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## RAM Ratings reaffirms UniTapah's AA1/Stable rating

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UiTM Cawangan Perak Kampus Tapah

RAM Ratings has reaffirmed the AA1/Stable rating of UniTapah Sdn Bhd's (the Company) Sukuk Murabahah of up to RM600 mil (2014/2035). This is premised on the Company's strong and predictable cashflow debt-service coverage, supported by prompt receipts of monthly Availability Charges (ACs) from University Teknologi MARA (UiTM). The rating is further supported by UniTapah's good maintenance track record and low counterparty risk.

UniTapah is the concessionaire for the development and maintenance of UiTM's campus in Perak, under a 23-year Concession Agreement (CA) between the Government of Malaysia (GoM), UiTM and the Company. Everfine FMS Sdn Bhd – a subsidiary of Global Facilities Management Sdn Bhd – has been contracted to undertake maintenance work at the campus. Under the contract, Everfine FMS is paid a fixed percentage of the maintenance charges (net of deductions incurred due to non-performance) received from UiTM. This mitigates the risk of deviations in maintenance costs. Everfine FMS's performance track record remains commendable to date. In 2019, UniTapah's key performance indicators came in at a commendable 99% while deductions for non-performance were negligible.

UniTapah's finance service coverage ratios (FSCRs) came up to 2.40 times (with cash balances) in December 2019, against RAM's projected 2.06 times. The higher FSCR was due to timely payments from UiTM (against RAM's assumed two-month delay) and negligible performance-related deductions. Going forward, UniTapah's repayment capacity is expected to be sustained by recurring ACs from UiTM, steady cash accretion and the Company's commendable maintenance track record. The transaction's counterparty risk is deemed low, as the GoM is the ultimate obligor of the concession payments.

Sukukholders' interest is further safeguarded by the transaction's tight financing structure and restrictive covenants. These include the prohibition of payments on the Junior Sukuk and dividend payments as well as advances to shareholders throughout the tenure of the Sukuk. Additionally, concession payments from the GoM are captured in designated accounts, most of which are solely operated by the Security Trustee and where the flow of money is well defined.

Notwithstanding the above strengths, this transaction is somewhat weaker than other private finance initiative/public-private partnership projects on several fronts. These include the right to offset any amount owed by UiTM from any sum payable to UniTapah under the CA, and the absence of direct assignment of rights under the CA to the sukukholders. Insufficient compensation to cover the Sukuk under a termination scenario also further constrains the rating. Despite this, termination risk due to non-performance is deemed remote, thanks to the Company's commendable track record and the low to moderate level of complexity of maintenance work.

Source:

<https://www.ram.com.my/pressrelease/?prviewid=5396> (<https://www.ram.com.my/pressrelease/?prviewid=5396>)

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