

ACRA ASSIGNS AAA(RU) TO PJSC “MIPC”, OUTLOOK STABLE

DENIS KRASNOVSKIY

Associate Director, Corporate Ratings Group

+7 (495) 139 04 80, ext. 188

denis.krasnovskiy@acra-ratings.ru

EVGENIY ZELENSKY

Expert, Corporate Ratings Group

+7 (495) 139 04 80, ext. 149

evgeniy.zelensky@acra-ratings.ru

The credit rating of PJSC “MIPC” (hereinafter, MIPC, or the Company) reflects the Company’s very strong market position (the Company is the sole heat supplier in Moscow, with a 95% market share), good business profile, corporate governance, geographic diversification, liquidity, profitability, low leverage, and high coverage. The quality of fixed assets, significant investment program, medium assessment of financial transparency (in connection with the decision to not publicly disclose information, including MIPC’s IFRS financial statements) and negative free cash flow (FCF) have a restraining effect on the Company’s standalone creditworthiness assessment (SCA). The credit rating is supported by the high likelihood of extraordinary support from PJSC “GAZPROM” (ACRA rating AAA(RU), outlook Stable; hereinafter, Gazprom), which is the sole owner of Gazprom Energoholding LLC.

MIPC is the main heat supply company in Moscow (ACRA rating AAA(RU), outlook Stable) and the largest in the Russian Federation. The Company operates about 18,000 km of heat grids.

The main shareholder of MIPC is Gazprom Energoholding LLC with an 88.4% share in the Company’s charter capital.

KEY ASSESSMENT FACTORS

Very strong market position. MIPC supplies heat and hot water from the CHP owned by MOSENERGO (ACRA rating AAA(RU), outlook Stable) and from its own sources; it is the main energy source of Moscow and provides 95% of its heat needs. The Company has the longest heat grid in the city.

Good business profile. The Company’s regulatory and marketing risks are assessed as below medium. MIPC has a good FFO before net interest payments and taxes margin, while almost all of the Company’s revenues depend on regulated tariffs. ACRA notes that the price risk is partially offset by the good economic development of the region of presence. The sales risks are also low for the same reason. Depreciation of fixed assets is moderate. The Company’s investment program, according to ACRA’s estimates, is significant relative to the scale of its operations (18.9% of revenues).

Good geographic diversification and corporate governance. The Company operates mostly in Moscow. Nevertheless, due to the high level of economic development of the region of presence, the geographic diversification of the Company is assessed by the Agency as good. MIPC follows Gazprom’s strategy in the electric power industry for 2018–2027. Planning is carried out in accordance with a three-year business plan for production and financial and economic indicators. Annual plans are approved by the Company’s board of directors, and financial indicators are included in the KPIs of senior managers. The main goal of MIPC is to ensure reliable heat supply to consumers as well as stability (balance) of the financial and

economic condition of the Company. MIPC is working on improving operational efficiency, import substitution, automation, digitalization, innovation, and business expansion. The Company has adopted a corporate governance code and a number of relevant regulations, has a full-fledged risk management system, and has adopted a risk management and internal control policy. In 2015, powers of the sole executive body of MIPC had been transferred to Gazprom Energoholding LLC. The financial transparency assessment is medium, due to the decision not to disclose information, including MIPC's financial statements, in the public domain.

Large business size and good profitability. The Company's FFO before net interest payments and taxes decreased to RUB 27.5 bln in 2023 (vs. RUB 29.3 bln in 2022), which is mainly due to warmer weather. ACRA expects an increase in the weighted average value of this indicator to RUB 35.6 bln in 2024–2026, mainly due to tariff indexation. The Company's FFO before net interest payments and taxes margin was 13.9% in 2023 (vs. 15.6% in 2022). ACRA expects the weighted average value of this indicator to recover to 15.9% in 2024–2026.

Low leverage and high coverage. As of March 31, 2024, the Company's debt amounted to RUB 23.4 bln and included market bonds, loans, and concessional loans. All debt is denominated in rubles, with fixed-rate loans dominating the loan portfolio. The Company has no sureties or guarantees issued in favor of third-party counterparties. At the end of 2023, the Company's total debt, including pension obligations to employees, amounted to RUB 27.3 bln, or 1.1x of FFO before net interest payments (vs. RUB 33.3 bln and 1.2x, respectively, in 2022). In the forecast period up to 2026, ACRA expects the debt to increase in view of the Company's large-scale investment program. For implementing the investment program, the Company borrows funds, including concessional loans. For example, a fixed-rate loan was obtained in December 2023. The coverage indicator (FFO before net interest payments to interest payments) was higher than 10.0x in 2022–2023, and the Agency expects the weighted average value of the indicator in 2024–2026 to decrease to 7.0x due to an increase in debt and debt service costs.

Good liquidity and FCF. As of March 31, 2024, the Company transferred its temporary idle funds, as a loan on market terms, to Gazprom's cash pool system; this amount can be refunded on demand, if necessary. MIPC is part of Gazprom's common treasury system, which gives it access to liquidity. Currently, the Company also benefits from a significant amount of free credit limits. In 2023, the Company's FCF, as per ACRA's methodology, decreased to -RUB 3.9 bln (vs. RUB 8.1 bln in 2022). The decrease was mainly caused by an increase in capital investments. In 2023, the Company's investments in upgrading its fixed assets exceeded the level of 2022 and amounted to 20.6% of revenue (vs. 17.7% in 2022). Current capital investments are utilized to improve the reliability of power generating facilities and the efficiency of heat supply systems. ACRA expects weighted investments to amount to about 17.9% of revenues in 2024–2026.

High likelihood of extraordinary support from the key shareholder. The importance of the Company for Gazprom is explained by the significance of the electric and heat sector for its business and the unique position of the Company providing heat supply to Moscow, Russia's largest economic center. MIPC has been consistently demonstrating good financial performance, therefore, it does not require financial assistance from shareholders. However, cases of Gazprom's support for other companies of the Gazprom Energoholding Group indicate a high likelihood of support to the Company, if needed. The Company has been part of Gazprom's common treasury and liquidity provision mechanism since December 2019.

KEY ASSUMPTIONS

- The Company's capital investment program being implemented as planned in 2024–2026;
- No dividend payments in 2024–2026.

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 negative rating action may be prompted by:

- Loss of control over the Company by Gazprom or loosening of ties between the Company and Gazprom;
- Growth of the Company's investments amid declining heat prices and growing gas prices;
- Growing debt and debt service costs;
- Much worse access to external sources of liquidity.

RATING COMPONENTS

SCA: **aa**.

Support: group.

ISSUE RATINGS

No outstanding issues have been rated.

REGULATORY DISCLOSURE

The credit rating of PJSC "MIPC" has been assigned under the national scale for the Russian Federation based on the [Methodology for Assigning Credit Ratings to Non-Financial Corporations under the National Scale for the Russian Federation](#), [Methodology for Assigning Credit Ratings with External Support](#), 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 PJSC "MIPC" 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 data provided by PJSC "MIPC", information from publicly available sources, and ACRA's own databases. The credit rating is solicited and PJSC "MIPC" participated in its assignment.

Disclosure of deviations from approved methodologies: the Company Size factor was assessed with a deviation from the score range specified in the [Methodology for Assigning Credit Ratings to Non-Financial Corporations under the National Scale for the Russian Federation](#) because PJSC "MIPC" is the largest heat supply company in the Russian Federation.

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 PJSC "MIPC". No conflicts of interest were discovered in the course of credit rating assignment.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
1 Bldg. 2 Bolshoi Gnezdnikovsky Lane, Moscow, Russia
www.acra-ratings.com

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