August 31, 2020

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ACRA assigns **A+(RU)** to **PJSC "Cherkizovo Group"**, outlook **Stable**

The credit rating of PJSC "Cherkizovo Group" (hereinafter, Cherkizovo, the Company, or the Group) is based on a strong business profile, very high liquidity, high level of corporate governance, and high profitability. The rating is constrained by the Company's average leverage, weak cash flow, and average size.

Cherkizovo is a group of companies that produce poultry, pork and processed meat products. The Group also encompasses companies that grow wheat, maize, soybeans, and sunflower. The main owners of the Company are the members of the Mikhailov family, who together control 82.1% of its share capital.

Key rating assessment factors

Strong business profile. ACRA notes that Cherkizovo's business is more diversified than the industry average. In 2019, revenue was mainly contributed by the poultry and meat processing segments. In addition, the Company has developed pig breeding, crop production and feed production, which gives it a very high degree of vertical integration and considerably decreases the impact of price fluctuations on the main elements of the cost price. The Group's self-sufficiency in the area of grain production should reach 45% in 2020 and later range between 40–60%. Every year, Cherkizovo processes around 85% of its pork and uses it to create products with a high added value. The launch of an oil extracting plant has an additional positive impact on the level of vertical integration of the Group. ACRA positively assesses Cherkizovo's efforts to mitigate biological risks. A considerable share of the Company's cost price is denominated in foreign currency. This is partially offset by the development of export sales, the share of which the Company intends to increase to 10%.

Average leverage and high interest payment coverage. Cherkizovo's total debt as of June 30, 2020 amounted to RUB 67.6 bln, having increased by 5.6% in H1 2020. The Company's debt is entirely fixed rate, 96.6% ruble-denominated, and well diversified in terms of creditors. ACRA predicts that the Group's total debt to FFO before net interest payments in 2020 will amount to 3.1x compared to 3.4x in 2019, which corresponds to average leverage. ACRA assumes that this indicator will further decline to 2.7x by 2022. Interest payment coverage is at a high level due to subsidized interest rates and preferential lending conditions. In 2019, the ratio of FFO before net interest payments to interest payments was 6.5x. ACRA expects Cherkizovo to maintain this indicator within 5.3–6.7x in 2020–2022.

Very high liquidity assessment amid weak cash flow. Cherkizovo's capital expenditures are average, with the ratio of CAPEX to revenues at 8% in 2019. ACRA expects this indicator to remain at a comparable level in 2020–2022. Given the payment of dividends, the Company's free cash flow (FCF) is close to or just below zero. ACRA predicts that the FCF margin may reach 3% by 2022. On the one hand, the rather large size of debt due in 2021 (RUB 25.3 bln or 37% of total debt) puts a certain degree of pressure on liquidity, while on the other hand, the Company plans to refinance around half of this amount in the near future. In addition, considerable support for the assessment of this factor is provided by significant available limits that cover planned repayments, and therefore liquidity can be assessed as positive.

High profitability and average size of the Company. Cherkizovo recorded RUB 120 bln in revenues in 2019, a 20% increase compared to 2018. FFO before net interest payments and taxes in that period grew by 14% to RUB 20 bln, which corresponds to an average assessment given the size of the Company, according to ACRA's methodology. The FFO margin before net interest payments and taxes was 16.5% in 2019, which ACRA views as sufficiently high. In H1 2020, this indicator grew to 17.8%

due to higher profitability in the meat processing and poultry segments. ACRA assumes that profitability will increase gradually in 2020–2022, but notes that this indicator is rather highly dependent on exchange rates as a considerable share of the Company's operating expenses is still made in foreign currency. However, ACRA acknowledges that growth in Cherkizovo's export sales, the high level of self-produced feed supply and a number of other measures, which when combined will help increase the resilience of its profits to changes in exchange rates.

High level of corporate governance. ACRA positively assesses Cherkizovo's strategy, which includes maintaining a high level of vertical integration within the Group, developing export sales, and increasing the sale of products in the restaurant segment. Despite the fact that the Company has mainly developed through M&A deals, it has managed to keep its leverage at an acceptable level. The Group has a high level of corporate governance: three of the seven members of the board of directors are independent, and the board of directors has committees for auditing, personnel and remuneration, and investment and strategic planning. The Company releases IFRS statements every quarter. The auditor is Deloitte. In addition, the Company regularly publishes its operating indicators.

Key assumptions

- Average annual EUR/RUB exchange rate at 75–80 in 2020–2022;
- No major M&A deals;
- Continued access to external liquidity sources.

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:

- Average weighted ratio of total debt to FFO before net interest payments falling below 2.0x amid average weighted ratio of FFO before net interest payments to interest payments growing above 8.0x;
- FFO before net interest payments and taxes increasing to more than RUB 30 bln at the same time as FFO margin before net interest payments and taxes consistently exceeding 20%;
- FCF margin consistently exceeding 5%.

A negative rating action may be prompted by:

- Average weighted ratio of total debt to FFO before net interest payments exceeding 3.5x;
- Average weighted ratio of FFO before net interest payments to interest payments falling below 5.0x;
- FFO margin before net interest payments and taxes at lower than 10%;
- Materialization of biological or climate risks that can negatively impact the Company's financial profile;
- Worsened access to sources of liquidity.

Rating components

SCA: a+.

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 PJSC “Cherkizovo Group” 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 PJSC “Cherkizovo Group”, information from publicly available sources, as well as ACRA’s own databases. The credit rating is solicited, and PJSC “Cherkizovo Group” participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by PJSC “Cherkizovo Group” in its financial statements have been discovered.

ACRA provided no additional services to PJSC “Cherkizovo Group”. No conflicts of interest were discovered in the course of credit rating assignment.

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