

Credit Rating Report

No.: 004/23

Nov 15, 2023

CIA FIRST International School Co., Ltd.

Credit Rating		Bond Information	
Issuer Credit Rating	khBB	Size	USD 10 million
Outlook	Negative	Settlement	Semi-annual interest payment and annual principal payment
Bond Credit Rating	khAAA	Maturity	5 years (1 year grace period for principal payment)
		Type	Unsecured Guaranteed
		Coupon Rate	6.3% p.a
		Guarantor	Credit Guarantee & Investment Facility (CGIF)

Analysts:

Mr. Chakara Sisowath, CFA
 s.chakara@ratingagencyofcambodia.com.kh
 (+855) 17 398 777

Ms. Darya Sieng
 s.darya@ratingagencyofcambodia.com.kh
 (+855) 17 386 777

Ms. Sunvandeth Pov
 p.sunvandeth@ratingagencyofcambodia.com.kh
 (+855) 17 318 777

Ms. Achhakrately Lim
 l.achhakrately@ratingagencyofcambodia.com.kh
 (+855) 17 250 777

Mrs. Hengjulie Song
 hengjulie.song@3e-fii.com
 (+855) 89 239 249

Mr. Tola Nhean
 tola.nhean@3e-fii.com

Key Rating Rationale

The present rating is based on the bond characteristics as outlined in this report and on the guarantee agreement and all other relevant documentation available to us at this time, either in draft or in working copy form. The rating is effective only when the bond is issued and all documentation has been approved by the regulatory authorities. Any material deviation from the guarantee agreement will result in the rating being put under review, suspended, or canceled. **This rating is contingent on revision of "Clause 20" being the correct clause instead of "Clause 200" under Clause 20 Dispute Resolution in the executed guarantee agreement.**

We initiate the credit coverage of CIA FIRST International School Bond ("the Bond") with a Bond Credit Rating (BCR) of khAAA (National Scale) which indicates in the Cambodian context an "Extremely strong capacity to meet financial commitments". In our methodology the BCR is made of two components: the Issuer Credit Rating (ICR) and the Recovery Scoring (RS).

The Recovery Scoring of the issue is "Very Low Risk". The bond is covered by a 100% irrevocable and unconditional guarantee in respect of non-payment on principal and interest amount by Credit Guarantee & Investment Facility (CGIF), an entity whose current credit rating is AA (global) by S&P and AAA (national) by RAM Ratings (Malaysia), TRIS (Thailand), Fitch Ratings Indonesia, and Pefindo CRA (Indonesia). Hence, we assign a rating of khAAA on our National Scale to the Bond Credit Rating.

In our view, the guarantee agreement justifies a credit substitution from the ICR of CIA First International School Co., Ltd. ("CIA") to the ICR of CGIF. In case of default, bondholders are protected by an irrevocable and unconditional guarantee of timely payment in full (interest and principal) by CGIF.

The Issuer Credit Rating itself has two components: a Stand-Alone Credit Profile (SACP) and an External Support Factor (ESF). The SACP analyses the credit profile of CIA from the perspective of its business risks and financial risks. In its own right, CIA has an "Adequate capacity to meet financial commitments but more vulnerable to adverse changes in circumstances and economic environment". The SACP rating of khBB indicates a "Moderate Risk" profile. We note both the increased enrolment from previous campus expansion and further expansion plan that would increase fixed costs and reduce future profitability in the early years.

Outlook

As revenue is mainly reliant on the provision of educational services, it is relatively stable due to its non-discretionary nature expense for families. Planned branch expansion will increase CAPEX needs and puts further pressure on net profits, especially during the earlier years, as the increase in enrolments is still unable to offset the additional expenses. Funding requirements for branch expansion have also been considered and will be financed with a portion of this bond issuance. Hence, revenue streams are likely to remain stable and efforts to diversify sources of funding will likely lead to more cost-efficient funding but profitability is expected to decline especially in the early years.

Rating Sensitivity

On the upside, we would look at increased profitability and reduction in their gearing to consider upgrading the ICR of the company. On the downside, further deterioration in profitability, increased leverage, and large dividend distribution plan may compel us to consider an ICR downgrade.

Moreover, the BCR is pegged to CGIF's global rating (AA by S&P Global Ratings). Thus, we may consider a BCR downgrade if CGIF's global rating is downgraded.

Issues to Monitor

Given the use of proceeds from this bond issuance is to finance the construction of new campuses and related investments thereto, receiving license for a fourth campus is relevant to this bond issuance. At this stage, CIA applied for the license for the fourth campus pending approval from the regulator. Hence, receipt of license for the fourth campus is a subject to be monitored.

In addition to the license for the fourth campus, CIA's gearing, expansion plan, enrolments, utilization of current maximum enrolment capacity, and dividend distribution plan are subjects to be monitored.

CIA FIRST International School Co., Ltd Summary

Overview

CIA FIRST International School (henceforth "CIA") is an international private school in Cambodia, offering educational programs from early kindergarten to high school. CIA was incorporated in 2016. CIA is licensed by the Ministry of Education, Youth and Sport (MoEYS). It is also accredited by The Accrediting Commission for Schools, Western Association of Schools and Colleges (ACS WASC), Quality Matters, and The Institute for Habits of Mind. There are currently three campuses: CIA FIRST Sen Sok (K3-G8), CIA FIRST Sen Sok High School (G9-G12), and CIA First Chbar Ampov. CIA is looking to open the fourth branch in North Phnom Penh.

Performance

CIA was able to generate positive net profits for the past five years although the profit dropped significantly in 2021 due to the opening of a second branch (CIA FIRST Chbar Ampov) in September 2020 and a third branch (CIA FIRST Sen Sok High School Branch) in February 2021, which increased depreciation expenses sharply as well as other fixed costs to operate the new campuses. The sizable increase in depreciation still negatively impacted earnings for FY2022 as revenues from the growth in enrolments still could not offset these expenses. However, CIA has been able to increase the number of enrolments in 2023 by 29%. Hence, CIA is likely to incur additional capital expenditures (CAPEX) linked to branch expansion and maintenance of existing branches.

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Rating Definition

Issuer Credit Rating – National Scale			
National Rating	Definition		
khAAA	Extremely Strong Capacity to meet financial commitments	1	Very low risk
khAA	Very strong capacity to meet financial commitments	2	
khA	Strong capacity to meet financial commitments but somewhat susceptible to adverse changes in circumstances and economic environment	3	Low risk
khBBB	Adequate capacity to meet financial commitments but more susceptible to adverse changes in circumstances and economic environment	4	
khBB	Adequate capacity to meet financial commitment but more vulnerable to adverse changes in circumstances and economic environment	5	Moderate risk
khB	Adequate capacity to meet financial commitments but more likely to be affected by adverse changes in circumstances and economic environment	6	
khCCC	Capacity to meet financial commitments dependent on favorable business, financial and economic conditions	7	High risk
khCC	Weak capacity to meet financial commitments	8	
khC	Unlikely to be able to meet financial commitments	9	Very high risk
khD	In default partially or for all financial commitments	10	

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