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ACRA assigns BB(RU) to JSC «Laut», outlook Stable

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Key rating assessment factors

ACRA has assigned a credit rating to [JSC «Laut»](#) (hereinafter, the Company) based on the Company's high industry risk, weak cash flow, liquidity, and corporate governance, as well as its high leverage and low debt coverage. The Company's strong business profile and high profitability support the rating.

The Company owns and operates the Salaris shopping center, whose gross building area (GBA) covers 308,000 square meters, with 105,000 square meters of gross leasable area (GLA). The Company is part of the Plaza B. V. group (hereinafter, the Group), which operates and manages commercial real estate. The Group is also involved in investment activities and development. The Group's projects include the Salaris shopping center, the Paveletskaya Plaza shopping center, and IFC Columbus.

ACRA assesses the Company's industry risk as high due to the industry's cyclical nature, high levels of overdue debt, and a significant number of companies that have defaulted in the past.

The strong business profile is based on the Company's very high utilization rate (97%) with primarily long-term lease agreements, as well as weak diversification (only one project in the portfolio has a diversified tenant structure).

ACRA assesses the Company's corporate governance as weak. The Company's management strategy is assessed as average. The Group's shopping centers are managed by the Mall Management Group, which has extensive experience in this field. The focus of the Company's strategy for the coming years is to ensure the growth of cash flow from rentals and capitalization rates. ACRA's assessment of the Company's risk management as weak puts pressure on the corporate governance assessment. The Company is exposed to increased interest rate risks because all of the debt it attracts has a floating interest rate with no cap limit. This could lead to a significant increase in interest expenses if the Central Bank increases the key rate. The Company's low level of financial transparency, management structure, and group structure also limits the corporate governance assessment.

High profitability. According to ACRA, the Company's weighted average NOI (net operating income) to market value of real estate ratio should equal around 8.5% for 2020-2022. ACRA estimates that the weighted average NOI per square meter of leasable space will amount to RUB 15,200 for 2020-2022.

High leverage and weak debt service indicators. The Company's weighted average total debt to NOI ratio should amount to 10.4x for 2020-2022, while its weighted average LTV (Loan to Value) figure should equal 0.9x. The long-term nature of the Company's debt and its comfortable repayment schedule have a positive impact on the assessment. Due to the Company's large amount of debt, the majority of pressure on financial indicators comes from substantial interest payments. ACRA assesses the coverage on these payments as low; the weighted average NOI to payments ratio should amount to 1.1x.

Weak liquidity, low cash flow, and aggressive financial policies. The Company's short-term liquidity ratio (0.92x) is affected by a significant increase in NOI in the forecast period (including the return of VAT paid with tax assets accumulated during the construction of the shopping center), a comfortable debt repayment schedule, and the absence of open credit lines in banks. Since the Salaris shopping center began operations in 2019, the Company has completed its investment phase and now expects a substantial increase in FCF profitability. ACRA expects the Company's weighted average FCF profitability to equal 3.8% in 2020-2022. Among potential risk factors, ACRA notes the Group's aggressive financial policy associated with high investment activity.

Key assumptions

- Growth in rental rates by 15% in 2021 and 2022 and by 5% annually in subsequent years;
- Maintaining high utilization rate.

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 weighted average NOI to payments ratio above 1.2x in 2020-2022;
- Decrease in the weighted average total debt to NOI ratio below 8x with a simultaneous decrease in the weighted average LTV ratio to 0.8x or lower;
- Increase in short-term liquidity ratio above 1x.

A negative rating action may be prompted by:

- Increase in the weighted average LTV ratio above 1x with a simultaneous decrease in the weighted average total debt to NOI ratio below 1x.

Rating components

SCA: bb.

Adjustments: none.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned 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](#).

A credit rating has been assigned to JSC «Laut» for the first time. 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 the data provided by JSC «Laut», information from publicly available sources, as well as ACRA's own databases. The credit rating is solicited, and JSC «Laut» participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by JSC «Laut» in its financial statements have been discovered.

ACRA provided no additional services to JSC «Laut». No conflicts of interest were discovered in the course of credit rating assignment.

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