

## ACRA AFFIRMS BBB(RU) TO PJSC EVROPEYSKAYA ELEKTROTEKHNICA, CHANGES OUTLOOK TO POSITIVE

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The outlook on the credit rating of PJSC *Evropeyskaya Elektrotekhnica* (hereinafter, *Evropeyskaya Elektrotekhnica*, the Company, or the Group) has been changed to reflect ACRA's expectations for a potential improvement of corporate governance factors, including strategy and management structure, following the acquisition of the majority share in the Company by subsidiaries of *Bank GPB (JSC)* (ACRA rating — AA+, outlook Stable) in March this year. The credit rating is supported by the low leverage, high interest coverage, and the strong liquidity position. The rating constraining factors include the small size of the Company's business compared to the largest Russian companies, its modest market position in view of the high granularity of the Russian engineering market.

*Evropeyskaya Elektrotekhnica* is one of Russia's leading companies in terms of design and 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 base. Today, over 40% of products and equipment sold by the Group are manufactured using its own production facilities. The Company's key shareholders are *Bank GPB (JSC)* that holds a majority share through its subsidiaries, S. N. Dubenok and I. A. Kalenkov. 7.33% of the Company's shares are in free float.

### KEY ASSESSMENT FACTORS

**Medium 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 27% of the market for 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 three to four years (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 is rather restrained due to good diversification of the order book by customer. The Company's sales markets exhibit moderate cyclicity. The share of oil and gas systems grew from 23% in 2019 to 41% by the end of 2023; the remaining revenue comes from the engineering systems sales, which is due to an increase in orders from oil and gas enterprises. Dependence on subcontracting and components is generally assessed as medium: dependence on subcontracting is minimal (less than 5%), and the resale of components and equipment accounts for up to 60–80% of revenues. Geographic diversification of sales markets is medium, and the share of exports in the Company's revenue amounted to about 6% in 2023.

**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 implies an increase of higher-margin business lines (including equipment manufacturing for oil and gas industry and installing vertical transportation systems) in the Group's total revenues. 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). The Agency assesses the financial transparency as high: reports are disclosed quarterly, and investor meetings are held regularly. The Company's statements indicate that it is part of the OMZ group, a subsidiary of Bank GPB (JSC). A number of changes have already taken place in the corporate governance of the Company, namely, the board of directors has been expanded and additional financial control functions have been introduced. After the final integration of Evropeyskaya Elektrotekhnica into the OMZ group, ACRA will analyze the Company's performance with an updated corporate governance system and, possibly, revise the scores for the strategy and management structure sub-factors taken into account in the Positive outlook.

**Lower than medium business size.** According to ACRA's estimates, FFO before net interest and taxes was RUB 784 mln at the end of 2023. The Agency expects this indicator to exceed RUB 1.1 bln in 2024 and continue to grow moderately in the following years. The average FFO before net interest and taxes margin was 15% in 2021–2023; ACRA expects this indicator to remain within 13–17% in the next three years. This margin will be supported by an increase in the share of high-marginal lines of business in the Company's sales.

**Low leverage and high interest coverage.** As of September 30, 2024, Evropeyskaya Elektrotekhnica's total debt included a RUB 500 mln short-term loan and lease obligations. There are no guarantees issued outside the Group's consolidation perimeter. Against the background of a low debt burden, interest coverage remains high. The main assumption of ACRA's rating analysis is the absence of any external guarantees for, among others, persons belonging to the OMZ group or the Bank GPB (JSC) group; as well as maintaining the ratio of total debt to FFO before net interest at no higher than 1x. In case of deviations from this scenario, the rating may be revised.

**Strong liquidity position and medium cash flow.** As of September 30, 2024, the Company had available credit lines totaling RUB 1 bln and held RUB 45 mln in its accounts. The Company's free cash flow (FCF) turned out to be positive by the end of 2023, and the FCF margin was about 1%. ACRA expects the FCF margin to remain low in 2024–2025 due to increased capex and significant dividend payments, which target, according to the current dividend policy, is 50% of the Group's net profit.

## KEY ASSUMPTIONS

- Annual revenue over RUB 9 bln in 2025–2027.
- FFO before net interest and taxes from 2025 to 2027 over RUB 1 bln annually.
- The FFO before net interest and taxes margin from 2025 to 2027 in the range of 13–17%.
- Total debt to FFO before net interest over 1x.
- Investments in 2024–2027 as planned.
- Dividend payments in 2024–2027 of no more than 50% of net profit.
- Absence of any external guarantees, including for persons belonging to the OMZ group or the Bank GPB (JSC) group.
- Access to external sources of liquidity.

## POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Positive outlook** assumes that the rating will highly likely be upgraded within the 12 to 18-month horizon.

### A positive rating action may be prompted by:

- Weighted annual FFO before net interest 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 and taxes stably exceeding 15%.

### A negative rating action may be prompted by:

- FFO before net interest and taxes falling below RUB 0.5 bln and weighted FFO before net interest and taxes margin stably lower than 15%;
- 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;
- 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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