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ACRA affirms A+(RU) to State Transport Leasing Company PJSC, outlook Stable, and A+(RU) to bond issues

The credit rating of State Transport Leasing Company PJSC (hereinafter, STLC or the Company) is based on the high likelihood of extraordinary support from the state. The Company's standalone creditworthiness assessment (SCA) is satisfactory. The Company's creditworthiness is assessed as high compared to other Russia-based issuers.

STLC is a specialized leasing company focused on financial and operating lease of vehicles. Being an entirely state-owned company (its sole shareholder is the Russian government represented by the Ministry of Transport), STLC is instrumental in the implementation of the state's transportation development policy.

According to ACRA's estimates, STLC was the leader in terms of lease portfolio size and second in terms of new leasing business in Russia in 2019.

Key rating assessment factors

The high likelihood of extraordinary support from the Russian government is attributable to the role STLC plays in the implementation of the state's industrial and transportation development policy. The Company's capital was formed through a series of capital injections from the state (around RUB 102.9 bln in total, including RUB 13.6 bln in 2019) used to finance transport vehicle leases granted to certain industries, which the government views as its priorities, but whose growth is held back by the high costs of commercial funding. In ACRA's opinion, the likelihood of future capital injections for the Company in the current economic conditions is very high, taking into account its importance for the Russian transportation industry. At the same time, if the financial standing of the Company deteriorates, required budgetary injections would be significant but only have a limited negative impact on the national economy. ACRA expresses its opinion on state support by setting the Company's final rating four notches below the rating of the Russian Federation.

The adequate business profile is based on STLC's very strong standing in the Russian leasing market (the Company is among the top leasing companies in Russia in terms of IFRS lease portfolio) and the vehicle leasing segment. The factor's assessment is limited by the consistent concentration of the Company's lease portfolio on lessees. As of the end of 2019, the share of the 10 largest lessees was 53% of net leasing investments. Furthermore, the Aeroflot group accounts for 15.7% of all operating lease transactions. ACRA notes the growth in sector diversification of the lease portfolio — in 2019, air transportation and airport servicing had a 43.5% share, while railroad transportation accounted for 42.8% (compared to 49.9% and 36.6% in 2018, respectively).

Lower loss absorption buffer coupled with consistently limited capital generation capacity. The rapid growth of the Company's business continues to put pressure on its capital adequacy ratio (CAR). As of the end of 2019, the CAR had fallen to 13.4% (it stood at 17% as of the end of 2018). In ACRA's opinion, the anticipated capital injection and a possible decline in business growth rates amid an economic downturn will allow the CAR to be maintained at a sufficient level. At the same time, STLC's internal capital generation capacity remains low. Despite the fact that the Company recorded a net profit of around RUB 2 bln in 2019, the average capital generation ratio (ACGR) in 2015–2019 remains at -15 bps. The Company's profitability is strongly limited by non-commercial (concessionary) leasing programs.

ACRA notes that the purposes of STLC as an agent established to implement the state's transportation policy do not require it to maintain high returns. However, possible financial losses of the Company's lessees related to the quarantine measures and the overall decline in economic activity may contribute to a deterioration of the Company's profits in 2020.

The risk profile assessment is limited by the share of problem assets in the Company's lease portfolio. In 2019, the share of contracts with payments overdue for 90 days or more increased to 7.7% (3.3% in 2018). The total amount of overdue obligations under agreements with lessees reached 11.6%. Accounts receivable under terminated lease agreements is around RUB 7 bln. In addition, certain lessees (who accounted for around 4% of the Company's accounts receivable as of the end of 2019) may have faced a cash flow deficit preventing them from servicing contracts on time. However, in ACRA's opinion, in connection with the economic downturn in Russia, the issue of a cash flow deficit for making timely payments on obligations may impact a considerably larger group of the Company's lessees, which also impacts on the final assessment of the risk profile.

Balanced funding structure. The Company maintains a stably diversified funding structure. As of the end of the 2019, the Company's liabilities mainly included bonds (46%) and bank loans (43%). The Company's dependence on certain lenders is assessed as acceptable: payables due to the largest lender amounted to 8.5% of STLC's total liabilities, while payables due to the five largest lenders stood at 25%

Stable liquidity position. Under ACRA's base case scenario (and taking into account the STLC's plans to grow its leasing business), the Company has positive cash reserves (the estimated current liquidity ratio is at least 1.1 within the 12-month horizon). The Company's temporary structure of assets and liabilities is balanced. Under ACRA's stress scenarios, the Company's need for emergency liquidity is moderate. At the start of 2020, the Company significantly increased its available cash reserves, which considerably reduces the risks of resorting to additional borrowing in situations of stress. In addition, STLC has complete access to fixed income markets and regularly places large issues of rouble-denominated and foreign currency bonds.

STLC plays a crucial supporting role for the Russian Ministry of Transport in implementing a number of state-run programs in the transportation sector. The Company's services are in high demand, mostly in the aviation segment, as well as in other niche transportation segments. ACRA considers this factor to be a significant competitive advantage that is not reflected in the Company's SCA. This translates into a higher creditworthiness for the Company, and therefore results in one notch being added to the SCA.

Key assumptions

- Maintaining the current business model within the 12 to 18-month horizon;
- CAR at no lower than 15% within the 12 to 18-month horizon;
- Share of problem receivables within 25%;
- Maintaining the current funding structure.

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:

- Increased systemic importance of the Company resulting from growing state funding and higher involvement of the Company in the state's transportation policy.

A negative rating action may be prompted by:

- Loss of shareholder control by the Russian Federation, or lower propensity of the controlling shareholder to support the Company;
- Lower systemic importance of the Company for the state.

Rating components

SCA: bb.

Adjustments: +1 notch to the SCA.

Support: state support, parity with the RF -4 notches.

Issue ratings

STLC, 001P-19 series (RU000A101SD8), maturity date: May 23, 2035, issue volume: RUB 5 bln — **A+(RU)**.

STLC, 001P-18 series (RU000A101SC0), maturity date: May 23, 2035, issue volume: RUB 5 bln — **A+(RU)**.

STLC, 001P-17 series (RU000A101QL5), maturity date: May 14, 2035 issue volume: RUB 10 bln — **A+(RU)**.

STLC, 001P-16 series (RU000A101GD3), maturity date: February 17, 2028, issue volume: RUB 10 bln — **A+(RU)**.

STLC, 001P-15 series (RU000A100Z91), maturity date: October 21, 2025 issue volume: RUB 25 bln — **A+(RU)**.

STLC, 001P-14 series (RU000A100FE5), maturity date: May 25, 2034, issue volume: RUB 10 bln — **A+(RU)**.

STLC, 001P-13 series (RU000A1003A4), maturity date: January 20, 2034, issue volume: RUB 10 bln — **A+(RU)**.

STLC, 001P-12 series (RU000A0ZZV11), maturity date: November 4, 2033, issue volume: RUB 5 bln — **A+(RU)**.

STLC, 001P-11 series (RU000A0ZZAL5), maturity date: June 3, 2033, issue volume: USD 150 mln — **A+(RU)**.

STLC, 001P-10 series (RU000A0ZZ984), maturity date: May 20, 2033, issue volume: RUB 10 bln — **A+(RU)**.

STLC, 001P-09 series (RU000A0ZZ1J8), maturity date: March 18, 2033, issue volume: RUB 10 bln — **A+(RU)**.

STLC, 001P-08 series (RU000A0ZYR91), maturity date: January 18, 2033, issue volume: RUB 10 bln — **A+(RU)**.

STLC, 001P-07 series (RU000A0ZYNY4), maturity date: December 31, 2032, issue volume: RUB 10 bln — **A+(RU)**.

STLC, 001P-06 series (RU000A0ZYAP9), maturity date: September 1, 2032, issue volume: RUB 20 bln — **A+(RU)**.

STLC, 001P-04 series (RU000A0JXPG2), maturity date: April 6, 2032, issue volume: RUB 10 bln — **A+(RU)**.

STLC, 001P-03 series (RU000A0JXE06), maturity date: January 22, 2032, issue volume: RUB 10 bln — **A+(RU)**.

STLC, 001P-02 series (RU000A0JX199), maturity date: November 24, 2031, issue volume: RUB 7.78 bln — **A+(RU)**.

Rationale. The issues represent senior unsecured debt instruments of PJSC "STLC". Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to ACRA's methodology, the unsecured

debt repayment level corresponds to the second category. Therefore, the credit rating of the issues is equivalent to that of PJSC STLC.

Regulatory disclosure

The credit ratings have been assigned to State Transport Leasing Company PJSC and bonds (ISIN RU000A0JX199, RU000A0JXE06, RU000A0JXPG2, RU000A0ZYAP9, RU000A0ZYNY4, RU000A0ZYR91, RU000A0ZZ1J8, RU000A0ZZ984, RU000A0ZZAL5, RU000A0ZZV11, RU000A1003A4, RU000A100FE5, RU000A100Z91, RU000A101GD3, RU000A101QL5, RU000A101SC0, RU000A101SD8) issued by State Transport Leasing Company PJSC under the national scale for the Russian Federation based on the Methodology for Assigning Credit Ratings to Leasing Companies on the National Scale for the Russian Federation, the Methodology for Analyzing Relationships Between Rated Entities and the State, 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 rating of State Transport Leasing Company PJSC was published by ACRA for the first time on June 28, 2017 and the credit ratings of the bonds issued by State Transport Leasing Company PJSC were published by ACRA for the first time on July 25, 2017 (RU000A0JX199, RU000A0JXE06, RU000A0JXPG2), September 21, 2017 (RU000A0ZYAP9), January 23, 2018 (RU000A0ZYNY4), February 6, 2018 (RU000A0ZYR91), April 6, 2018 (RU000A0ZZ1J8), June 8, 2018 (RU000A0ZZ984), June 22, 2018 (RU000A0ZZAL5), November 23, 2018 (RU000A0ZZV11), February 7, 2019 (RU000A1003A4), June 11, 2019 (RU000A100FE5), October 28, 2019 (RU000A100Z91), February 27, 2020 (RU000A101GD3), May 29, 2020 (RU000A101QL5), and June 9, 2020 (RU000A101SC0, RU000A101SD8). The credit rating of State Transport Leasing Company PJSC and its outlook as well as the credit ratings of the bonds of State Transport Leasing Company PJSC (RU000A0JX199, RU000A0JXE06, RU000A0JXPG2, RU000A0ZYAP9, RU000A0ZYNY4, RU000A0ZYR91, RU000A0ZZ1J8, RU000A0ZZ984, RU000A0ZZAL5, RU000A0ZZV11, RU000A1003A4, RU000A100FE5, RU000A100Z91, RU000A101GD3, RU000A101QL5, RU000A101SC0, RU000A101SD8) are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on the data provided by State Transport Leasing Company PJSC, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the consolidated IFRS financial statements of State Transport Leasing Company PJSC and the RAS financial statements of State Transport Leasing Company PJSC. The credit ratings are solicited, and State Transport Leasing Company PJSC participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by State Transport Leasing Company PJSC in its financial statements have been discovered.

ACRA provided no additional services to State Transport Leasing Company PJSC. No conflicts of interest were discovered in the course of credit rating process.

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