ACRA UPGRADES OKHTA GROUP LLC TO BB+(RU), CHANGES OUTLOOK TO STABLE

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The credit rating of Okhta Group LLC (hereinafter, Okhta Group, or the Company) has been upgraded to reflect better leverage, coverage and cash flow metrics.

The moderate assessment of the Company's operational risk profile is based on the high score for geographic diversification, as Okhta Group is present in the market of St. Petersburg and the Leningrad Region, as well as medium market position, and low assessments of the business profile and corporate governance. The financial risk profile assessment reflects the very high profitability, low leverage, high coverage, strong liquidity, medium cash flow, and the small size of the Company's business. The credit rating is constrained by the very high risk of the residential construction industry.

Okhta Group is a residential and commercial real estate developer with a focus on Saint Petersburg. The Company is also carrying out a number of projects in Petrozavodsk. Okhta Group specializes in high-margin residential projects in all segments — from comfort class to elite low-rise housing complexes — and also redevelops industrial sites in order to construct commercial and office buildings and apartments. According to the Company, its current construction portfolio may amount to 125,000 sq. m of total floor space by the end of 2024.

KEY ASSESSMENT FACTORS

Industry risk is very high. According to the Agency's methodology, the very high risk inherent in the residential construction industry is a major factor that constrains the Company's credit rating.

Lower business profile assessment. The sale of several construction sites in late 2023 and early 2024, where the Company planned to implement certain residential projects in the near future, and the corresponding reduction in the land bank led to a decrease in the assessment of the Project Diversification sub-factor. The sale was carried out in order to reduce the number of projects at the initial stage of construction and the risks associated with it. At present, the Company's project portfolio is generally balanced and includes projects at various stages: from the start of construction and installation work to the sale of apartments in completed buildings. After the completion of the fourth stage of the Primorsky Quarter residential complex, the Company started the first stage of the complex redevelopment project of the Skorokhod loft quarter, which will include an apartment hotel and office space. The terms and conditions of the projects are stable and still assessed by the Agency as strong. At the same time, the very low assessment of the Company's dependence on materials and subcontracting (Okhta Group is a classic developer that mainly performs managerial functions) curbs the overall business profile assessment.

Medium market position and low assessment of corporate governance. Last year, the Company's share in the primary real estate market of Saint Petersburg and the Leningrad Region remained at the level of 2022 and amounted to around 1.3%, according to sales data. Okhta Group maintains its business model that involves carrying out the lion's share of projects with co-investors. The Company enters projects with minority stakes and acts as a managing partner, which broadens its investment opportunities, increasing both the number of projects and income generated by them from management fees. However, in the Agency's opinion, this somewhat complicates the analysis of the Company's financial statements and structure, which constrains the assessment of quality of corporate governance.

Profitability is very high due to the Company's focus on high-margin projects, which allows it to demonstrate high a FFO margin before interest payments and taxes, which amounted to 30% in 2023. According to ACRA's forecast, this indicator will remain at a very high level in 2024–2026.

Declining leverage and high coverage. In its calculation of the ratio of net debt to FFO before interest payment and taxes, ACRA adjusted total debt by the amount raised as part of escrow-backed project finance and fully secured by buyers' funds held in escrow accounts. In 2023, the ratio of adjusted net debt to FFO before net interest amounted to 0.2x. The sale of some land plots to other developers allowed the Company to increase its cash and push the ratio down. The Agency expects that in 2024–2026, this ratio will exceed 2.0x. The weighted average ratio of total debt to equity is 0.5x, which, along with the abovementioned ratio of net debt to FFO before net interest payments, indicates the low leverage assessment.

When assessing coverage metrics, ACRA considered interest paid on corporate debt as part of interest payments, while payments on project debt under escrow accounts were included in in prime costs. In 2023, the ratio of FFO before net interest to net interest amounted to 5.7x (vs. 6.0x in 2022); the weighted average ratio for 2021–2026 indicates the high coverage assessment.

Medium cash flow and strong liquidity assessments. In 2023, the Company's free cash flow (FCF) turned positive, which was in line with the Agency's expectations. According to ACRA's forecast, in 2024–2025 the FCF will remain in the positive area, so that the assessment of this factor has been uplifted. The sufficient amount of available funds held in the Company's accounts, as well as the 2021–2026 weighted average short-term liquidity ratio of 2.9x, explain the high liquidity assessment.

KEY ASSUMPTIONS

- Project construction deadlines and sales as planned;
- ACRA only took into account projects under construction and planned in accordance with the Company's financial plan;
- No substantial decline in real estate prices in the primary market of Saint Petersburg and Petrozavodsk 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 positive rating action may be prompted by:

- Much better business profile metrics;
- Weighted average ratio of FFO before net interest payments to net interest payments growing above 8.0x and adjusted net debt to FFO before net interest payments falling below 1.0x.

A negative rating action may be prompted by:

- Weighted average ratio of FFO before net interest payments to net interest payments declining below 5.0x and weighted average ratio of adjusted net debt to FFO before net interest payments exceeding 3.5x;
- Weighted average FCF margin declining below zero;
- Prices in the primary residential and commercial real estate market of Saint Petersburg and Petrozavodsk declining by more than 15% in 2024–2026;
- Regulatory changes that entail potential material adverse effects on the Company’s performance.

RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **bb+**.

Adjustments: none.

ISSUE RATINGS

No outstanding issues have been rated.

REGULATORY DISCLOSURE

The credit rating has been assigned to Okhta Group LLC 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 and the Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities.

The credit rating of Okhta Group LLC was published by ACRA for the first time on September 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 Okhta Group LLC, information from publicly available sources, and ACRA’s own databases. The credit rating is solicited and Okhta Group LLC participated in its assignment.

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 Okhta Group LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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