ACRA

PRESS RELEASE

CORPORATE SECTOR

MACHINE BUILDING

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ACRA AFFIRMS A(RU) TO SINARA TRANSPORTATION, OUTLOOK STABLE

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The credit rating of SINARA TRANSPORTATION (hereinafter, the Company, or ST) has been confirmed due to the Company maintaining its credit metrics within the ranges required for the rating level. The Company's credit rating is based, on the one hand, on the strong assessment of the market position and business profile of the Company, as well as its high profitability. On the other hand, most of the important factors, such as size of business, corporate governance, geographical diversification, leverage and coverage, as well as liquidity, received a medium assessment, which had a neutral impact on the rating. The low free cash flow assessment (less than 2% of revenues) constrained the credit rating of the Company.

ST is a machine-building holding specializing in the production and servicing of a wide range of railway equipment: electric trains, freight electric locomotives, diesel locomotives of various modifications, industrial diesel engines and diesel generators, track equipment, as well as units and components of railway equipment. The Company is part of Sinara Group, which unifies companies specializing in the construction of housing, provision of financial and banking services, agribusiness, power industry, and the tourism and leisure industry, as well as machinery and equipment production.

KEY ASSESSMENT FACTORS

The strong business profile reflects the Company's strong positions for a number of sub-factors: Stability of Revenues/Contract Base (more than three years' worth of annual revenues), Characteristics of Sales Markets, and Dependence on Subcontracting and Components. The Market Position sub-factor is also assessed as high because the Company is a key (and for some types of equipment — the only) supplier of railway equipment to Joint Stock Company "Russian Railways" (ACRA rating AAA(RU), outlook Stable). At the same time, the sub-factor Sales Market Diversification received a medium assessment, given the dominating share of the Company's sales in the internal market (more than 90% of revenues). Corporate governance is also assessed as medium, but the Company is working to bring corporate practices in line with best standards.

The medium assessment of the financial risk profile is based on the medium size of business in the context of the corporate sector (the absolute value of FFO before interest payments and taxes ranges from RUB 5–30 bln), as well as average assessments of leverage (the weighted ratio of total debt to FFO before net interest payments amounted to 3.3x for the period from 2019 to 2024), and debt service (the weighted ratio of FFO before net interest payments to interest payments was 2.7x for the period from 2019 to 2024). At the same time, the Company's profitability is assessed as high — the weighted FFO margin before interest and taxes for 2019–2024 was 10.4%.

Liquidity is high due to the cash position (RUB 13.4 bln as of December 31, 2021) and substantial undrawn limit under available credit lines (around RUB 15 bln), which when combined are more than sufficient to cover payments scheduled for 2022. It should be noted that the Company carried out successful work in 2021 to improve its credit portfolio in terms of diversification (issuing public debt), and making the repayment schedule more comfortable.

The medium assessment of cash flow is based, on the one hand, on the low (less than 2% of revenues) free cash flow (FCF), and on the other hand, on the very high assessment of the ratio of capital expenditures to revenues (less than 5%).

KEY ASSUMPTIONS

- Achieving the revenue and operating cash flow targets for 2022–2024;
- Total volume of capital investments in 2022–2024 in line with the approved business plan;
- Average FFO margin before interest payments and taxes at no lower than 12% in the forecast period;
- Balanced dividend policy.

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:

- Ratio of total debt to FFO before net interest payments declining below 3.5x, coupled with the ratio of FFO before net interest payments to interest payments increasing above 5.0x, and positive FCF.

A negative rating action may be prompted by:

- Ratio of total debt to FFO before net interest payments exceeding 3.5x at the same time as the ratio of FFO before net interest payments to interest payments falling below 2.5x, and negative FCF.

RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **a**.

Adjustments: none.

Support: none.

ISSUE RATINGS

No outstanding issues have been rated.

REGULATORY DISCLOSURE

The credit rating has been assigned to SINARA TRANSPORTATION 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 SINARA TRANSPORTATION was published by ACRA for the first time on March 17, 2021. 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 SINARA TRANSPORTATION, its IFRS consolidated financial statements, information from publicly available sources, and ACRA's own databases. The credit rating is solicited, and SINARA TRANSPORTATION 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 additional services to SINARA TRANSPORTATION. 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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