

ACRA AFFIRMS BBB(RU) TO EVROPEYSKAYA ELEKTROTEKHNICA, OUTLOOK STABLE

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The credit rating of PJSC **Evropeyskaya Elektrotekhnica** (hereinafter, **Evropeyskaya Elektrotekhnica**, the Company, or the Group) is based on its good liquidity, high debt coverage, and low leverage. At the same time, ACRA notes the lower than average size of the Company's business compared to the largest Russian companies, its medium cash flow, and assesses its market position as modest in view of the high granularity of the Russian engineering market.

Evropeyskaya Elektrotekhnica is one of Russia's leading companies in terms of production of energy and power supply systems, and lighting and low-current systems. Since its creation in 2004, Evropeyskaya Elektrotekhnica has transformed from a trading company into a full-fledged engineering firm with its own production facilities (41% of products and equipment sold by the Group are manufactured using its own production facilities). The Company purchased oil and gas production facilities in the Republic of Bashkortostan in 2018, and finalized its legal title over them in 2020. The Group's future development plans are related to the launch of a new high-margin business, sale and lease of innovative oil and gas equipment. The Company's key shareholders are S. N. Dubenok and I. A. Kalenkov. Around 7% of the Company's shares are in free float.

KEY ASSESSMENT FACTORS

Moderate operational risk profile assessment. Evropeyskaya Elektrotekhnica's market share does not exceed 0.5%. However, the Company occupies a leading position in some sectors (up to 37% of the market for hot-dip galvanized reinforced cable systems and cable holders for ultra-deep mines, and up to 8% of the market for flare units). The Group's order book covers a five-year horizon (including highly likely contracts); occasionally, some contracts may be postponed for a few months, which may result in a corresponding postponement of some revenues in a given period. However, the potential effect from postponing contracts does not exceed 10% of revenues, in ACRA's opinion, owing to good diversification of the order book by customer. The Company's sales markets exhibit moderate cyclicalities. In 2019, the share of engineering systems in the Company's revenues was 77%; the remaining portion was attributable to oil and gas equipment. In 2020 and 2021, these shares amounted to 74% and 26%, respectively. The Company plans to increase the share of oil and gas equipment to 35% over the next few years. Dependence on subcontracting and components is generally assessed as moderate: dependence on subcontracting is minimal (about 2.5%), and the resale of components and equipment accounts for up to 60–80% of revenues. In 2021, the Company's new site at Special Economic Zone Technopolis Moskva for producing smart electrical distribution boards and automation boards reached full production capacity. Geographic diversification of sales markets is moderate, with up to 9% of products being exported, mainly oil and gas equipment. The Company opened a representative office in Cairo in 2021.

Adequate corporate governance. The Group's strategy is sufficiently formalized; it is approved by the board of directors. However, it is subject to significant adjustments from time to time in response to developments in external factors and the market situation. The strategy includes reaching key financial and operating targets. The strategy implies a substantial increase of the share of the higher-margin business line (equipment manufacturing for oil and gas and hydrocarbon processing industries) in the Group's total revenues. In 2020, the Company successfully underwent INTERGASCERT certification, which allows it to supply equipment to Gazprom group companies. ACRA notes that the Company has been strictly adhering to its strategy, including annual growth of revenues and FFO before net interest payments and taxes. Evropeyskaya Elektrotekhnica's risk management system is assessed as medium because currency and interest rate exposures are minimal and the purchase of components in overseas markets is offset by export revenues (natural hedging). ACRA assesses Evropeyskaya Elektrotekhnica's corporate governance quality as adequate in view of, among other things, the involvement of the Company's owners in its business. The Group includes seven legal entities, which is justified by the nature of its business. There are related-party transactions that are controlled by the Company's board of directors. ACRA assesses Evropeyskaya Elektrotekhnica's financial transparency as high: financial reporting is published on a quarterly basis, and regular meetings with investors are held, at which information on the Group's current operations and development plans is disclosed.

Lower than average business size. ACRA estimates FFO before net interest payments and taxes at RUB 611 mln in 2021 (RUB 536 mln in 2020). The Agency expects this indicator to amount to RUB 879 mln in 2022 and then continue to undergo organic growth. The FFO margin before net interest payments and taxes was 13.4% in 2021 and will remain at approximately this level in the next few years. This margin will be supported by growth in profitability buoyed by the increase in the share of oil and gas equipment in the Company's sales structure. In 2021, the Company installed a unique mobile modular preliminary water discharge unit at LUKOIL's Nazymyskoye field.

Low leverage and high coverage. As of December 31, 2022, Evropeyskaya Elektrotekhnica did not have any debt. There are no guarantees issued outside the Group's consolidation perimeter. As of the end of 2021, the Company's total debt was RUB 80 mln, or 0.15x as a ratio of total debt to FFO before net interest payments, having declined since 2020. In addition, coverage is high thanks to low total debt. ACRA expects the Company to be debt-free in 2023–2024.

The Company's liquidity is assessed as good. As of December 31, 2022, the Company had available credit lines totaling RUB 1 bln and held RUB 380 mln in its accounts.

KEY ASSUMPTIONS

- Annual revenue growth rates in segments in 2023–2024 in line with the announced volumes and deadlines;
- Dividend payments and investments in 2023–2025 in line with the announced volumes and deadlines.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Weighted annual FFO before net interest payments and taxes exceeding RUB 5 bln while maintaining the volume and terms of the contract base at a level no lower than the current one;

- Weighted annual FFO margin before net interest payments and taxes exceeding 25% while maintaining the volume and periods of the contract base at a level no lower than the current one;
- Weighted annual FCF margin exceeding 5% while maintaining the volume and terms of the contract base at a level no lower than the current one.

A negative rating action may be prompted by:

- FFO before net interest payments and taxes falling below RUB 0.5 bln coupled with FFO margin before net interest payments and taxes falling below 8%;
- Leverage (ratio of total debt to FFO before net interest payments) exceeding 1.0x coupled with coverage (FFO before net interest payments to interest payments) falling below 10.0x;
- FCF margin falling below zero coupled with share of capital expenditure in revenues growing above 10%;
- Significant deterioration of access to external liquidity sources;
- Significant decline of volumes and periods of the contract base;
- Significant growth of dividend payments as investments grow.

RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **bbb**.

Adjustments: none.

ISSUE RATINGS

There are no outstanding issues.

REGULATORY DISCLOSURE

The credit rating has been assigned to PJSC Evropeyskaya Elektrotekhnica 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 credit rating of PJSC Evropeyskaya Elektrotekhnica was published by ACRA for the first time on October 11, 2018. 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 data provided by PJSC Evropeyskaya Elektrotekhnica, information from publicly available sources, and ACRA's own databases. The credit rating is solicited and PJSC Evropeyskaya Elektrotekhnica participated in its assignment.

In assigning the credit rating, ACRA used only information, the quality and reliability of which were, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to PJSC Evropeyskaya Elektrotekhnica. No conflicts of interest were discovered in the course of credit rating assignment.

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