

ACRA AFFIRMS LLC «ASK-STROITELSTVO» AT BBB+(RU), OUTLOOK STABLE

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The credit rating of LLC «ASK-Stroitelstvo» (hereinafter, the Company, or ASK) is based on its strong market position, very strong business profile, very low leverage, very high assessment of debt servicing, good liquidity, medium business profitability, cash flow and corporate governance assessments. The Company's very high industry risk, small size, and weak geographic diversification limit the credit rating.

The Company is the largest residential real estate developer in Yekaterinburg and the Sverdlovsk Region. The expected total floor space of projects planned for commissioning in 2022–2024 is over 760,000 sq. m. According the Unified Resource of Developers, the floor space of the Company's current project portfolio amounted to 308,500 sq. m as of the beginning of December 2021.

KEY ASSESSMENT FACTORS

The industry risk is assessed as very high due to the pronounced cyclical nature of the sector, high amount of overdue debt, and substantial number of developers that have defaulted over the last five years. The industry the Company belongs to is a very strong factor limiting the credit rating.

The very strong business profile is based on the Company's highly diversified project portfolio, stable structure of schedules and terms for project implementation, as well as a high amount of self-manufactured materials and a large portion of construction works performed without involving contractors. Strong brand and high construction standards support the Company's ability to meet sales targets.

The very low leverage and the very high debt service ratio are the result of the Company's conservative financial policy. The Company widely uses project shares to pay for land lots. In assessing the Company's leverage, ACRA adjusted the total debt by the amount of debt raised through project financing and fully secured by funds received in escrow accounts from buyers. According to ACRA's estimate, the weighted average adjusted ratio of net debt to FFO before net interest in 2019–2024 will be 0.1x, while the ratio of total debt to capital will average 0.1x. The Company's leverage is assessed as very low. The debt service ratio is very high: the weighted average ratio of FFO before net interest to net interest is expected to be 14.8x for 2019–2024. In its estimations of the debt service ratio ACRA included project interest expense into prime costs.

Strong liquidity; medium cash flow. The weighted average FCF margin after dividend (FCF adjusted for operations on project debt secured by escrow accounts) from 2019 to 2024 is estimated by the Agency at 3.4%. ACRA expects that the Company's dividend payments in the forecast period (from 2022 to 2024) will amount to no more than 20% of IFRS net profits. The strong liquidity assessment is driven by a positive FCF and an insignificant volume of debt repayments expected in 2022–2024.

KEY ASSUMPTIONS

- Implementing the construction and sales plans;
- ACRA took into account only projects under construction and projects expected to be commissioned in accordance with the current financial plan of the Company;
- No significant price fall in the primary real estate market of Yekaterinburg in 2022–2024.

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:

- The weighted average FFO before net interest and taxes exceeding RUB 5 bln;
- Sustainable growth of the weighted average return on FFO before net interest and taxes over 12%.

A negative rating action may be prompted by:

- The weighted average ratio of FFO before net interest to net interest declining below 5x, and the weighted average ratio of adjusted net debt to FFO before net interest exceeding 2x;
- Prices in the primary residential real estate market of Yekaterinburg declining by over 15% in 2022–2024;
- Regulatory changes that may impair the Company's financials.

RATING COMPONENTS

Standalone Creditworthiness Assessment (SCA): **bbb+**.

Adjustments: none.

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 of LLC «ASK-Stroitelstvo» was published by ACRA for the first time on December 21, 2017. 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 the data provided by LLC «ASK-Stroitelstvo», information from publicly available sources, as well as ACRA's own databases. The credit rating is solicited, and LLC «ASK-Stroitelstvo» participated in its 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 no additional services to LLC «ASK-Stroitelstvo». No conflicts of interest were identified in the course of credit rating assignment.

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