



Media Release

RAM Ratings assigns AA₁ preliminary rating to SEP Resources' proposed ASEAN Sustainability SRI Sukuk Wakalah

RAM Ratings has assigned a AA₁/Stable preliminary rating to SEP Resources (M) Sdn Bhd's (SEP or the Company) proposed RM185 mil ASEAN Sustainability SRI Sukuk Wakalah (2024/2036) (SRI Sukuk). SEP is an intermediate investment holding company, 70%-owned by Pesona Metro Holdings Berhad (PMHB), a mid-sized public-listed construction company in Malaysia. Budaya Positif Sdn Bhd is a wholly owned subsidiary of SEP, holding a 22.5-year concession for the development and maintenance of student hostels for UniMAP in Padang Siding, Perlis.

The SRI Sukuk proceeds will primarily be used to refinance outstanding obligations under SEP's existing RM150 mil Islamic Medium-Term Notes (IMTN) (last rated AAA/Stable in August 2023), with an estimated RM69 mil advanced to PMHB and its subsidiaries. PMHB also serves as the corporate guarantor for both the existing IMTN and proposed SRI Sukuk. Additionally, through the SRI Sukuk, SEP aims to monetise the remaining concession cashflows of Budaya Positif to fund specific property development projects that meet the eligibility criteria of the Sustainability and SRI Sukuk Guidelines/Framework or those identified in Pesona ASEAN Sustainability SRI Sukuk Wakalah Framework (Eligible Projects).

Given that part of the SRI Sukuk issuance proceeds will fund Eligible Projects, SEP's SRI Sukuk could be the first property development-related issuance in the domestic market to be backed by concession proceeds from a private financing initiative/public-private partnership project to meet profit and principal obligations.

The AA₁ preliminary rating reflects SEP's solid debt coverage metrics, underpinned by stable and adequate concession payments to service its financial obligations under the proposed SRI Sukuk. The projected finance service coverage ratios (FSCR) are expected to remain above 1.50 times, commensurate with the thresholds required for the AA₁ rating. The cash retention features of the SRI Sukuk, including restrictions on shareholder distributions and excessive expenditures, ensures that the Company's robust financial risk profile, as measured by FSCRs, is preserved for the remaining tenure of the sukuk.

As a holding company with no standalone business, SEP relies on stable concession-backed cash flows from Budaya Positif for the repayment of the SRI Sukuk. The SRI Sukuk includes a credit linkage to facilitate the flow of monies between the two entities

via the issuance of Murabahah Stocks. Under a 22.5-year concession awarded in January 2013, Budaya Positif is entitled to monthly payments from Universiti Malaysia Perlis for the development and maintenance of student hostels in Padang Siding, Perlis. Budaya Positif registered a robust performance score (key performance indicators) of 93% in 2023, with negligible monthly maintenance service charge deductions.

SEP's highly leveraged capital structure is mitigated by its strong cash flow, operational health and cash retention capabilities. The remote risk of concession termination is further alleviated by the corporate guarantee from PMHB, a Bursa Malaysia-listed mid-sized construction company.

The rating of the proposed SRI Sukuk is preliminary. The final rating will be subject to RAM's satisfactory review of the transaction documents, tax and legal opinions and confirmation of the final terms of the transaction. Any material changes may result in a change in the preliminary rating. RAM also expects to withdraw the rating of SEP's RM150 mil IMTN after outstanding obligations are fully redeemed.

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