part of the process to clean up the legacy book) with a once-off impairment charge of US$11m. We expect the ratio to remain above 50% balancing expectations of the company returning to profitability over the next 18 months, capital increase and asset creation.

Improvements were noted in the risk profile reflecting lower non-performing loans (NPLs) and improvements in underwriting and monitoring risks. The company also changed its lending strategy from project financing to on-lending mainly through financial institutions, for all housing related companies, potentially de-risking the portfolio somewhat. However, despite the moderation in NPLs, the ratio is still very high and asset quality is still poor. The NPL ratio was 51% at 31 December 2022 from 67% at 31 December 2021, we expect further improvements by year end 2023 but remaining above 40%. Overall, while we believe the risk processes are better, the profile is choked by the quality of the 10-year-old legacy book. A material improvement in the quality of the book may result in a positive assessment, conversely, a material migration of new loans to non-performing will be viewed negatively. Cost of risk increased to 3.7% in December 2022 (FY2021: 0.1%) primarily due to an aggressive charge of over $11m on four accounts, we expect a moderation to c.2% over the next 12-18 months.

Funding and liquidity is neutral to the ratings. The funding structure is modest and less diverse to some rated supranational peers. The outstanding debt has a long-term maturity profile with good headroom over debt covenants. The bank is also building additional sources of funding which may materialise over the next 12 – 18 months. Liquidity is adequate with asset concentration to local banks at 31 December 2022. Positively, there are limited refinancing requirements over the next 2 years.

We have not factored callable capital given the non-investment grade ratings of shareholders and the chequered history of timely support.

Shelter Afrique's Series 1 Senior Unsecured Notes

The Series 1 Notes have been issued under Shelter Afrique's (the Issuer) NGN200bn Domestic Bond Issuance Programme. The Issuer is permitted through a resolution of its Board of Directors dated 30th November 2021, to issue the Notes in various tranches, and under different terms and conditions as the board may deem fit, subject to the approval of the relevant regulatory authorities. Accordingly, the Notes constitute direct, unsubordinated and unsecured obligations of the Issuer.

Repayment of the Notes obligations ultimately depends on the performance of Issuer. Shelter Afrique irrevocably and unconditionally undertakes to the Trustee the due and punctual payment in accordance with the Trust Deed of the principal of and interest on all Notes and of any other amounts payable by the Issuer under the Trust Deed. As such, cognisance must be taken of the Issuer's credit profile.

The Notes rank pari passu with all senior unsecured indebtedness and the claims of the Issuer's creditors. Accordingly, the Notes have been accorded a public national scale long-term Issue rating of $AA_{(NG)}$ in line with the Issuer's rating.

Outlook statement

The outlook is positive based on our expectations of stability in governance structures and operational frameworks. We also factor 1) improvements in risk management processes resulting in sustained improvements in asset quality, and 2) capitalisation to remain strong with the company returning to profitability within the next 18 months. The outlook on the Programme and the Notes are Positive reflecting the rating outlook of the Issuer.

Rating triggers

The ratings may be improved if there is a defined and material improvement in asset quality without a deterioration in the GCR leverage or reserve coverage ratios. The ratings may also be improved if 1) there is a turnaround in earnings with sustained profitability, 2) evidence of preferential creditor treatment, 3) evidence of track record in fulfilling the company mandate, and 4) stability in the strategy, governance structures and operational framework. Sustained clearance of capital arrears and a track record of shareholder support will be viewed positively. The ratings may go down if we see 1) migration of new loans into non-performing, 2) staff turnover in senior structures, 3) deterioration of asset quality, 4) capital erosion to a GCR leverage ratio below 40%, or 5) a material deviation in strategic direction from current expectations. The rating triggers on the Programme and the Notes reflecting the rating triggers of the Issuer.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2022
Criteria for Rating Supranational Institutions, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2023
GCR Country Risk Scores, May 2023
GCR Financial Institutions Sector Risk Score, June 2023

Ratings history

The Company for Habitat and Housing In Africa					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long and Short-Term issuer	Initial	International	B-/B	Stable	May 2021
	Initial	National	A+(KE)/A1(KE)	Stable	May 2021
	Initial	National	AA(NG)/A1+(NG)	Stable	May 2021
	Initial	National	B+(MU)/B(MU)	Stable	November 2021
	Last	International	B-/B	Stable	June 2022
	Last	National	A+(KE)/A1(KE)	Stable	June 2022
	Last	National	AA(NG)/A1+(NG)	Stable	June 2022
	Last	National	B+(MU)/B(MU)	Stable	June 2022
Series 1 Tranche A Senior Unsecured Notes	Initial/last	National	AA(NG)	Stable	June 2022
Series 1 Tranche B Senior Unsecured Notes	Initial/last	National	AA(NG)	Stable	June 2022

Risk score summary

Rating Components & Factors	Score
Operating environment	**7.75**
Country risk score	2.75
Sector risk score	2.50
Membership Strength and Diversity	1.50
Preferential Creditor Treatment	1.00
Business profile	**(1.25)**
Status and diversity	(2.75)
Mandate and track record	1.50
Management and governance	0.00
Financial profile	**3.25**
Capital and leverage	5.00
Risk	(1.75)

Funding structure and liquidity	0.00
Comparative profile	**0.00**
Callable capital	0.00
Peer comparison	0.00
Total Risk Score	**9.75**

Glossary

Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (i.e., being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Bond	A long-term debt instrument issued by either a company, institution or the government to raise funds.
Callable	A provision that allows an Issuer the right, not the obligation, to repurchase a security before its maturity at an agreed price. The seller has the obligation to sell the security if the call option holder exercises the option.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Coverage	The scope of the protection provided under a contract of insurance.
Creditor	A credit provider that is owed debt obligations by a debtor.
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.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.

Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.
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.
Pricing	A process of determining the price of a debt security.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Risk Management Process	The systematic application of management policies, procedures and practices to the tasks of risk identification, assessment and measurement, response and action, monitoring and review, and risk reporting.

Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk	The chance of future uncertainty (i.e., deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short Term	Current; ordinarily less than one year.
Tranche	A portion of an obligation, each of which has different terms.
Turnover	The total value of goods or services sold by a company in a given period. Also known as revenue or sales. Turnover can also refer to the total volume of trades in a market during a given period.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.

Salient points of accorded rating

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 entities.

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.

The rated entity participated in the rating process via face-to-face management meetings, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 31 December 2022.
- Breakdown of loan book and funding as at December 2022;
- Breakdown of facilities
- Other related documents