ACRA

CORPORATE SECTOR

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ACRA ASSINGS BBB+(RU) TO MONOPOLY JSC, OUTLOOK STABLE

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The credit rating of MONOPOLY JSC (hereinafter, the Company, or Monopoly) is based on the strong operational risk profile and the moderate assessment of the financial risk profile. The Agency notes the strong business profile of the Company and the very high geographic diversification of its business. The Company's market position and corporate governance are assessed as medium. The financial risk profile is supported by the high assessments of cash flow and liquidity, as well as very high profitability and moderately high leverage. The medium size of the Company's business and low coverage put pressure on the financial risk profile.

Monopoly is a logistics platform that brings together cargo shippers and carriers in the digital environment using specific services and technologies. The platform allows carriers to find a cargo and deliver it on their own (the Monopoly.Cargo business segment) and sole proprietors to rent a truck from the Company's partners, provided that they continue to use the cargo search platform (Monopoly.Business). Monopoly also provides transportation services for cargoes posted on the platform using its own fleet of trucks (Monopoly.Trucking), develops Monopoly.Fuel, a multi-service ecosystem for carriers (fuel processing, roadside services, etc.), and the Smart Logistics TMS system acquired this year.

KEY ASSESSMENT FACTORS

Strong operational risk profile. Since the Monopoly's business model is based on the platform that ensures the operational efficiency of all business segments, ACRA categorized the Company as belonging to the IT industry. Monopoly is migrating from the "heavy assets" model to the "light assets" model, selling its truck fleet and developing partnerships with leasing companies, which significantly affects the Monopoly.Business segment dynamics and the Company's financial performance, therefore, the Agency assesses the industry credit risk as above medium.

Due to the low penetration of digital services in the freight transportation market, ACRA views digital freight services as a product segment and the Company as a leader in this segment with a market share of about 75%.

In the Agency's opinion, the Company's business profile is strong in view of the low volatility of demand for FTL transportation (the main shippers registered with the platform are companies from the retail and FMCG segments) and the high degree of uniqueness of the digital platform developed by the Company. Revenue diversification is assessed as medium. The geographic diversification of the business is assessed as very high since the Company has offices in all densely populated regions of the country.

The corporate governance framework is assessed as medium, mainly due to medium scores for the financial transparency and the group structure. The Agency highly assesses the Company's management structure that includes an experienced board of directors and efficient internal control and risk management system.

PRESS RELEASE

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Very high profitability and medium business size. In 2023, both gross and net revenue of the Company grew by almost 70%, while FFO before fixed charges and taxes more than doubled. Historically, the Monopoly.Trucking segment generated a large share of net revenues. However, the Company has made a strategic decision to switch to the “light assets” business model and is reducing both its own truck fleet and the share of trucking services in favor of the Monopoly.Business and Monopoly.Cargo segments. The Agency expects that such a transition will have a positive impact on both the Company’s revenues in the medium term (a slight decrease is possible in 2025 in the event that the revenue growth of the Monopoly.Business and Monopoly.Cargo segments does not compensate for the fall in revenue from the trucking segment) and on expenses, which will contribute to maintaining a very high level of profitability.

The 2022–2027 weighted average FFO before fixed charges and taxes is estimated at RUB 7 bln.

Moderately high leverage and low coverage of fixed charges. The Company’s loan portfolio is well diversified and consists of bank loans and leasing and factoring liabilities. In 2023, the Company’s total debt more than doubled due to the acquisition of Globaltruck, a transportation company. Since Monopoly has made a strategic decision to switch to the “light assets” business model and is selling its own fleet as well as trucks acquired in the transaction, ACRA expects that cash flows from such sale will be used to reduce the debt. According to the Agency’s estimates, in case of a successful implementation of the abovementioned plans, the weighted average ratio of rent-adjusted total debt to FFO before fixed charges for the period from 2022 to 2027 will be 1.8x.

The increase in the share of funding obtained during the period of high interest rates pushed up the Company’s interest expenses. The Agency expects interest expenses to grow by the end of 2024 in connection with the renewal of the loan portfolio, and then they will decrease, as debt is repaid through the sale of the truck fleet. The weighted average ratio of FFO before fixed charges to fixed charges for the period from 2022 to 2027 is estimated by ACRA at 2.7x. ACRA notes that the coverage of fixed charges is very sensitive to deviations from the announced deadline and prices of the fleet sale.

Strong liquidity and cash flow. The Agency assesses the Company’s liquidity as high due to the availability of significant undrawn credit lines and limits under factoring agreements. In addition, Monopoly has non-pledged fixed assets, the proceeds from the sale of which can be used to repay debt obligations.

In 2022–2023, the Company’s free cash flow (FCF) was negative. The Agency expects that in 2024 the FCF will remain negative, and starting from 2025 it will enter a positive area due to increased operational efficiency based on the scale of the platform, as well as the Company’s cuts of trucking services in favor of the higher-margin Monopoly.Business segment. ACRA estimates that the weighted average FCF margin for the period from 2022 to 2027 could be 6.1%.

The level of capital expenses is estimated as low: the Agency expects that the bulk of investments will be aimed at maintaining and developing the Company’s platform. The weighted average capex to revenue ratio for the period from 2022 to 2027 is estimated by ACRA at 6.5%.

KEY ASSUMPTIONS

- Net proceeds from the sale of the Company’s transport assets, due to its regularity and the availability of a guarantee of their purchase from counterparties, are viewed by the Agency as operating income and taken into account in the calculation of operating cash flow.
- To assess profitability and cash flow, ACRA used the Company’s net revenue, which does not include income from costs transferred to counterparties.
- Maintaining the strategy aimed at reduction of the share of trucking services in revenues and sale of a significant part of the Company’s truck fleet.
- Maintaining the current partnership formats with leasing companies.

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:

- Ratio of FFO before fixed charges to fixed charges exceeding 3.0x;
- Weighted average ratio of rent-adjusted total debt to FFO before fixed charges declining below 1.0x and the FCF margin sustainably higher than 10% of net revenue.

A negative rating action may be prompted by:

- Deviation from the announced deadlines and prices of the truck fleet sales;
- Termination of the current partnership formats with leasing companies;
- Large players entering the market, which may significantly reduce the Company’s market share;
- Weighted average FFO before fixed charges and taxes exceeding RUB 5 bln;
- Weighted average FFO before fixed charges and taxes margin falling below 30%;
- Weighted average ratio of rent-adjusted total debt to FFO before fixed charges exceeding 2.0x;
- Weighted average FFO before fixed charges to fixed charges falling below 1.0x;
- Weighted average FCF margin falling below 2%;
- Weighted average capex to net revenue exceeding 10%.

RATING COMPONENTS

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

Support: none.

ISSUE RATINGS

There are no outstanding issues.

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 MONOPOLY JSC for the first time. The credit rating of MONOPOLY JSC and its outlook is 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 MONOPOLY JSC, information from publicly available sources, and ACRA’s own databases. The credit rating is solicited and MONOPOLY JSC participated in its assignment.

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

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

The 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 bln. 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.

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