

June 24, 2019

Lead analysts:

Valeriy Piven, Associate Director
+7 (495) 139-0493
valeriy.piven@acra-ratings.ru

Alexander Gushchin, Associate
Director
+7 (495) 139-0489
alexander.gushchin@acra-ratings.ru

Key rating assessment
factors

ACRA affirms A+(RU) to State Transport Leasing Company PJSC, outlook Stable, and A+(RU) to bond issues

The credit rating of [State Transport Leasing Company PJSC](#) (hereinafter, STLC or the Company) is based on a high likelihood of extraordinary support from the state. The standalone creditworthiness assessment (SCA) of the Company is satisfactory. Compared to other RF-based issuers, the Company's creditworthiness is assessed as high.

STLC is a specialized company focused on financial and operating lease of transportation vehicles. Being a 100% state-owned company (its sole shareholder is the Russian Government represented by the Ministry of Transport), STLC is instrumental in implementation of the state transportation development programs.

According to ACRA estimates, STLC was the leader in terms of lease portfolio and new leasing business in Russia in 2018.

High likelihood of extraordinary support from the federal government is attributable to the role STLC plays in the implementation of the state industrial and transportation development programs. The Company's capital was formed through a series of capital injections from the state (nearly RUB 89 bln in total, including RUB 21 bln in 2018) used to finance transport vehicle leases granted to certain industries, which the government views as its priorities but whose growth is held back by high costs of corporate funding. In ACRA's opinion, the likelihood of state support to STLC is high, taking into account its importance for the Russian transportation industry. At the same time, ACRA notes that in case the financial standing of the Company deteriorates, budgetary injections would be high enough but not burdensome for the national economy. ACRA's opinion about state support is expressed in that the Company's final rating is four notches below the rating of the Russian Federation.

Adequate business profile is based on the Company's very strong standing in the Russian leasing market (STLC is among top leasing companies in Russia in terms of IFRS lease portfolio) and the vehicle lease segment. The factor's assessment is limited by the persistent concentration of the Company's lease portfolio on lessees (as of end-2018, the share of top 10 lessees was 56% of the IFRS lease portfolio) and leased aircraft (around 50% of the portfolio). ACRA notes the Company's effort to lower the concentration of its lease portfolio.

Lower loss absorption buffer is coupled with persistently limited capital generation capacity. Despite an increase in capitalization in 2018, the Company's capital adequacy ratio (CAR) fell to 17% (19.9% at the end of 2017). The rapid growth in assets (by more than 1.5 times) was the key factor contributing to the decline in CAR. STLC plans to maintain CAR above 15%, while ACRA expects the Company's growth rate to slow down, which allows to assess its current capital cushion as comfortable. STLC's internal capital generation capacity remains low. The Company got back to profitability in 2018, however, the average capital generation ratio (ACGR) amounted to -15 bps in 2014–2018. The Company's profitability is strongly limited by non-commercial (privileged) leasing programs. ACRA notes that the purposes of STLC, as an agent established to implement the state transportation policy, do not require STLC to maintain high returns.

Risk profile assessment is limited by the share of problem assets in the Company's lease portfolio. ACRA notes that with the rapid growth of STLC's lease portfolio, the share of contracts with payments overdue for 90 days or more in it

declined to 3.3% of the total lease payments due in 2018 (3.7% at the end of 2017). The accounts receivable under terminated lease agreements is around RUB 6.8 bln. On the other hand, ACRA notes that certain large lessees (whose receivables are estimated at 18.3% of lease payments due) may face a cash flow deficit to timely make repayments on the long-term horizon, which increases the probability of the need to restructure corresponding lease contracts.

Balanced funding structure. In 2018, the Company improved the diversification of its liabilities. At the end of the year, they mainly included bonds (48%) and bank loans (44%). The Company's dependence on certain lenders is assessed as acceptable: payables due to the largest lender amounted to 9% of the total liabilities of STLC, while payables due to the five largest lenders stood at 27.8%

Stable liquidity position. Under ACRA's base case scenario (and taking into account the Company's plans to build up its leasing business), the Company shows notable positive cash reserves (the estimated liquidity ratio is at least 1.1) at the end of each quarter within the 12 to 24-month horizon. The Company's temporary asset and liabilities structure is balanced. Under ACRA's stress scenarios, the Company's need for emergency liquidity is moderate.

STLC plays a crucial supporting role for the Russian Ministry of Transport in implementing a number of state-run programs in the transportation sector. The Company's services are in high demand, mostly in the aircraft segment, as well as in other niche transport segments. ACRA considers this factor a significant competitive advantage that is not reflected in the Company's SCA. This translates into a higher creditworthiness for the Company, and therefore results in one rating notch up to the SCA.

Key assumptions

- Current business model will undergo no changes within the 12 to 18-month horizon;
- CAR will be at least 15% within the 12 to 18-month horizon;
- The share of problem receivables will be within 25%;
- The Company will further maintain the current funding structure.

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:

- Increased systemic importance of the Company resulting from growing state funding and higher Company's involvement in the state transportation policy.

A negative rating action may be prompted by:

- Loss of controlling share in the Company by the Russian Federation, or a lower propensity of the controlling shareholder for support the Company;
- Lower systemic importance of the Company for the national economy.

Rating components

SCA: bb.

Adjustment: 1 notch up to the SCA.

Support: state support, 4 notches down against the RF.

Issue ratings

[STLC, 001P-14 series \(RU000A100FE5\)](#), maturity date: May 25, 2034, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-13 series \(RU000A1003A4\)](#), maturity date: January 20, 2034, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-12 series \(RU000A0ZZV11\)](#), maturity date: November 4, 2033, issue volume: RUB 5 bln, — **A+(RU)**.

[STLC, 001P-11 series \(RU000A0ZZAL5\)](#), maturity date: June 3, 2033, issue volume: USD 150 mln, — **A+(RU)**.

[STLC, 001P-10 series \(RU000A0ZZ984\)](#), maturity date: May 20, 2033, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-09 series \(RU000A0ZZ1J8\)](#), maturity date: March 18, 2033, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-08 series \(RU000A0ZYR91\)](#), maturity date: January 18, 2033, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-07 series \(RU000A0ZYNY4\)](#), maturity date: December 31, 2032, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-06 series \(RU000A0ZYAP9\)](#), maturity date: September 1, 2032, issue volume: RUB 20 bln, — **A+(RU)**.

[STLC, 001P-04 series \(RU000A0JXPG2\)](#), maturity date: April 6, 2032, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-03 series \(RU000A0JXE06\)](#), maturity date: January 22, 2032, issue volume: RUB 10 bln, — **A+(RU)**.

[STLC, 001P-02 series \(RU000A0JX199\)](#), maturity date: November 24, 2031, issue volume: RUB 7.78 bln, — **A+(RU)**.

Credit rating rationale. The issues represent senior unsecured debt instruments of [PJSC "STLC"](#). Due to the absence of either structural or contractual subordination of the issues, ACRA regards them *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to the ACRA methodology, unsecured debt repayment level corresponds to category II; therefore, the credit rating of the above issues is equivalent to that of STLC.

Regulatory disclosure

The credit ratings were assigned to State Transport Leasing Company PJSC and bonds (ISIN RU000A0JX199, RU000A0JXE06, RU000A0JXPG2, RU000A0ZYAP9, RU000A0ZYNY4, RU000A0ZYR91, RU000A0ZZ1J8, RU000A0ZZ984, RU000A0ZZAL5, RU000A0ZZV11, RU000A1003A4, RU000A100FE5) issued by State Transport Leasing Company PJSC under the national scale for the Russian Federation based on the Methodology for Credit Ratings Assignment to Leasing Companies Under the National Scale for the Russian Federation, the [Methodology for Analyzing Relationships Between Rated Entities and the State](#), 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 rating of State Transport Leasing Company PJSC was first published by ACRA on June 28, 2017 and the credit ratings assigned to the bonds issued by State Transport Leasing Company PJSC were first published by ACRA on July 25, 2017 (RU000A0JX199, RU000A0JXE06, RU000A0JXPG2), September 21, 2017 (RU000A0ZYAP9), January 23, 2018 (RU000A0ZYNY4), February 6, 2018 (RU000A0ZYR91), April 6, 2018 (RU000A0ZZ1J8), June 8, 2018 (RU000A0ZZ984), June 22, 2018 (RU000A0ZZAL5), November 23, 2018 (RU000A0ZZV11), February 7, 2019 (RU000A1003A4), and June 11, 2019 (RU000A100FE5). The credit rating of State Transport Leasing Company PJSC and its outlook as well as the credit ratings of the above bonds 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 State Transport Leasing Company PJSC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using consolidated IFRS financial statements of State Transport Leasing Company PJSC. The credit ratings are solicited, and State Transport Leasing Company PJSC participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by State Transport Leasing Company PJSC in its financial statements have been discovered.

ACRA provided no additional services to State Transport Leasing Company PJSC. No conflicts of interest were discovered in the course of credit rating process.

(C) 2019

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – www.acra-ratings.com/criteria.

No credit rating and/or credit rating outlook is regulated by the Central Bank of the Russian Federation, unless distributed so that such credit rating and/or credit rating outlook is in the public domain.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.