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Key rating assessment
factors

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

The credit rating of [Joint Stock Company «Federal Passenger Company»](#) (hereinafter, the Company) is based on the Company's standalone creditworthiness assessment (SCA), the level of support from both its sole shareholder Joint Stock Company "Russian Railways" (RZD) ([AAA\(RU\), outlook Stable](#)) and the state in view of the Company's high systemic importance, as well as the Company's strategic and social role in the Russian economy.

The SCA at a- is based on the Company's strong operating profile, which is supported by a monopolistic position in the national long-distance passenger rail segment, the average size and profitability of the Company's business (due in part to annual government subsidies to compensate for losses in the regulated segment), moderate leverage, a conservative financial policy, and adequate liquidity due to the significant amount of available credit lines.

The rating is limited primarily by growing competition from airlines, which has led to a decrease in the Company's market share, and the generation of negative cash flow, which indicates the need for significant investments to upgrade a worn-out train car fleet in order to maintain passenger turnover. The rating is also limited by the Company's moderate dependence on state support in forming its tariffs and subsidies to compensate for losses in the regulated segment.

The Company covers approximately 94% of long-distance passenger train routes in Russia. In 2018, the Company serviced over 101.5 mln passengers, and its revenue amounted to RUB 226.1 bln. The Company is wholly owned by RZD, which is state owned.

Consistently high systemic importance for the Russian economy and a very high level of state influence on the Company's creditworthiness. ACRA maintains its higher assessment of state support relative to its assessment of parent company support. The high level of systemic importance for the state is based on the Company's exclusive role in the long-distance passenger rail segment, as well as the fact that the Company is a major employer and an integral part of the national economy. The state's substantial influence comes in the form of indirect operational and shareholder control, direct regulation of the Company's activities by setting tariffs for transportation, as well as state support in the form of subsidies and preferential tax treatment.

Maintaining tendencies to increase leverage. According to ACRA, the ratio of total debt (including pension obligations) to FFO before fixed charges will amount to 2.72x by the end of 2019, while in the previous three years it amounted to 1.4-2.4x. The Company borrows funds in order to partially finance its major investment program. ACRA believes this indicator over the next two years will equal its current level or slightly decrease to 2.6-2.7x given projected FFO growth. In 2022, the Company will have a put option on a bond issue of RUB 10 bln, and there are no other large debt obligations over the next three years. The level of interest payment coverage should stabilize in 2020-2021 to the 2019 level according to leverage dynamics. According to ACRA, FFO before fixed charges to fixed charges should amount to around 5.7x for 2019, while decreasing to 5.1-5.2x for 2020-2021. At the same time, the Company's strategy assumes RUB 51.3 bln in capitalization in 2019-2022 (RUB 15 bln expected in December 2019). This prevents rapid leverage growth and ensures compliance with the debt policy, according to which the Company's leverage/EBITDA should not exceed 2.5x.

Adequate liquidity position amid negative free cash flow. As of November 2019, the Company's total undrawn credit lines amounted to RUB 100 bln, whereas this figure equaled RUB 18.5 bln in 2018. A significant increase in the volume of available credit lines has led to improved liquidity and, as a consequence, to an increase in the Company's SCA. Aside from the 2022 put option, there are no other large debt obligations in the coming

years. However, due to the Company's major investment program, FCF will be negative in 2020-2021, which will put pressure on liquidity. As a result, ACRA expects the Company's short-term liquidity ratio to average 1.9x for 2020-2022, taking into account the volume of open credit lines.

Key assumptions

- Maintained state support in the form of subsidies and preferential tax treatment (0% VAT);
- Indexation of the Company's services and infrastructure lease slightly below inflation (by 0.2-0.5%);
- Increase in passenger turnover by 0.5-1% in 2020-2021;
- Investment program amounting to approximately RUB 200 bln for 2019-2022;
- Capital injection of RUB 51.3 bln in 2019-2022;
- No dividend payments or returns 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 for the state and significant expansion of Company functionality.

A negative rating action may be prompted by:

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

Rating components

SCA: a-.

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)**.

[Bond loan, Exchange-traded interest-bearing non-convertible certified bearer bond issued by JSC «FPC» \(RU000A100E88\)](#), maturity date: May 21, 2029, issue volume: RUB 8 bln — **AA+(RU)**.

[Bond loan, Exchange-traded interest-bearing non-convertible certified bearer bond issued by JSC «FPC» \(RU000A1012B3\)](#), maturity date: November 5, 2029, issue volume: RUB 5 bln — **AA+(RU)**.

Rationale. The bonds listed above are senior unsecured debt instruments 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 leverage 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 the Company.

Regulatory disclosure

The credit ratings have been assigned to Joint Stock Company «Federal Passenger Company» and its bonds issues (RU000A0ZYL7, RU000A0ZYX69, RU000A0ZZRK1, RU000A0ZZTL5, RU000A100E88, RU000A1012B3) 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 of Joint Stock Company «Federal Passenger Company» and its bonds issues (RU000A0ZYL7, RU000A0ZYX69, RU000A0ZZRK1, RU000A0ZZTL5, RU000A100E88, RU000A1012B3) were published by ACRA for the first time on December 7, 2017, December 21, 2017, March 7, 2018, October 31, 2018, November 15, 2018, June 3, 2019, and November 15, 2019, respectively. The credit ratings of Joint Stock Company «Federal Passenger Company» and its bonds issues 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 Joint Stock Company «Federal Passenger Company», information from publicly available sources, as well as ACRA's own databases. The credit ratings are solicited, and Joint Stock Company «Federal Passenger Company» participated in their 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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