

ACRA UPGRADES JSC "MCC "EUROCHEM" TO AA+(RU), OUTLOOK STABLE, AND BONDS TO AA+(RU)

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The credit rating of JSC "MCC "EuroChem" (hereinafter, JSC "MCC "EuroChem", or the Company) has been upgraded based on the considerable improvement of the market situation in 2021, which has favorably affected the Company's financial indicators and resulted in a substantial improvement in the assessments of leverage, debt service, profitability, cash flow, and liquidity. The Company's credit rating is based on its strong business profile, very strong geographic diversification, very high corporate governance, very large size, very high profitability, coverage and liquidity indicators, as well as low leverage and high cash flow assessment.

JSC "MCC "EuroChem" is the main production unit of EuroChem Group (hereinafter, the Group, EuroChem Group, or EuroChem). Given the fact that the Company accounts for around 70% of the assets and cash flow (and around 40% of the leverage) of EuroChem Group, ACRA used the Group's consolidated indicators to assess the Company's creditworthiness. EuroChem Group is one of the four largest global fertilizer producers. The Group produces nitrogen, phosphate, potash and complex fertilizers, and operates in the iron ore concentrate and organic synthesis product supply segment. The Company's beneficiary is Andrey Melnichenko.

KEY ASSESSMENT FACTORS

Improved market situation in 2021. A significant increase in prices in the fertilizer market took place in H1 2021 amid recovering demand for fertilizers and continued supply disruptions. In the first half of this year, ammonia prices (FOB Yuzhny) increased by 96% vs. the average for 2020, urea (FOB Yuzhny) — by 52%, MAP (FOB Baltic Sea) — by 79%, and potassium chloride (FOB Baltic Sea, spot) — by 16%. In Q3, the growth in fertilizer prices accelerated, driven by a sharp acceleration in the growth of gas prices and growing inflationary pressure in the global market as a whole. Higher gas prices have led to the suspension of up to a third of ammonia production capacity in Europe. At the same time, the decrease in supply in the world market is intensifying in connection with China's decision to limit exports of fertilizers amid a sharp rise in prices in the domestic market. ACRA expects prices to keep growing in Q4; overall for the year the Agency expects prices for ammonia to rise by 129%, urea — by 70%, MAP — by 97%, and potassium chloride — by 48%. The Agency expects average fertilizer prices to remain above the cyclical average in 2022. In H1 2021, sharp growth in iron ore prices was also recorded (Fe 63.5%, CFR China) — by 68% vs. 2020. However, the decline in steel production in China led to lower iron ore prices in Q3, and by the end of the year, the Agency expects average price growth in 2021 compared to 2020 to stand at 48%, with prices returning to the average cyclical values in 2022. Sharp growth in prices for the Group's products amid relatively stable production costs (in dollar

terms), in the Agency's opinion, will lead to a significant increase in the Company's FFO and profitability in 2021–2022 and have a favorable impact on all of EuroChem's financial metrics.

Low leverage and very high debt service assessment. EuroChem is implementing a project to construct a new ammonia and urea production plant in Kingisepp (EXC3-2). Construction is being carried out using project debt financing without recourse to the Group, and debt repayment and interest servicing will subsequently be performed at the expense of the cash flow from this project. When calculating the leverage indicators, ACRA adjusted the size of debt for the size of the project debt. According to ACRA, the ratio of the Group's total debt to FFO before net interest payments for 2021 is expected to be 0.87x vs. 3.03x in 2020. According to the Agency's assessments, the weighted average adjusted total debt to FFO before net interest payments for 2018 to 2023 amounts to 1.5x, which corresponds to low leverage.

The Group's high coverage of interest payments stems from the relatively low effective interest rate for foreign currency debt. In 2019–2020, the Group increased the size of its ruble borrowings; however, interest payments on ruble debt are almost fully hedged in dollars. When assessing the projected debt coverage indicators, ACRA took into account the effective dollar interest rates on ruble debt (taking into account the hedge). The weighted average ratio of FFO before net interest payments to interest payments for the period from 2018 to 2023 is estimated by ACRA at 15.5x.

High cash flow assessment. ACRA adjusted capital expenses by the size of project financing when calculating cash flow indicators. ACRA estimates weighted average FCF profitability for the period from 2018 to 2023 at 16.6% taking into account the adjustment, while the weighted average ratio of capital expenditures to revenue should be 12.4%. The Group has not paid dividends since 2016 and adheres to a strategy of reinvesting free cash flow in current investment projects. In ACRA's opinion, the favorable market situation will lead to a considerable increase in free cash flow in 2021–2022. The Agency expects that the growth in this indicator will be directed toward capital expenditures and lowering the Company's leverage, while the Company itself will continue to adhere to a zero-dividend policy in the forthcoming years.

KEY ASSUMPTIONS

- Increase in average annual prices in 2021 vs. 2020 (for ammonia by 129%, urea by 70%, MAP by 97%, and potassium chloride by 48%); decrease in prices in 2023 in vs. 2021 by an average of 27–33%;
- No dividend payments in 2021–2023;
- Capital investment program carried out according to the Group's plans.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

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

A positive rating action may be prompted by:

- Weighted average ratio of total debt to FFO before net interest payments falling below 1x;
- Further strengthening of the Group's market positions.

A negative rating action may be prompted by:

- Weighted average ratio of total debt to FFO before net interest payments growing higher than 2x and simultaneous decline of weighted average FFO ratio before net interest payments to interest payments below 10x;
- Weighted average FFO margin before net interest payments and taxes and weighted average FCF margin falling below 30% and 5%, respectively.
- Significant negatives changes to taxation of the industry.

RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **aa+**.

Adjustments: none.

ISSUE RATINGS

JSC "MCC "EuroChem", series BO-001P-03 (RU000A1008Z0), maturity date: April 9, 2022, issue volume: RUB 19 bln — AA+(RU).

JSC "MCC "EuroChem", series BO-001P-04 (RU000A100LS3), maturity date: January 18, 2023, issue volume: RUB 10 bln — AA+(RU).

JSC "MCC "EuroChem", series BO-001P-05 (RU000A100LV7), maturity date: July 19, 2023, issue volume: RUB 10 bln — AA+(RU).

JSC "MCC "EuroChem", series BO-001P-06 (RU000A100RG5), maturity date: August 18, 2023, issue volume: RUB 13 bln — AA+(RU).

JSC "MCC "EuroChem", series BO-001P-07 (RU000A101L96), maturity date: April 10, 2025, issue volume: RUB 10 bln — AA+(RU).

JSC "MCC "EuroChem", series BO-001P-08 (RU000A101LJ0), maturity date: April 15, 2025, issue volume: RUB 25 bln — AA+(RU).

Rationale. The issues represent senior unsecured debt of JSC "MCC "EuroChem". Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to ACRA's methodology, the credit rating of the issues is equivalent to that of JSC "MCC "EuroChem", i.e. AA+(RU).

REGULATORY DISCLOSURE

The credit ratings have been assigned to JSC "MCC "EuroChem" and the bond issues (RU000A1008Z0, RU000A100LS3, RU000A100LV7, RU000A100RG5, RU000A101L96, RU000A101LJ0) 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 on the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit rating of JSC "MCC "EuroChem" and the credit ratings of the bond issues (RU000A1008Z0, RU000A100LS3, RU000A100LV7, RU000A100RG5, RU000A101L96, RU000A101LJ0) were published by ACRA for the first time on December 1, 2020 and December 4, 2020, respectively. The credit rating and its outlook and the credit ratings of the bond issues (RU000A1008Z0, RU000A100LS3, RU000A100LV7, RU000A100RG5, RU000A101L96,

RU000A101LJ0) are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on data provided by EuroChem Group and JSC "MCC "EuroChem", information from publicly available sources, and ACRA's own databases. The credit ratings are solicited, and EuroChem Group and JSC "MCC "EuroChem" 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 EuroChem Group and JSC "MCC "EuroChem". No conflicts of interest were discovered in the course of credit rating assignment.

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