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Key rating assessment factors

ACRA affirms BB- to NC Food Contract Corporation JSC under the international scale, outlook Stable, and BBB(RU) to bonds

ACRA has affirmed the credit rating of [NC Food Contract Corporation JSC](#) (hereinafter, the Company) due to the Company maintaining its credit metrics within the ranges set for this rating category. As expected, the Company increased its borrowings in order to boost the size of the grain fund to more than 1.6 mln tons. The volume of operations to buy and sell grain in order to stabilize prices in Kazakhstan's internal market reached around 0.7 mln tons in H1 2021.

The Company's rating under the international scale is based on the Company's standalone creditworthiness assessment (SCA), the medium assessment of support for the Company from the Republic of Kazakhstan ([ACRA rating under the international scale — BBB+, outlook Stable](#); hereinafter, Kazakhstan), and moderate dependence on homogeneous risk factors. Considering the combination of these factors, the Company's rating has been assigned at the SCA plus two notches, which is equal to BB-.

The Company holds the status of a national company of Kazakhstan. Its main function is to ensure the food security of the country through quantitative and qualitative preservation of the food grain reserve and also through contributing to the stabilization of the domestic grain market and the development of exports. In accordance with Decree of the Government of the Republic of Kazakhstan dated May 27, 2020, 100% of the Company's stocks were transferred to state ownership.

Weak business profile compared to global companies. The Company is solely a grain trader. The food fund consists mainly of wheat grain. The average annual volume of sales of grain from 2016 through 2020 was around 500,000 tons, with the bulk of sales taking place in Kazakhstan's domestic market. The Company exports grain to countries such as China, Azerbaijan, Turkmenistan, Tajikistan, Georgia, Iran, and Uzbekistan. However, compared to global traders, the extent of the Company's operations are rather local in nature. In ACRA's opinion, the Company's primary focus on trading grain is a limiting factor in the assessment of product diversification and the share of products with high value added. When assessing vertical integration, ACRA took into account the existence of the Company's own grain receiving enterprises, and also its long-term contracts with approximately 100 grain receiving enterprises that store grain throughout Kazakhstan. The Company's own grain terminal (Ak Biday-Terminal JSC), which is located on the east coast of the Caspian Sea at Aktau Sea Port and Baku Grain Terminal LLC, owned by the Company on an equal footing with a partner, is also a positive factor in the assessment of the Company's business profile.

The Company's operations are very narrow by global standards, and its share in the global grain market is very small. These aspects determine the very low assessment of the "market share" sub-factor.

The assessment of corporate governance factors corresponds to the average value for the international corporate segment in ACRA's opinion. The Company's strategy is based on the state's long-term agriculture development plans, ensuring food safety, and stabilizing prices in the grain market. Four of six of the members of the Company's board of directors are independent.

The financial transparency of the Company is average by international standards: the Company regularly publishes audited IFRS financial statements and annual reports for investors, and periodically releases overviews of the situation in the grain market.

The Company's financial risk profile limits the SCA. The Company's business size is small and is measured by annual revenue in dollars. In the near future, the Company plans to grow its business by increasing the volume of grain turnover. In order to finance grain purchases, the Company intends to increase its loan portfolio using various sources, including issuing bonds in the Russian market. The Company's total debt amounted to KZT 21.2 bln as of the end of 2020; ACRA expects it to exceed KZT 57 bln by the end of 2021. The ratio of total debt to FFO before net interest payments should amount to 9.1x. According to the Agency, this indicates a high level of leverage. ACRA expects this figure to fall moderately to 7.9x by 2022 as operating profit increases due to business volume growth.

The Company's earnings before interest and taxes (EBIT) was high for 2019 at 15%, but this indicator is highly volatile due to changes in the volume of sales and purchases of grain. Operating profit was negative in 2020 due to the restrictions on sales of grain caused by the COVID-19 pandemic. ACRA expects profitability average 11% in 2021–2023, bringing annual grain sales to about 1 million tons.

ACRA estimates that the Company's liquidity is at a high level due to the presence of a significant internal cash position, as well as the possibility of attracting additional liquidity under new loan agreements that are in the final stage of approval.

High assessment of support from the state and dependence on homogeneous risk factors. Since 2007, the Company has held the status of being a national company of Kazakhstan and implements the state policy in the field of food security and grain market stabilization. The Company's mission as the state operator in the grain market was established at its creation in 1995. According to the Decree of the Government of the Republic of Kazakhstan, dated March 28, 2011, and the trust management agreement, the Company was the sole agent in managing non-reduced state grain reserves. The Company is responsible for the formation, storage, refreshment, movement, and use of state grain resources. In accordance with the instructions of the President of the Republic of Kazakhstan, the Company approved the formation of minimum wheat reserves in the amount of 500,000 tons. The Company controls these reserves and receives all the benefits from managing the grain.

Regarding the degree of state influence on the Company's activities, ACRA notes the presence of state representatives on the Company's Board of Directors, as well as the financial support that the state has provided to the Company since its establishment. However, the level of this support has changed over time. From 2000 to 2015, the Company was provided with funds directly from the national budget to compensate part of the cost of storing the grain reserve. From 2010 to 2016, the Company was granted budget loans at a preferential rate. Preferential loans were also provided through its sole shareholder, the state-owned "KazAgro" National management holding" JSC. With the transition of the Company to direct state control represented by the Ministry of Agriculture of the Republic of Kazakhstan, the degree of state influence will increase. As such, at the beginning of 2020, in order to provide agricultural producers with financial resources for the sowing campaign, as well as to ensure guaranteed sales of agricultural products, the state provided an additional KZT 24.5 bln in capitalization to the Company (for the program of forward purchase of agricultural crops). Currently amendments are being made to the law "On Grain" according to which the Company will be compensated for expenses on storing the state grain supply.

Key assumptions

- Grain reserve increasing to 1.5 mln tons under the management of the Company;
- Annual sales and grain purchases increasing to approximately 1 mln tons in 2021–2023;
- No dividend payments.

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:

- Leverage (the ratio of total debt to FFO before net interest payments) falling below 7.0x and FFO before net interest payments to interest payments increasing above 3.0x;
- Increased financial influence from the state on company activities.

A negative rating action may be prompted by:

- EBIT falling below 10%;
- Leverage (the ratio of total debt to FFO before net interest payments) remaining above 7.0x with a decrease in FFO before net interest payments to interest payments below 1.0x
- Reduced liquidity due to difficulties in accessing debt financing.

Rating components

SCA: b.

Adjustments: SCA plus two notches.

Issue ratings

Rationale. The issuer of the series 01 bond issue (RU000A102BF7) is NC Food Contract Corporation JSC. The issue is the Company's senior unsecured debt. Due to the absence of either structural or contractual subordination of the issue, ACRA regards it as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. In accordance with ACRA's methodology, the recovery rate for senior unsecured debt belongs to category I. In order to assign a credit rating to this issue on the national scale for the Russian Federation, ACRA applied the [Methodology for Mapping Credit Ratings Assigned on ACRA's International Scale to Credit Ratings Assigned on ACRA's National Scale for the Russian Federation](#). In accordance with the above methodology, the credit rating of the bond issue is set at BBB(RU).

[Uncertificated non-convertible coupon bond issued by NC Food Contract Corporation JSC, subject to centralized title registration, series 01 \(RU000A102BF7\)](#), maturity date: March 26, 2026, issue volume: RUB 2.45 bln — **BBB(RU)**.

Regulatory disclosure

The credit rating of NC Food Contract Corporation JSC has been assigned under the international scale based on the [Methodology for Assigning Credit Ratings to Non-financial Corporations under the International Scale](#), the Methodology for Analyzing Rated Entities Associated with a State or a Group, and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). The credit rating of the series 01 bond issue (RU000A102BF7) of NC Food Contract Corporation JSC has been assigned on the national scale for the Russian Federation based on the [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments on the National Scale for the Russian Federation](#), the [Methodology for Mapping Credit Ratings Assigned on ACRA's International Scale to Credit Ratings Assigned on ACRA's 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 ratings of NC Food Contract Corporation JSC and the series 01 bond issue (RU000A102BF7) of NC Food Contract Corporation JSC were published by ACRA for the first time on July 6, 2020 and April 2, 2021, respectively. The credit rating of NC Food Contract Corporation JSC and its outlook and the credit rating of the series 01 bond issue (RU000A102BF7) of NC Food Contract Corporation JSC are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on data provided by NC Food Contract Corporation JSC, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS consolidated statements of NC Food

Contract Corporation JSC. The credit ratings are solicited, and NC Food Contract Corporation JSC participated in their assignment.

In assigning the credit ratings, 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 NC Food Contract Corporation JSC. No conflicts of interest were discovered in the course of credit rating assignment.

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