

ACRA AFFIRMS A-(RU) TO PJSC SAMOLET GROUP, CHANGES OUTLOOK TO POSITIVE, AND AFFIRMS A-(RU) TO BOND ISSUES

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The credit rating of **PJSC Samolet Group** (hereinafter, the Company, the Group, or Samolet) stems from its strong business profile, high business profitability, high corporate governance quality, very strong liquidity, very low leverage, high coverage, and large business size. At the same time, the very high industry risk and the very weak cash flow assessment put pressure on the Company's credit rating.

The change in the outlook from "Stable" to "Positive" reflects ACRA's expectations for better leverage, coverage and cash flow metrics, thanks to further growth in the Company's FFO following an increase in the project portfolio, as well as due to free cash flow (FCF) becoming positive due to the growing number of escrow releases.

Samolet is one of the leaders of the real estate market in the Moscow Region and the New Moscow area. Most of the Company's projects are integrated development projects. According to the Unified Registry of Developers, the Company's current construction portfolio amounts to 2.47 mln sq. m (as of January 1, 2022).

KEY ASSESSMENT FACTORS

Industry risk is assessed as very high due to the pronounced cyclical nature of the industry, high amount of overdue payments, and substantial number of developers that have defaulted over the last five years. Therefore, industry risk is a strong factor that limits the Company's credit rating.

Strong business profile. The Company's strong business profile is based on a very highly diversified project portfolio and a stable project completion timeline. ACRA notes an increase in the diversification of the project portfolio and an improvement in geographical diversification over the past three years. The Company is a leader in housing construction in the Moscow area.

Growth of business size and improved geographic diversification. In 2021, the Company's project portfolio increased significantly. The portfolio of current projects grew from 1.46 mln sq. m in January 2021 to 2.47 mln sq. m in January 2022, and now the Company is ranked third in Russia in this indicator. ACRA expects that due to the increase in the portfolio of projects, the Company's FFO before net interest and taxes will exceed RUB 30 bln as early as by the end of 2022.

In 2021, Samolet acquired SPb Renovation LLC, having expanded its land bank in St. Petersburg by approximately 7 mln sq. m. The Agency notes that the geographical diversification of the Company's operations has grown due to an increase in the number of projects in St. Petersburg,

Yekaterinburg, and Moscow. According to the Agency's estimates, the share of the Moscow Region and the New Moscow area in the Company's sales will be about 72% in 2022–2024.

Very low leverage and high coverage. When calculating the ratio of net debt to FFO before interest, ACRA adjusted the total debt for the debt raised for escrowed project finance and fully secured by funds held on buyers' escrow accounts. The weighted average ratio of net debt to FFO before net interest for 2019–2024 is estimated by ACRA at 1x. When assessing coverage, ACRA included interest payments on corporate debt as interest payments, while payments on escrowed project debt are included in the prime costs. According to ACRA's estimates, the weighted average ratio of FFO before net interest to net interest for 2019–2024 is 7.6x.

Very weak cash flow assessment. The growth of the Company's project portfolio in 2021 had a negative impact on FCF: the weighted average FCF margin (adjusted for operations on escrowed project debt) for the period from 2019 to 2024 is estimated by the Agency at -1.9%. On the other hand, ACRA expects the adjusted FCF to become positive as early as by the end of 2022.

KEY ASSUMPTIONS

- Project completion and sales as planned;
- ACRA's estimates include only projects under construction and projects expected to be completed in accordance with the Company's current financial plans;
- No significant decline in prices in the primary real estate market of the Moscow area in 2022–2024.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Positive outlook** assumes that the rating will most likely change within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- A sustainable decline in the weighted average ratio of adjusted net debt to FFO before net interest below 1x, and the weighted average ratio of FFO before net interest to net interest exceeding 8x, and the weighted average FCF margin (adjusted for escrowed project debt operations) becoming positive.

A negative rating action may be prompted by:

- The weighted average ratio of FFO before net interest to net interest declining below 5x and the weighted average ratio of adjusted net debt to FFO before net interest exceeding 1.0x;
- Decrease in residential real estate prices by more than 15% in the Moscow area in 2022–2024;
- Regulatory changes capable of having a material adverse effect on the Company's performance.

RATING COMPONENTS

SCA: a-.

Adjustments: none.

ISSUE RATINGS

PJSC Samolet Group (ISIN RU000A102RX6), maturity date: February 15, 2024, issue volume: RUB 10.4 bln — A-(RU).

PJSC Samolet Group (ISIN RU000A103L03), maturity date: August 21, 2024, issue volume: RUB 15 bln — A-(RU).

Rationale. The issues represent senior unsecured debt of PJSC Samolet Group. Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as equal to other existing and future unsecured and unsubordinated debt obligations of the Company in terms of priority. According to ACRA's methodology, the recovery rate for unsecured debt belongs to category II, therefore the credit ratings of the issues are equivalent to that of the Company, i.e. A-(RU).

REGULATORY DISCLOSURE

The credit ratings of PJSC Samolet Group and the bonds issued by PJSC Samolet Group (ISIN RU000A102RX6, RU000A103L03) have 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 [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments on the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit ratings of PJSC Samolet Group and the bonds issued by PJSC Samolet Group (ISIN RU000A102RX6, RU000A103L03) were published by ACRA for the first time on July 10, 2018, February 18, 2021, and August 24, 2021, respectively. The credit rating of PJSC Samolet Group and its outlook, as well as the credit ratings of the bonds issued by PJSC Samolet Group (ISIN RU000A102RX6, RU000A103L03), 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 PJSC Samolet Group, information from publicly available sources, and ACRA's own databases. The credit ratings are solicited, and PJSC Samolet Group 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 ancillary services to PJSC Samolet Group. No conflicts of interest were identified in the course of credit rating assignment.

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