

## ACRA AFFIRMS BBB-(RU) TO «GLAVSTROY» LTD., CHANGES OUTLOOK TO STABLE

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The credit rating of «Glavstroy» Ltd. (hereinafter, the Company, or Glavstroy) is based on medium assessments of the Company's market position, business profile, corporate governance, and leverage. The credit rating is supported by the very high business profitability and very high assessments of coverage and liquidity. The rating is constrained by the very high industry risk and the below medium assessment of the size of business.

The credit rating outlook has been changed from Negative to Stable in view of the expected stabilization of leverage metrics in 2024–2026 and the improved liquidity assessment.

Glavstroy is a successful player in the business and premium class residential real estate market of Moscow. According to the Company's estimates, the current residential construction portfolio will amount to 344,000 sq. m by the end of 2023.

### KEY ASSESSMENT FACTORS

**Industry risk is assessed as very high** due to the pronounced cyclical nature of the construction industry, high amount of overdue payments, and the substantial number of developer companies that have defaulted over the last five years. The industry the Company belongs to is a very strong factor constraining the credit rating.

**The Company's performance in 2022 and the projected performance for 2023.** Last year, sales volumes of Glavstroy increased slightly and amounted to 14,700 sq. m. The Company's revenue for 2022 increased by 14.2% (to RUB 8.4 bln) against 2021 due to higher revenues from the sale of construction materials, construction and installation work, and rent. In January–September 2023, the Company's residential real estate sales showed an increase in physical terms by about 4%, while the average selling price for the specified period decreased slightly relative to the average price for 2022 due to the sale of a pool of non-finished apartments in the Beregovoy-2 residential complex. The Agency expects further improvement of the Company's financial performance by the end of 2023, both due to the high market demand in Q3 2023 and due to the high readiness of the first stage of the Beregovoy-2 residential complex and the start of sales of the second stage of the Balance residential complex.

**Medium leverage and high coverage assessments.** In its calculation of the ratio of net debt to FFO before interest and taxes, ACRA adjusted the total debt by the amount raised as part of escrow-backed project finance and fully secured by buyers' funds held in escrow accounts. After a slowdown in 2021, the FFO before net interest recovered to some extent in 2022. ACRA expects the indicator to grow further this year and to stabilize in 2024–2026. The Agency assesses the weighted average ratio of adjusted net debt to FFO before net interest for 2021–

2026 at 4.1x, while the Company's leverage is assessed as moderate in view of the low weighted average ratio of adjusted total debt to capital at 0.7x and the very high qualitative assessment of leverage, which, in its turn, is explained by that the most portion of the Company's debt portfolio includes, on the other hand, project loans and, on the other hand, well-balanced RUB-denominated long-term corporate debt. The weighted average (for 2021–2026) ratio of FFO before net interest to net interest is assessed by ACRA at 7.1x.

**Strong liquidity and cash flow assessments.** In the calculations of free cash flow (FCF), the Agency adjusted the operating cash flow for changes in project debt secured by escrow accounts and includes dividend payments in FCF. The Agency estimates the weighted average FCF margin for the period from 2021 to 2026 at 5.2%. The strong assessment of the Company's liquidity is due to the presence of undrawn committed credit lines and the expectedly positive FCF in 2023–2026. Liquidity is also supported by the absence of peak repayments in the medium term and a large land bank, which allows the Company to avoid significant capital costs in its preparations for new projects in the coming years.

### KEY ASSUMPTIONS

- Fulfillment of the planned terms of construction and sales.
- ACRA took into account only current projects being designed or constructed in accordance with the Company's financial plan.
- No substantial decline in prices in the primary residential real estate market of Moscow 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:

- Weighted average ratio of adjusted net debt to FFO before net interest falling below 1.0x and weighted average ratio of FFO before net interest to net interest exceeding 8x;
- Increase in the Company's business size and improved assessments of project diversification and the group's structure.

#### A negative rating action may be prompted by:

- Worse liquidity profile;
- Weighted average ratio of adjusted net debt to FFO before net interest exceeding 5x;
- Prices in the primary residential real estate market of Moscow declining by more than 15% in 2024–2026;
- Regulatory changes able to cause material adverse effects on the Company's performance.

### RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **bbb-**.

Adjustments: none.

## ISSUE RATINGS

No outstanding issues have been rated.

## REGULATORY DISCLOSURE

The credit rating has been assigned to «Glavstroy» Ltd. 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 assigned to «Glavstroy» Ltd. was published by ACRA for the first time on October 21, 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 «Glavstroy» Ltd., information from publicly available sources, and ACRA's own databases. The credit rating is solicited, and «Glavstroy» Ltd. 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 «Glavstroy» Ltd. No conflicts of interest were discovered in the course of credit rating assignment.

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