GCR assigns Shelter Afrique an international scale long and short-term issuer credit rating of B-/ B

Rating Action

Johannesburg, 28 May 2021 – GCR Ratings (“GCR”) has assigned The Company for Habitat and Housing in Africa (‘Shelter Afrique’) international scale long and short-term issuer ratings of B- and B respectively, with the outlook accorded as Stable. At the same time, the following long and short-term national scale issuer ratings have been assigned:

Kenyan National Scale ratings at $A+_{(KE)}/A1_{(KE)}$, with outlook accorded as Stable.
Nigerian National Scale ratings at $AA_{(NG)}/A1+_{(NG)}$, with outlook accorded as Stable.

Rated Entity	Rating class	Rating scale	Rating	Outlook / Watch
Shelter Afrique	Long term issuer	International	B-	Stable Outlook
	Short term issuer	International	B	

Rating Rationale

The ratings on Shelter Afrique (‘the company’) balance the geographical distribution of the development book, with a chequered history of timely member support and limited preferential creditor treatment (‘PCT’), the relatively modest size and diversity of the organisation and the strong underpin of the mandate. We also factor in the very robust capitalisation of the entity, despite weak earnings, poor asset quality (from the legacy book), moderate funding position versus supranational peers and adequate liquidity.

Shelter Afrique is a relatively small regional Multilateral Development Bank (‘MDB’) established with a mandate to provide affordable housing in Africa. Its modest size (with developmental exposures of just over USD164mln at FY20) is a relative strain to its ability to self-fund very large developmental projects given a massive deficit of housing in Africa. The status of the institution is also constrained by some financial sustainability issues emanating from the disruptive event of 2016. This is reflected by core earnings which remain negative on the back of substantially low volumes in loan originations, although profitability has been on an improving trend supported by recoveries on the non-performing loan (‘NPL’) book. The company has a fairly diverse product range that addresses its housing mandate, with lines of credit and project finance having a meaningful impact.

We view the mandate to be strong, underpinned by the company’s broad social, environmental, and economic development focus. Mandate strength is moderated for track-record that has diminished in recent years. With limited funding, the company’s balance sheet contracted in the last three years, increasing replaceability risks for the institution in our opinion. Nonetheless, the company's non-financial capacity building initiatives meant to assist member countries formulate appropriate affordable housing policy frameworks and provide technical expertise supports the institution's relevance to its shareholders, in our opinion.

The company's balance sheet is exposed to the operating environment risks of Africa. We believe these risks, which reflects the direct and indirect impact of the COVID-19 pandemic, have somewhat constrained fiscal capacity of member countries. Furthermore, the track-record of timely support by the shareholders has not been supportive of a higher credit rating. The company has some examples of preferred creditor status from member countries but as most are post-default, the ratings would benefit from sustained reduction in NPLs and minimised length of time in recoveries as proof of preferential treatment.

With a GCR leverage of c.73% at FY20, capitalisation is very strong, and we expect the ratio to trend within familiar levels of between 70% and 75% over the next 12-18 months, balancing ramped up capital subscriptions, improving profitability with significant retention levels, and anticipated expansion of the loan book. Internal capital generation has improved thanks to the improved recovery prospects of the NPL book. However, core earnings are negative returning -1.8% of adjusted assets at FY20 but expected to improve to around -0.7% by end of FY21, supported by a 19% increase in net interest income, substantial increase in non-funded income, and improved cost run rate. The downside risk of a weak GCR leverage ratio is contained over the next 2 years, given stronger capital collection levels expected between USD10mln and USD20mln per year, which is more than adequate to sustain potential drag on earnings. Loan loss reserve coverage of 71% as of Dec 2020 is considered adequate and in line with peers and we expect coverage to improve to between 94% and 120% over the next 2 years based on anticipated loan growth and the company's historical total book provision coverage.

Asset quality is a ratings' weakness, reflected by credit losses that are relatively higher in comparison to peers through the cycle. Impairments were booked lower at 1.2% as of Dec 2020 but we expect an increase to around 1.5% and 2% over the next 2 years. NPLs are also very high largely attributed to the legacy portfolio but are expected to lower on the back of improved recoveries. Concentrations are moderate and in favourable range to that of peers, with top 20 loans accounting for c.65% of the loan book at FY20. On the other hand, the risk management policies of the company were revised in 2018/2019 to address historical failures. We remain conservative in our view of asset quality metrics trends in the future, with the effectiveness of the aforementioned changes yet to be tested. Market risk is minimal with limited equity investments, and FX lending risks are well managed by natural hedging and sale of excess FX holdings.

The Funding structure is moderate in comparison to peers, reflected by confidence sensitive funding that has restrictive covenants under the debt restructuring agreement. The funding base is less diverse, but we anticipate with some confidence that the diversification of funders will gradually improve back to historical structure. That said, the company has started engaging new funders, having secured close to USD20mln for the year 2021, with other funders in the pipeline. On the other hand, liquidity is adequate with the company comfortably meeting all outstanding debt maturities by 1.25x over the next 12 months. Liquid assets/total assets registered at 27% at Dec 2020 vs 15% internal minimum and expected to decline to around 20-21% over the next 12-18 months. However, our liquidity assessment also factors in low quality of liquid assets with majority of the bank placements sitting in lower tier banks.

Outlook Statement

The outlook is stable reflecting our expectation for capitalisation to remain at strong levels and cushion the risk of poor earnings. Alongside the above, we also expect asset quality and liquidity risks to be stable following the successful completion of the debt restructuring agreement. However, we view financial sustainability risks and vulnerabilities to be in the moderate range over the medium term, with core earnings in negative territory and business stability yet to be proven.

Rating Triggers

The ratings may benefit from an improving track record of shareholder support in terms of increased capital subscriptions and timeliness of that support. In addition, a growing development book, building back status, more examples of preferential treatment, improved core earnings, better than expected impairments would also be viewed positively. The ratings could be lowered if the company does not regain business and financial sustainability, mandate track record continues to diminish on the back of a sustained reduction of the development book, substantial deterioration in capital, credit losses exceeding our expectations, and/or if there is an increase in funding and liquidity risks.

Analytical Contacts

Primary analyst	Simbarake Chimutanda	Financial Institutions Analyst
Johannesburg, ZA	SimbarakeC@GCRratings.com	+27 11 784 1771
Committee chair	Matthew Pirnie	Group Head of Ratings
Johannesburg, ZA	MatthewP@GCRratings.com	+27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Supranational Institutions, May 2019

GCR Ratings Scale, Symbols & Definitions, May 2019
GCR Country Risk Scores, April 2021
GCR Financial Institutions Sector Risk Score, May 2021

Ratings History

The Company for Habitat and Housing in Africa

Rating class	Review	Rating scale	Rating	Outlook	Date
Long and Short-Term issuer	Initial/last	International	B-/B	Stable	May 2021
	Initial/last	National	$A+_{(KE)}/A1_{(KE)}$	Stable	May 2021
	Initial/last	National	$AA_{(NG)}/A1+_{(NG)}$	Stable	May 2021

Risk Score Summary

Rating Components and Factors	Risk score
Operating environment	**8.25**
Country risk score	3.00
Sector risk score	2.75
Membership Strength and Diversity	1.50
Preferential Creditor Treatment	1.00
Business profile	**(1.00)**
Status and diversity	(3.00)
Mandate and track record	2.00
Management and governance	0.00
Financial profile	**2.50**
Capital and leverage	5.00
Risk	(2.00)

Funding structure and liquidity	(0.50)
Comparative profile	**0.00**
Callable capital	0.00
Peer analysis	0.00
Total Score	**9.75**

Glossary

Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
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.
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.

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings were 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; 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 Shelter Afrique. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

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

Audited financial results as at 31 December 2020;
Breakdown of loan book and funding as at December 2020;
Latest internal and/or external audit report to management;
Industry comparative data.