

## RATING ANNOUNCEMENT

GCR assigns a Kenyan national scale long-term indicative rating of AA<sub>(KE)(IR)</sub> to Linzi FinCo 003 Trust's proposed KSh44.79Bn Infrastructure Asset Backed Security, Outlook Stable.

### Rating Action

Johannesburg, 11 June 2025 – GCR Ratings (GCR) has assigned a national scale long-term indicative rating of AA<sub>(KE)(IR)</sub> to Linzi FinCo 003 Trust's proposed KSh44.79Bn(\$347M) Infrastructure Asset Backed Security (Linzi 003 IABS or the Transaction), with the Outlook accorded as Stable. The indicative rating will expire on the sooner of 31 December 2025 or the issuance date of Linzi 003 IABS Notes.

Rated Issue	Rating class	Rating scale	Rating	Outlook / Watch
Linzi FinCo 003 Trust's proposed KSh44.79Bn Infrastructure Asset Backed Security	Long Term Issue	National	AA <sub>(KE)(IR)</sub> *	Stable Outlook

\*IR: An Indicative Rating is denoted by an 'IR' suffix to indicate that a credit rating has been accorded based on review of final draft documentation and expectations regarding final documentation. The Indicative Rating is expected to convert to a final credit rating subject to the receipt of final documentation in line with GCR's expectations. Typically, this suffix will be used when awaiting the finalization of notes for a debt or program issuance. In this case, once the final documents are available the IR suffix may be removed. We expect the rating to convert upon regulatory approval, within the next 180 days.

### Rating Rationale

The indicative rating assigned to Linzi FinCo 003 Trust's proposed Transaction is supported by the relatively low risk in the receivables mandated to repay the Noteholders and moderate government support. The support in the form of an initial cash balance, that is to be replenished from time to time, and a standby letter of credit from KCB Bank is provided to the Transaction to enhance liquidity and addresses potential timing differences in cashflows. However, the Transaction is exposed to some operational risks, which in the absence of an explicit government guarantee places a cap on the rating.

The Issuer, Linzi FinCo 003 Trust, is a special purpose vehicle established through an Issuer Trust Deed for the sole purposes of issuing Notes to finance the construction of Talanta Sports City Stadium. The Issuer will finance the project by issuing Notes backed by receivables assigned from the Sports, Arts and Social Development Fund (SASDF), a government fund created under the 2018 Public Finance Management Regulations. SASDF, acting as the Originator, has been mandated by Sports Kenya (the Project Owner) to fund the stadium's construction (the Project). This mandate is in line with a project agreement between the Ministry of Defence (Contracting Authority) and China Road and Bridge Corporation (EPC Contractor), covering the design, construction, and equipping of the stadium. To fund the project, the Issuer plans to raise up to KSh44.79Bn through a restricted public offer, with the notes listed on the Nairobi Securities Exchange's Restricted Fixed Income Market Sub-Segment.

The Assigned Receivables, representing a portion of SASDF's cash flows of KSh524M per month, will form the Trust Assets. These assets will back the Notes, which will be direct, unsecured, and unsubordinated obligations of the Issuer, ranking equally with any other unsecured obligations backed by the Trust Assets. The Notes will have an indicative tenor of 15 years, maturing in 2040. Principal and interest payments will be made semi-annually in arrears until maturity.

Although the funds to be raised by the Issuer will be used to fund the Project, repayments to Noteholders are not contingent on its performance. Instead, the Trust Assets and the modelled repayment schedule have formed the basis of the analysis in determining the ratings of the Notes. GCR has therefore not considered the Project risks in relation to the repayments of the principal and interest to the Noteholders given that these will be serviced through the Assigned Receivables from SASDF to the Issuer being a first charge on the Assets of the Fund. The risk of the Project has not been fully decoupled and is considered to have a remote negative impact.

The Assigned Receivables are mainly generated by the Kenya Revenue Authority as mandated by various legislation through taxes on gambling and betting activities. As a result, GCR assessed the cash flow stability in relation to the Issuer's annually allocated portion of KSh6.29Bn and the cashflow mechanisms in the transaction. Additionally, GCR considered the Issuer's ability to revise the profit rate on the Notes to counter potential decreases in interest rates to be positive for the transaction. This flexibility allows the Issuer to accelerate payments on the Notes to achieve the targeted internal rate of return of 15.04% over the life of the transaction. Any excess funds will be held in a Debt Service Reserve Account. In addition, the Originator shall establish a standalone Debt Service Reserve Account (Escrow Account) to cover at least three months of the Issuer's obligations to cater for potential mismatches. As mentioned above, there is also a standby letter of credit issued by KCB Bank to the transaction equal to three months of the Issuer's obligations. The replenishment of these facilities by SASDF is considered as a moderate uplift for the rating.

In order to determine the stability of allocated collections that are modelled for the repayment of the Notes, GCR assessed the variability of the underlying sources of cash flows from which the allocations will be derived. For this GCR analysed the SASDF collection performance over five years from 2019 to 2024. The average SASDF collection was calculated and used to determine the extent of which the SASDF collections on average exceed the Issuer's allocated portion. To account for the observed variability in historical collections, GCR conservatively assumed no growth in collections into the future beyond the 2024 collection level.

GCR has placed reliance on the model provided by the Issuer and incorporated its own stresses in line with its Criteria for rating Structured Finance Transactions, May 2024. Although the Project payments are fixed, they are denominated in US Dollars, given the short period over which the conversion is to be applied, GCR has applied the indicative contract exchange rate in its assumptions. In addition, the running costs per annum have been provided to GCR as figures that have already been stressed for the period of the Notes. As a result, GCR limited further stresses to the Issuer's costs.

The indicative rating is uplifted by the level of government support that is being provided to the Transaction and the relief the Issuer is creating for the immediate project funding needs of government. The Project itself bears national significance and has perceived interest from all arms of government in ensuring compliance with agreements. For instance, it has been stipulated that if the National Government elects to dissolve or wind down SASDF, Noteholders shall be transferred to the National Exchequer Account, thus Government shall assume full responsibility for the discharge and settlement of all outstanding Notes when it creates the impediments. This undertaking reduces the risks of non-renewal, but it has still been considered. The transaction has the benefit of support and scrutiny from National Treasury, the Attorney General, the Auditor General and the Ministry of Sports, thus limiting the potential diversion of funds provided to the Issuer.

GCR has received draft legal opinion from the Solicitors, KN Law LLP, which inter alia indicates that SASDF Receivables constitute eligible movable property in accordance with the provisions of the Movable Property Security Rights Act, 2017 and are therefore capable of assignment either by way of security or an outright sale. Additionally, upon outright transfer of the SASDF Receivables under the terms of the Deed of Assignment, the Securitisation Trustee, for the Noteholders' benefit, will, in accordance with its terms, be entitled to all of the rights, interests and benefits in the SASDF Receivables and the benefit of any corresponding interest granted in relation thereto.

The assignment of those rights and interests is irrevocable and will constitute a true sale, as opposed to a transfer of rights to secure a debt or other obligation secured on such rights.

The legal opinion also sets out all required approvals for the transaction from the relevant government institutions.

### **Debt Service Coverage Ratio (DSCR)**

The DSCR has been based on the cash flow model provided to GCR, and overall cash inflows and Issuer's payments have been assumed to be fixed in all material respects in terms of quantum and timing. A decreasing interest rate environment poses a risk to the DSCR, and GCR stressed the model for this potential scenario. The reaction of the management team to decreasing interest rates is to decrease the profit on the Notes which has the effect of accelerating payments and maintaining the overall internal rate of return. The inability to react appropriately and timeously may impact the outcome of both the DSCR and the internal rate of return.

The indicative rating assumes that the intentions and conditions and model assumptions in the draft Linzi 003 IABS documentation will not change. That management will actively pursue rates and effectively manage the downside risks presented by a potential declining interest rate environment.

### **Outlook Statement**

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The Stable Outlook reflects GCR's expectations that the projected outcomes will be achieved and few downside risks to reinvestment rates will materialise.

## Rating Triggers

The rating could be downgraded if there is a deviation from agreed support structures affecting timing of cashflows and there are operational deficiencies. Conversely, a positive rating movement may result from the renewal of the SASDF fund, operational uncertainty being lifted and the completion of the infrastructure project in accordance with the plans. As mentioned, the decoupling from the project risks is not yet perfected.

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## Related Criteria and Research

Criteria for Rating Project Finance Transactions, November 2018  
Criteria for Rating Structured Finance Transactions, May 2024  
Criteria for Rating Financial Institutions, May 2024  
Criteria for the GCR Ratings Framework, May 2024  
GCR Ratings Scale, Symbols & Definitions, May 2023  
GCR Country Risk Scores, May 2025

## Ratings History

### Linzi FinCo 003 Trust's proposed KSh44.79BnInfrastructure Asset Backed Security

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issue	Initial/Last	National	N.a.	N.a.	N.a.

N.a.: Not applicable

## Glossary

Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
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 Backed Securities	Securitisation: debt securities issued that are backed or covered by a pool of assets or receivables (Auto loans and leases, consumer loans, commercial assets, credit cards, mortgage loans).
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
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.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Debt Service Coverage	Measures the ratio of cash available for debt servicing to interest, principal and lease payments.
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.
Deed	A legal document that is signed and delivered, especially one regarding the ownership of property or legal rights.
Discharge	Performance of obligations in a natural way according to a contractual relationship.
Downgrade	The rating has been lowered on its specific scale.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Exchange Rate	The value of one country's currency expressed in terms of another.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Fix	The setting of a currency or commodity price for trade at a future date.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Income	Money received, especially on a regular basis, for work or through investments.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Irrevocable	Not able to be changed, reversed, recovered and final.
Issuer	The party indebted or the person making repayments for its borrowings.
Legal Opinion	An opinion regarding the validity and enforceable of a transaction's legal documents.

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.
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.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Noteholder	Investor of capital market securities.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Originator	An entity that created assets and hold on balance sheet for securitisation purposes.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Property	Movable or immovable asset.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Ranking	A priority applied to obligations in order of seniority.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Renewal	The re-establishment of the in-force status of a policy, the term of which has expired or will expire unless it is renewed.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
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	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Settlement	Full repayment of an obligation.
Special Purpose Vehicle	An entity that is created to fulfil specific objectives. An SPV is normally bankruptcy/insolvency remote and created to isolate financial risk.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whilst reducing risk.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
True Sale	An asset's right, title and obligations are transferred to a securitisation vehicle by means of pledge, mortgage or cession.
Trust Deed	A deed of conveyance creating and setting out the conditions of a trust.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	An individual or firm that holds or administers property or assets for the benefit of a third party.

### 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 entity.

The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and 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:

- Draft Information Memorandum, 03 June 2025
- Draft Trust Deeds 15 April 2025
- Draft Agency Agreement
- Draft Deed of Assignment of Receivables, 30 May 2025
- Draft Fixed and Floating Charge Agreement, 28 May 2025
- Draft Deed of Novation, 28 May 2025
- Draft Management Services Agreement, May 2025
- Draft Step in Rights Agreement, 28 May 2025
- Draft legal opinion, 17 May 2025
- Exchange rate source: <https://www.bloomberg.com/markets/currencies> KSh129.2300 \$1 as at 09 June 2025

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