

ACRA AFFIRMS PJSC MAGNIT AT AA(RU), OUTLOOK STABLE, AND ITS BONDS AT AA(RU)

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The credit rating of **PJSC Magnit** (hereinafter, Magnit, or the Company) is based on its very strong operating profile, very large size, high profitability, and very strong liquidity. The rating is constrained by medium coverage, medium leverage, and medium cash flow. In 2021, the Company acquired DIXY, a food retail chain, which strengthened Magnit's market positions.

Magnit is one of the two largest retail market players in Russia. As of the end of Q1 2022, the Company's chain included 18,953 convenience stores, 506 supermarkets, and 7,146 drugstores. The retail chain had about 9.2 million sq. m of total sales space. The Company is present in all federal districts of Russia except the Far Eastern Federal District.

KEY ASSESSMENT FACTORS

Magnit's very strong business profile is driven by the low cyclicity of demand (the Company's core activity is retail trade in groceries and staple goods), very strong diversification by store format, as well as high brand strength. Magnit is continuing to develop the segment of convenience stores as one of the most in-demand retail formats in the market. Convenience stores and drugstores are the fastest growing formats; discounter, a new trade format, has also been demonstrating positive results. The acquisition of DIXY by Magnit in 2021 strengthened the Company's market positions and its presence primarily in the Central Federal District. Currently, the Company is further consolidating and optimizing the business of the DIXY chain. ACRA expects that the profitability of the DIXY chain will reach the average level of Magnit stores by 2023.

The very large business size and high profitability. Magnit's revenue for 2021 amounted to RUB 1,856 bln, up 19.5% against 2020 (10.8% if adjusted for the acquisition of DIXY). The Agency notes a sharp increase in the Company's revenue in Q1 2022, which is associated with a rush demand in February and March. ACRA expects that high inflation and periods of super-high demand will have a positive impact on the Company's revenue in 2022. The Company's FFO before fixed charges and tax amounted to RUB 217 bln (+22.9% against 2020). The FFO before fixed charges and tax margin was 11.7% in 2021. ACRA expects the Company's profitability to decline in 2022 due to the lower profitability of DIXY stores relative to Magnit stores, as well as a likely decrease in real disposable income of the population this year. The Agency expects the Company's profitability to recover in 2023.

Medium leverage and medium coverage of fixed charges. As of the end of 2021, the ratio of total debt to FFO before net interest was 2.3x (1.7x in 2020), and the ratio of adjusted total debt to FFO before fixed charges was 4.2x (3.9x in 2020). The increase in the leverage is mainly associated with the need to finance the acquisition of DIXY. ACRA notes that the Company attracted funds at low rates (relative to the rates in May 2022) and for a long term. A significant

share of the Company's loan portfolio is represented by exchange-traded bonds. The ratio of FFO before net interest to interest was 7.9x in 2021 (7.4x in 2020), the ratio of FFO before fixed charges to fixed charges was 2.1x (in 2020, it was also equal to 2.1x).

The very high level of corporate governance. The assessment is based on high scores for the Company's strategy and structure, and very high scores for the governance structure, risk management, and financial transparency. The Company is successfully implementing the strategy of development and transformation of its retail chain. The management structure of the Company complies with the best world practices; committees for audit, strategy, financial markets, personnel and remuneration have been established under the board of directors; members of the board of directors have extensive experience. Risk management procedures are regulated and minimize all major types of risk. The structure of the Company is moderately complex, with the main cash-generating operations concentrated in a single legal entity. Financial transparency is very high, investor relations are in accordance with the best world practices.

The very high liquidity assessment is due to the presence of a significant amount of committed credit lines and a sound cash reserve. ACRA notes a wide access to external sources of funding and a sufficient degree of diversification of the Company's creditor base.

KEY ASSUMPTIONS

- Successful implementation of the Company's strategy.
- Absence of M&A transactions that may significantly affect the Company's business.
- Revenue growth by more than 10% in 2022.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- The weighted average ratio of adjusted total debt to FFO before fixed charges going below 4.0x and FCF margin exceeding 2%;

A negative rating action may be prompted by:

- The FFO before fixed charges to fixed charges ratio falling below 1.5x.

RATING COMPONENTS

Standalone Creditworthiness Assessment (SCA): **aa**.

Support: none.

ISSUE RATINGS

PJSC Magnit (ISIN RU000A1036M9); maturity date: May 29, 2024, issue volume: RUB 10 bln — AA(RU).

PJSC Magnit (ISIN RU000A1036H9); maturity date: May 29, 2024, issue volume: RUB 10 bln — AA(RU).

PJSC Magnit (ISIN RU000A101PJ1), maturity date: May 19, 2023, issue volume: RUB 15 bln — AA(RU).

PJSC Magnit (ISIN RU000A101MC3), maturity date: April 26, 2023, issue volume: RUB 10 bln — AA(RU).

PJSC Magnit (ISIN RU000A101HJ8), maturity date: March 2, 2023, issue volume: RUB 15 bln — AA(RU).

PJSC Magnit (ISIN RU000A1018X4), maturity date: December 22, 2022, issue volume: RUB 10 bln — AA(RU).

Rationale. The bond issues represent senior unsecured debt of PJSC Magnit. Due to the absence of either structural or contractual subordination of the issues, ACRA ranks them as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to ACRA's methodology, the bond issues are rated AA(RU), i.e. on par with PJSC Magnit.

REGULATORY DISCLOSURE

The credit ratings were assigned to PJSC Magnit and the bonds (RU000A1036M9, RU000A1036H9, RU000A101PJ1, RU000A101MC3, RU000A101HJ8, RU000A1018X4) issued by PJSC Magnit under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations Under the National Scale for the Russian Federation](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit ratings assigned to PJSC Magnit was published by ACRA for the first time on September 23, 2019. The credit ratings assigned to the bonds (RU000A1018X4, RU000A101HJ8, RU000A101MC3, RU000A101PJ1, RU000A1036H9, RU000A1036M9) issued by PJSC Magnit were published by ACRA for the first time on December 25, 2019, March 5, 2020, April 29, 2020, May 22, 2020, June 2, 2021, and June 2, 2021, respectively. The credit rating of PJSC Magnit and its outlook and the credit ratings of the bonds (RU000A1018X4, RU000A101HJ8, RU000A101MC3, RU000A101PJ1, RU000A1036H9, RU000A1036M9) issued by PJSC Magnit are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on the data provided by PJSC Magnit, information from publicly available sources, as well as ACRA's own databases. The credit ratings are solicited, and PJSC Magnit participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to PJSC Magnit. No conflicts of interest were discovered in the course of credit rating assignment.

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