

ACRA UPGRADES PJSC EVROPEYSKAYA ELEKTROTEKHNICA TO BBB(RU), OUTLOOK STABLE

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The credit rating of **PJSC Evropeyskaya Elektrotekhnica** (hereinafter, Evropeyskaya Elektrotekhnica, the Company, or the Group) has been upgraded to BBB(RU), outlook Stable, because FFO before net interest payments and taxes has exceeded RUB 500 mln, and the quality of the current contract base has improved in terms of larger volumes and longer contract performance periods, which supports the conditions for receiving funds in the forecast period.

The Company's credit rating is based on its good liquidity, high debt coverage, and low leverage. At the same time, ACRA notes the lower than average size of the Company's business compared to the largest Russian companies, its medium cash flow, and assesses its market position as modest in view of the high granularity of the Russian engineering market.

Evropeyskaya Elektrotekhnica is one of Russia's leading companies in terms of production of energy and power supply systems, and lighting and low-current systems. Since its creation in 2004, Evropeyskaya Elektrotekhnica has transformed from a trading company into a full-fledged engineering firm with its own production facilities (41% of products and equipment sold by the Group are manufactured using its own production facilities). In 2018, the Company purchased oil and gas production facilities in the Republic of Bashkortostan, and finalized its legal title over them in 2020. The Group's future development plans are related to the launch of a new high-margin business, sale and lease of innovative oil and gas equipment. The Company's key shareholders are S. N. Dubenok and I. A. Kalenkov. Around 7% of the Company's shares are in free float.

KEY ASSESSMENT FACTORS

Moderate operating risk profile assessment. The market share of Evropeyskaya Elektrotekhnica does not exceed 0.5%. However, the Company occupies a leading position in some sectors (up to 37% of the market for hot-dip galvanized reinforced cable systems and cable holders for ultra-deep mines, and up to 8% of the market for flare units). The Group's order book covers a five-year horizon (including highly likely contracts); occasionally, some contracts may be postponed for a few months, which may result in a corresponding postponement of some revenues in a given period. However, the potential effect from postponing contracts will not exceed 10% of revenues, in ACRA's opinion, owing to good diversification of the order book by customer. The Company's sales markets exhibit moderate cyclicity. In 2019, the share of engineering systems in the Company's revenues was 77%; the remaining portion was attributable to oil and gas equipment. In 2020, these shares amounted to 74% and 26%, respectively. The Company plans to increase the share of oil and gas equipment to 35% over the next few years. Dependence on subcontracting and components is generally assessed as moderate: dependence on subcontracting is minimal (about 2.5%), and the resale of components and equipment accounts

for up to 60–80% of revenues. In 2021, the Company's new site at Special Economic Zone Technopolis Moskva for producing smart electrical distribution boards and automation boards reached full production capacity. Geographical diversification of sales markets is moderate, with around 9% of products being exported, mainly oil and gas equipment. The Company opened a representative office in Cairo in 2021.

Adequate level of corporate governance. The Group's strategy is sufficiently formalized; it is approved by the board of directors. However, it is subject to significant changes from time to time in response to developments in external factors and the market situation. The strategy includes reaching key financial and operating targets. The strategy implies a substantial increase in the share of the higher-margin business line (equipment manufacturing for oil and gas and hydrocarbon processing industries) in the Group's total revenues. In 2020, the Company successfully underwent INTERGASCERT certification, which allows it to supply equipment to Gazprom group companies. ACRA notes that the Company has been strictly adhering to its strategy, including growth in FFO before net interest payments and taxes in 2020 (compared to 2019). The risk management system of Evropeyskaya Elektrotekhnica is assessed as moderate because currency and interest rate exposures are minimal and the purchase of components in overseas markets is offset by export revenues (natural hedge). ACRA assesses Evropeyskaya Elektrotekhnica's corporate governance quality as adequate in view of, among other things, the involvement of the Company's owners in its business. The Group includes seven legal entities, which is justified by the nature of its business. There are related-party transactions that are controlled by the Company's board of directors. ACRA assesses Evropeyskaya Elektrotekhnica's financial transparency as high: financial reporting is published on a quarterly basis, and regular meetings with investors are held, at which information on the Group's current operations and development plans is disclosed.

Lower than average business size. ACRA estimates FFO before net interest payments and taxes at RUB 536.4 mln in 2020 (RUB 483.9 mln in 2019). The Agency expects this indicator to amount to RUB 592.5 mln in 2021 and then continue to undergo organic growth. The FFO margin before net interest payments and taxes was maintained at 15% in 2020 and, in the next few years, it will be within the range of 13–15%. This margin will be supported by growth in profitability buoyed by the increase in the share of oil and gas equipment in the Company's sales structure. In 2021, the Company installed a unique mobile modular preliminary water discharge unit at LUKOIL's Nazymkoye field.

Low leverage and high coverage. As of December 31, 2021, Evropeyskaya Elektrotekhnica's debt portfolio amounted to RUB 80 mln, and all repayments were scheduled for 2022. The Company's debt obligations consist of ruble-denominated bank loans. The debt portfolio is diversified by lenders. At the same time, the Company has enough liquidity sources to fully refinance its loan portfolio. There are no guarantees issued outside the Group's consolidation perimeter. As of the end of 2020, the Company's total debt was RUB 194 mln, or 0.4x as a ratio of total debt to FFO before net interest payments, having declined since 2019. ACRA expects total debt to remain at around this level in 2022–2023. In addition, coverage is and will be very high thanks to low total debt.

The Company's liquidity is assessed as good. As of December 31, 2021, the Company had available credit lines totaling RUB 1.4 bln and held RUB 815 mln in its accounts.

KEY ASSUMPTIONS

- Inflation averaging 4% in 2022–2023;
- Annual revenue growth rates in segments in 2022–2023 at levels no lower than the average for the past three years;
- 2022–2023 dividends not exceeding dividend payments in 2021;

- Dividend payments and investments in 2022–2023 in line with the announced volumes and deadlines.

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:

- Annual weighted average FFO before net interest payments and taxes exceeding RUB 5 bln while maintaining the volume and terms of the contract base at a level no lower than the current one;
- Annual weighted average FFO margin before net interest payments and taxes exceeding 25% while maintaining the volume and periods of the contract base at a level no lower than the current one;
- Weighted average FCF margin exceeding 5% while maintaining the volume and terms of the contract base at a level no lower than the current one.

A negative rating action may be prompted by:

- FFO before net interest payments and taxes falling below RUB 0.5 bln;
- FFO margin before net interest payments and taxes falling below 8%;
- Leverage (ratio of total debt to FFO before net interest payments) exceeding 1.0x;
- Coverage (FFO before net interest payments to interest payments) falling below 10.0x;
- FCF margin falling below zero;
- Share of capital expenditure in revenues growing above 10%;
- Significant deterioration of access to external liquidity sources;
- Significant decline in volumes and periods of the contract base;
- Significant growth of dividend payments as investments grow.

RATING COMPONENTS

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

Adjustments: none.

ISSUE RATINGS

There are no outstanding issues.

REGULATORY DISCLOSURE

The credit rating has been assigned to PJSC Evropeyskaya Elektrotekhnica 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 of PJSC Evropeyskaya Elektrotekhnica was published by ACRA for the first time on October 11, 2018. 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 Evropeyskaya Elektrotekhnica, information from publicly available sources, and ACRA's own databases. The credit rating is solicited, and PJSC Evropeyskaya Elektrotekhnica participated in its assignment.

In assigning the credit rating, 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 PJSC Evropeyskaya Elektrotekhnica. No conflicts of interest were discovered in the course of credit rating assignment.

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