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Key rating assessment
factors

ACRA affirms A+(RU) to DME Limited, changes outlook to Negative, affirms A+(RU) to bond (RU000A0ZYM21) issued by Domodedovo Fuel Facilities Ltd.

The credit rating of [DME Limited](#) (hereinafter, the Company, Airport, or Domodedovo) stems from low industry risks coupled with the leading market position of the Company, its strong business profile and strong liquidity as well as high profitability. The credit rating outlook has been changed due on lower coverage of interest payments caused by revaluation of currency denominated liabilities amid shrinking passenger flow. The credit rating is still under pressure from medium leverage and medium quality of corporate governance.

DME Limited is a group of companies that owns and operates the Domodedovo airport. The Airport is the second largest in Russia in terms of passenger and cargo traffic. Dmitry Kamenshchik is the ultimate controlling beneficiary of the Company.

Lower coverage of interest payments; leverage remains stable. According to ACRA estimates, at the end of 2017, Domodedovo's debt amounted to RUB 50 billion and included foreign currency loans and borrowings, as well as amounts due under concession agreements. At the beginning of 2018, the Company issued Eurobonds for USD 300 million in order to refinance another issue of Eurobonds due in November 2018. Coupled with the currency revaluation, this resulted an increase in that the Domodedovo's liabilities to RUB 73 billion by June 30, 2018. According to Agency estimates, by the end of 2018, the Company's liabilities after the redemption of Eurobonds will amount to RUB 59 billion. Foreign exchange revenues coming from international flights creates a certain natural hedge of currency risks. ACRA estimates the leverage as medium, since the ratio of total debt to FFO before net interest payments will be in the range of 3.6x–3.8x by the end of 2018. Interest coverage has declined, but it is still acceptable. According to ACRA estimates, in 2018, the ratio of FFO before interest payments to interest payments will be 4.1x versus 5.2x at the end of 2017. This is explained, among other things, by the additional interest expenses on the new issue of Eurobonds, which was placed much earlier than the due date of the issue to be refinanced. In the period from 2019 to 2020, we expect a gradual increase in the ratio up to 5.1x.

Strong liquidity and weak free cash flow. As of June 30, 2017, Domodedovo had sufficient liquidity to successfully redeem Eurobonds in November 2018. At the same time, the Company's operations continue to generate a weak free cash flow amid high capital expenditures, which puts pressure on its liquidity. In addition, the volume of dividends declared by the Company in 2018 (RUB 6 billion) is higher than that expected by the Agency (RUB 4 billion). Actual dividend payouts of the Company amounted to RUB 1.4 billion in 1H2018. Thus, according to ACRA estimates for 2018, the FCF margin will be -24%, and the ratio of capital expenditures to revenues will amount to 0.38x. In the period from 2019 to 2020, after the Company has passed the peak of capital expenditures, we expect an increase in free cash flow, but it may still remain negative. Domodedovo's liquidity is further supported by the availability of open and committed credit facilities in creditor banks. At the same time, we note that the Domodedovo's leverage exceeded financial covenants for certain obligations, which could lead to certain deterioration in the liquidity position. As a result, by the end of 2018, the short-term liquidity ratio is projected by ACRA at 1.4x. Domodedovo has no large debt obligations to be repaid in the period from 2019 to 2020, and the only negative factor is negative cash flow. Therefore, we expect that, in the mentioned period, the ratio will fluctuate within 1.2x–1.3x.

Low industry risks; leading market positions. Infrastructure companies in the transportation industry have high entry barriers for new players. Oftentimes, airports are natural monopolies that do not compete with each other. There are three airports in the Moscow Air Hub serving the bulk of passenger and cargo traffic in the Russian air transportation market. Domodedovo is the second largest airport in the Moscow Air Hub, being only slightly behind the leader. At the same time, the Agency notes that in January–September 2018, Domodedovo passenger traffic and cargo traffic fell by 3.5% and 4.5%, respectively, which is not in line with the general trend seen in the Moscow Air Hub (+8.6% and +4.3%, respectively).

Key assumptions

- The first Eurobond issue will be refinanced successfully in 2018;
- FFO margin before interest payments and taxes will stay within the range of 35%-45%;
- The trend for liberalization of the state tariff policy with respect to airport infrastructure will remain;
- Dividend payouts will not exceed RUB 4 bln;
- Passenger traffic will grow by 2%-4% annually;
- Capital expenditures will remain high (30%-35% of revenues).

Potential outlook or rating change factors

The **Negative outlook** assumes that the rating may be downgraded within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- A decline of total debt to FFO before interest payments below 2.0x or increase of FFO before net interest payments to interest payments above 10x;
- An increase of FCF margin after dividends above 2%;
- A substantial cut of the capex program (below 15% of revenues);
- A significant improvement in corporate governance practices, including the board of directors and the internal regulatory framework.

A negative rating action may be prompted by:

- Continued annual dividend payouts exceeding RUB 5 bln amid negative FCF;
- Domestic and international passenger traffic declining by more than 5%-10% in 2019-2020 vs 2018;
- Total debt to FFO before net interest payments to interest payments exceeding 4.0x or FFO before net interest payments to net interest payments dropping below 5.0x;
- A loss of a large client, which may result in a financial performance decline of the Company;
- FFO margin before net interest payments and taxes decreasing falling below 25%;
- A substantially worse access to external sources of liquidity;
- A change in the state tariff policy for airport infrastructure.

Rating components

Standalone creditworthiness assessment (SCA): a+.

Adjustments: none.

Issue ratings

[Bond loan, Exchange-traded interest-bearing certified bearer bonds issued by Domodedovo Fuel Facilities Ltd \(ISIN RU000A0ZYM21\)](#), maturity date: December 20, 2022, issue volume: RUB 10 bln, – **A+(RU)**.

Credit rating rationale. The Bond issue is a senior unsecured debt obligation of [Domodedovo Fuel Facilities Ltd.](#) (hereinafter, the Issuer), which is an operational subsidiary of DME Limited. The credit rating was assigned on the basis of public irrevocable offers from DME Limited as a holding company and from key operational companies of the holding company generating the bulk of the Group's cash flow. The list of offerers is identical to the list of companies acting as sureties under Eurobonds issued

by the Group, which, in ACRA's opinion, is indicative of no structural subordination of the issues. Therefore, and in view of no contractual subordination, ACRA ranks the bond *pari passu* with other existing and future unsecured and unsubordinated obligations of the Company. At the same time, ACRA notes the lack of a suretyship from the owner of Domodedovo's assets – Hacienda Limited (Cyprus) – with respect to both the rated bond issue and Eurobonds issued earlier. In view of the above, ACRA used a detailed approach to assess loss recovery rate. According to ACRA's methodology, the recovery rate for Domodedovo's unsecured debt is classified into the second category, and therefore, the credit rating of the issue is on par with the credit rating of [DME Limited — A+\(RU\)](#).

Regulatory disclosure

The credit ratings of DME Limited and the bond (ISIN RU000A0ZYM21) issued by Domodedovo Fuel Facilities Ltd., a subsidiary of DME Limited, were 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](#). The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments Under the National Scale of the Russian Federation was also used in the credit rating assignment of the specified issue.

The credit ratings of DME Limited and the bond (ISIN RU000A0ZYM21) issued by Domodedovo Fuel Facilities Ltd. were first published by ACRA on November 29, 2017 and December 26, 2017, respectively. The credit rating and outlook of DME Limited and the credit rating of the bond (ISIN RU000A0ZYM21) issued by Domodedovo Fuel Facilities Ltd. are expected to be revised within one year following the rating action date (November 22, 2018).

Disclosure of deviations from approved methodologies: the profitability factor was assessed with a deviation from the assessment range as specified in the methodology.

The assigned credit rating is based on the data provided by DME Limited, information from publicly available sources, as well as ACRA's own databases. The credit rating is solicited, and DME Limited participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by DME Limited in its financial statements have been discovered.

ACRA provided no additional services to DME Limited. No conflicts of interest were discovered in the course of credit rating assignment.

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