

ACRA ASSIGNS AA+(RU) TO PUBLIC JOINT STOCK COMPANY MAGNITOGORSK IRON & STEEL WORKS, OUTLOOK STABLE

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PRESS RELEASE

The credit rating of **Public Joint Stock Company Magnitogorsk Iron & Steel Works** (hereinafter, the Company, MMK) reflects MMK's strong market position and strong business profile, which in turn is determined by a significant share of products with high added value in the Company's sales, as well as a strong product diversification of the product portfolio. At the same time, the medium assessment of the "Degree of vertical integration" sub-factor constrains the assessment of MMK's business profile, while the very high assessment of the financial risk profile supports the credit rating.

MMK is one of the largest metal holdings in Russia with one of the widest product portfolios of steel products, ranging from semi-finished products to products with high added value, including cold-rolled and galvanized sheets used in automotive industry, as well as thick plates made using 5000 rolling mills and used in pipe industry, mechanical engineering, bridge building, etc. MMK's main steelmaking and rolling facilities are located in Russia and Turkey.

KEY ASSESSMENT FACTORS

The strong market position stems from the fact that MMK holds a high share in the Russian market (about 17% in 2021). The Company holds leading positions in the Russian market in such premium product segments as cold-rolled, galvanized and polymer-coated rolled products. MMK is the sole manufacturer of tinplate in the country.

The strong business profile reflects the Company's strong positions in a number of sub-factors, such as "Share of products with high added value" and "Characteristics and diversification of sales markets". In 2021, the share of MMK's products with high added value amounted to 42%, which is one of the highest indicators among Russian metal companies. With rolling mills of various widths, as well as some rolling mills unique in Russia, MMK boasts one of the widest product ranges of steel products in the country. The business profile assessment is constrained by the medium score for the "Degree of vertical integration" sub-factor. MMK's own mining assets cover the needs for iron ore by 17%, and for coking coal — by 40%. In 2021, exports accounted for up to 30% of the Company's revenues. In Russia, MMK's steelmaking and rolling facilities are located in Magnitogorsk — one of the oldest centers of the metal industry — and include eight blast furnaces with a total annual capacity of 10 mln tons of iron, three oxygen converters with a total annual capacity of 10 mln tons of steel, and two electric steelmaking furnaces with an annual capacity of about 4 mln tons of steel. The Turkish division of MMK is represented by a cast-rolling module with electric steelmaking furnaces with an annual capacity of over 2 mln tons of steel and rolled products. However, taking into account the significant share of products manufactured in Magnitogorsk, the "Concentration on a single plant" sub-factor received a medium score.

The high level of corporate governance reflects the consistency of the Company's strategy to upgrade its production facilities, improve environmental friendliness in accordance with ESG principles, strengthen vertical integration in terms of iron ore supply, increase energy efficiency, and reduce costs. The Company has established a comprehensive risk management system. Strategic decisions are made by the board of directors; five out of ten directors are independent. The score for the group's structure takes into account its minor complexity, characteristic of vertically integrated holdings. The Group has a clear dividend policy aimed at maintaining an optimal balance between a moderate credit burden and the need to ensure a stable flow of dividends for shareholders. In terms of financial transparency, ACRA notes the high quality of the audited financial statements, the key aspects of which are disclosed in the notes.

The very high assessment of the financial risk profile has a positive effect on the credit rating. The scale of the Company's business (FFO before net interest and taxes exceeds RUB 100 bln) is very large for the Russian corporate sector. Profitability is high: by the end of 2021, the FFO before interest and taxes margin was 36%. ACRA estimates that in the forecast period from 2022 to 2024, the average margin, taking into account the reduction in production volumes, will be about 17%. The Company's leverage is assessed as very low: the ratio of total debt to FFO before net interest was 0.3x in 2021 (0.8x in 2020) due to an increase in FFO against the background of higher steel prices. The Agency expects the Company's leverage to be 0.8x in 2022. The coverage (the ratio of FFO before net interest to interest) was 139x by the end of 2021, and by the end of 2022, it is expected at 34x. ACRA estimates that MMK's liquidity is very high: the amount of cash held in bank accounts and undrawn credit lines largely overlap the volume of upcoming repayments expected to peak in 2024.

In 2019–2020, the Company's free cash flow (FCF) after dividends was at a near-zero level, and in 2021, it turned out to be positive. The Agency assumes that in the forecast period from 2022 to 2024, FCF will remain in the positive area, taking into account the current dividend policy.

KEY ASSUMPTIONS

- Capital expenses in line with the Company's business plan.
- Dividend payments in line with the dividend policy that puts more importance to leverage other than payments to shareholders.

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 FFO before interest and tax margin exceeding 25% and the FCF margin exceeding 10%.

A negative rating action may be prompted by:

- The FFO before interest and tax margin declining below 15%;
- The FCF margin declining below 2%.

RATING COMPONENTS

SCA: **aa+**.

Support: no.

ISSUE RATINGS

No outstanding issues have been rated.

REGULATORY DISCLOSURE

The credit rating has been assigned 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 credit rating has been assigned to Public Joint Stock Company Magnitogorsk Iron & Steel Works for the first time. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on data provided by Public Joint Stock Company Magnitogorsk Iron & Steel Works, information from publicly available sources, and ACRA's own databases. The credit rating was assigned based on the IFRS financial statements of Public Joint Stock Company Magnitogorsk Iron & Steel Works. The credit rating is solicited, and Public Joint Stock Company Magnitogorsk Iron & Steel Works participated in their assignment.

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

ACRA provided additional services to Public Joint Stock Company Magnitogorsk Iron & Steel Works. No conflicts of interest were discovered in the course of credit rating assignment.

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