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## ACRA assigns AA-(RU) to JSC "MCC "EuroChem", outlook Stable

The credit rating of [JSC "MCC "EuroChem"](#) (hereinafter, the Company) is based on the Company's strong business profile, very strong geographic diversification, very high corporate governance, very large size, high profitability and coverage indicators, as well as strong liquidity. The rating is constrained by the average assessments of the market position, leverage and cash flow.

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 (in terms of 2019 revenues). 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 ultimate beneficiary is Andrey Melnichenko, who owns a 100% stake in the Cypriot company AIM Capital SE, which controls 90% of the stocks of EuroChem Group AG.

**The strong operating risk profile** stems from the Group's very low cost of production compared to global peers, flexible production model, and highly diversified product line. Revenues in H1 2020 were generated by the nitrogen segment (36%), complex fertilizers (19%), phosphate fertilizers (14%), and potash fertilizers (9%). EuroChem is the Russian market leader in the nitrogen fertilizer segment with a share of about 25%. The Group's position in the global market is assessed as average because EuroChem is a successful player in several product categories in the fragmented nitrogen fertilizer market, and also successfully operates in both the highly concentrated potash fertilizer market and the moderately concentrated phosphate fertilizer market.

The accessibility and diversification of the Group's sale markets are assessed as very high — the share of exports in the sales structure exceeds 80% and products are shipped to more than 100 countries. In 2019, the main regions in terms of sales were Europe (26% share), Latin America (25%), Russia (17%), North America (16%), and the Asia-Pacific region (10%). The majority of the Group's production assets are located in coastal areas in Russia, which means they are as close as possible to ports. The structure of production assets is well diversified. The Group's largest production enterprises are Kovdorsky GOK (iron ore and apatite extraction — Russia's second largest apatite extractor), Novomoskovsky Azot (production of nitrogen fertilizers — Russia's second largest urea producer), Nevinnomyssky Azot (production of nitrogen fertilizers), Fosforit (production of phosphate fertilizers), and Usolsky Potash Plant and VolgaKaliy (production of potash fertilizers).

Over the years, EuroChem has successfully implemented a strategy aimed at increasing production volumes and expanding its presence in various product segments. The Group has a risk management system that involves regular quantitative assessment and monitoring of the main types of risks. EuroChem proactively manages foreign exchange risk by raising debt denominated in foreign exchange revenue and entering into cross-currency swaps and non-deliverable forwards.

The Group's activities are regulated by Swiss law and the corporate governance system fully complies with global practices. Five of the seven members of the Group's board of directors are independent. The members of the board of directors have extensive industry experience. The management structure includes audit, strategy, and personnel and remuneration committees. The Group has a complicated management structure, which is justified from an economic point of view and also due to the scale of operations. Financial transparency is assessed as very high: the Group publishes financial statements on a semi-annual basis and discloses its operating indicators.

**Impact of the COVID-19 pandemic on the Group's operations.** The Group's key financial indicators have remained stable despite the decline in fertilizer prices in the global market. The fertilizer production sector is among the sectors that have suffered the least from the pandemic (the final consumers of fertilizers are agricultural producers, who have generally experienced increased demand during the pandemic). A slight fall in demand for fertilizers was caused by problems with employing seasonal agriculture workers in specific regions, as well as disruption to logistics and supply chains. The most favorable price situation has been observed in the phosphate fertilizer segment due to the temporary closure of production facilities in China. At the same time, nitrogen fertilizer prices were under pressure due to a sharp decline in gas prices in the US and Europe.

**Very large size and high profitability.** The Group's revenues for 2019 amounted to USD 6.1 bln and FFO before fixed payments and taxes stood at USD 1.6 bln. The Group maintains high profitability thanks to the advantages of vertical integration. ACRA expects weighted average FFO profitability prior to interest and taxes at 26.5% from 2018 to 2023.

**Average leverage.** According to ACRA's assessments, the Group's ratio of total debt to FFO before net interest payments is expected at 3.4x in 2020. In 2021–2023, EuroChem plans to construct a new ammonia and urea production plant in Kingisepp (EXC3-2). Construction will be 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 weighted average indicators of leverage, ACRA adjusted the size of debt for the size of the project debt. According to ACRA's assessments, the weighted average adjusted total debt to FFO before net interest payments for 2018 to 2023 amounts to 2,8x, which corresponds to average 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 7.3x.

**Average cash flow assessment.** In 2017–2019, the Group's capital expenditures ranged from USD 950 mln to USD 1.5 bln (15–30% of revenues). In 2020–2023, average annual capital expenditures are expected at USD 1.1–1.2 bln. The main projects which EuroChem plans to invest in over the next few years include VolgaKaliy, Usolsky Potash Plant and EXC3-2. However, 80% of the financing for EXC3-2 will come from a project loan, and the remaining 20% will be financed by the Group's own funds. 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 4.3% taking into account the adjustment, while the weighted average ratio of capital expenditures to revenue should be 15.5%. The Group has not paid dividends since 2016 and adheres to a strategy of reinvesting free cash flow in current investment projects.

## Key assumptions

- Prices for basic fertilizers falling by 12% on average in 2020 (compared to 2019) and gradual improvement of the price situation in 2021–2023;
- 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 adjusted total debt to FFO before net interest payments falling below 2x;
- Average ratio of FFO before net interest payments to interest payments exceeding 10x.

**A negative rating action may be prompted by:**

- Weighted average ratio of adjusted total debt to FFO before net interest payments growing higher than 3.5x and simultaneous decline of weighted average FCF profitability below 2%;
- Weighted average FFO ratio before net interest payments to interest payments falling below 5x.

**Rating components****SCA:** aa-.**Adjustments:** none.**Issue ratings**

No outstanding issues have been rated.

**Regulatory disclosure**

The credit rating has been assigned to JSC "MCC "EuroChem" 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](#).

A credit rating has been assigned to JSC "MCC "EuroChem" 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 the data provided by EuroChem Group and JSC "MCC "EuroChem", information from publicly available sources, as well as ACRA's own databases. The credit rating is solicited, and EuroChem Group and JSC "MCC "EuroChem" participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by EuroChem Group and JSC "MCC "EuroChem" in their financial statements have been discovered.

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

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