

December 6, 2018

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Key rating assessment
factors

ACRA affirms AA+(RU) to JSC «FPC», outlook Stable, and to bond issues

The credit rating assigned to [Joint Stock Company «Federal Passenger Company»](#) (hereinafter, FPC, or the Company) is due to the Company's high systemic importance to the Russian economy and the very high level of state influence on the Company.

The standalone creditworthiness assessment (SCA) of the Company (bbb+) is due to its strong operating profile, medium business scale and profitability, moderate leverage, and adequate liquidity. The Company's SCA is restricted by the negative free cash flow caused by substantial capital investments.

The Company is Europe's largest railway passenger carrier and covers approximately 95% of long-distance passenger train routes in Russia. In 2017, the Company serviced over 95.1 million passengers, and its revenue amounted to RUB 216.2 bln. The Company is 99.9% owned by JSCo "RZD" (hereinafter, RZD), which is wholly owned by the state.

Maintaining FPC's high systemic importance to the Russian economy and a very high level of state influence on the Company's creditworthiness. ACRA maintains the position that state support is more important than support from RZD. The high systemic importance to the state is because the Company is actually a long-distance passenger railroad monopoly, large employer, and an inseparable part of the national economy. The very high state influence is based on the indirect operating and shareholding control, direct regulation of the Company through transportation tariffs, as well as the state support in the form of subsidies and tax benefits.

Maintaining tendencies to increase debt load. According to ACRA's assessments, by the end of 2018, the ratio of total debt (including pension liabilities) to FFO (funds from operations) before fixed charges will amount to 2.5x, while in the previous three years it amounted to 1.4-1.6x. FPC raises borrowed funds in order to finance its major investment program, and over the next two years, ACRA expects a future increase in the ratio of total debt (including pension liabilities) to FFO before fixed charges (the figure could reach 3.5-4.1x in this period). In 2019, the Company will fulfill its repayment obligations on a RUB 5 bln bond issue. The Company has no other major repayments until 2022. In accordance with the growth of the debt load, the level of interest payment coverage will decrease. According to ACRA's assessments, the ratio of FFO before fixed charges to fixed charges will amount to 6.8x, and from 2019 to 2020 will decrease to 3.0-3.5x.

In addition, FPC's strategy in the next three years provides for an increase in capital of RUB 45 bln. If this increase is completed, FPC's debt load will not grow at such a rapid pace. In this case, by the end of 2020, the ratio of total debt to FFO before fixed charges could amount to 2.9x and ratio of FFO before fixed charges to fixed charges could amount to 4.7x. ACRA is not including this factor in the baseline scenario due to the fact that the Company's documents on capital increase are not yet ready.

Adequate liquidity position in conditions of negative free cash flow. As of November 2018, the total amount of FPC's undrawn credit lines amounted to RUB 18.5 bln. Other than the upcoming bond issue repayment (RUB 5 bln) in 2019, the Company has no other debt obligations over the next few years. Nevertheless, due to the Company's significant capital expenses, its FCF will be negative from 2019 to 2020. This will put pressure on the Company's liquidity. Therefore, ARCA assesses the Company's average short-term liquidity ratio at 1.04x from 2018 to 2020.

Key assumptions

- State maintaining support in the form of subsidies and tax benefits (zero VAT rate);
- Indexation of the Company's services as well as infrastructure lease at the level of inflation;
- Maintaining passenger turnover at the 2018 level from 2019 through 2020;
- Investment program for 2018-2019 amounting to approximately RUB 100 bln;
- No dividend payments or their return as contribution to authorized capital.

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:

- Increase in the Company's systemic importance to the state and significant expansion of Company functionality.

A negative rating action may be prompted by:

- Considerable decrease in the level of systemic importance to the Russian economy;
- Loss of state control or a considerable decrease in state support.

Rating components

SCA: bbb+.

Support: state — on par with the RF minus 1.

Issue ratings

[Bond loan, Exchange-traded interest-bearing non-convertible certified bearer bond issued by JSC «FPC» \(RU000A0ZYL7\)](#), maturity date – December 9, 2027, issue volume – RUB 5 bln, **AA+(RU)**.

[Bond loan, Exchange-traded interest-bearing non-convertible certified bearer bond issued by JSC «FPC» \(RU000A0ZYX69\)](#), maturity date – February 23, 2028, issue volume – RUB 10 bln, **AA+(RU)**.

[Bond loan, Exchange-traded interest-bearing non-convertible certified bearer bonds issued by JSC «FPC» \(RU000A0ZZRK1\)](#), maturity date – October 18, 2028, issue volume – RUB 5 bln, **AA+(RU)**.

[Bond loan, Exchange-traded interest-bearing non-convertible certified bearer bond issued by JSC «FPC» \(RU000A0ZZTL5\)](#), maturity date – November 2, 2028, issue volume – RUB 10 bln, **AA+(RU)**.

Rationale. The abovementioned bonds are the senior unsecured debt of [Joint Stock Company «Federal Passenger Company»](#). 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, taking into account the high level of creditworthiness and average debt load of the Issuer, as well as the absence secured debt, ACRA applies a simplified approach, according to which the bond issue is rated AA+(RU), on par with the credit rating assigned to FPC.

Regulatory disclosure

The credit ratings have been assigned to Joint Stock Company «Federal Passenger Company» and to the bonds issued by Joint Stock Company «Federal Passenger Company» (ISIN RU000A0ZYL7, RU000A0ZYX69, RU000A0ZZRK1, RU000A0ZZTL5) 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, Methodology for Analyzing Relationships Between Rated Entities and the State, Methodology for Analyzing Member Company Relationships Within Corporate Groups](#), 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 under the National Scale of the Russian Federation was also applied to assign credit ratings to the above issues.

The credit ratings were assigned to Joint Stock Company «Federal Passenger Company» and to the bonds issued by Joint Stock Company «Federal Passenger Company» (ISIN RU000A0ZYLF7, RU000A0ZYX69, RU000A0ZZRK1, RU000A0ZZTL5) for the first time on December 7, 2017, December 21, 2017, March 7, 2018, October 31, 2018, and November 15, 2018, respectively. The credit rating of Joint Stock Company «Federal Passenger Company» and the bonds issued by Joint Stock Company «Federal Passenger Company» (ISIN RU000A0ZYLF7, RU000A0ZYX69, RU000A0ZZRK1, RU000A0ZZTL5) are expected to be revised within one year following the rating action date (December 4, 2018).

The credit rating was assigned based on the data provided by Joint Stock Company «Federal Passenger Company», information from publicly available sources, as well as ACRA's own databases. The credit rating is solicited, and Joint Stock Company «Federal Passenger Company» participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by Joint Stock Company «Federal Passenger Company» in its financial statements were discovered.

ACRA provided no additional services to Joint Stock Company «Federal Passenger Company». No conflicts of interest were discovered in the course of credit rating assignment.

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