



2019 Russian Corporates Outlook

XVI Russian Bond Congress

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FitchRatings

Russian Corporates Portfolio



High share of investment grade ratings

- 30% of the portfolio in Oct 2018
- 4% improvement yoy

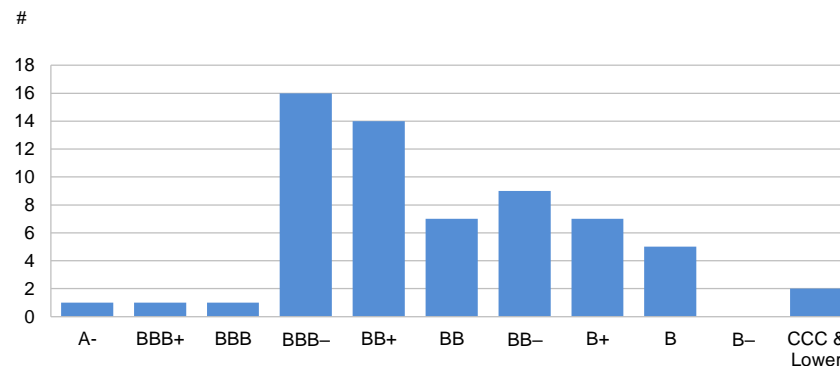
Share of 'B'-range and below ratings is stable

- 22% in Oct 2018
- Unchanged yoy

'BB' credits dominate

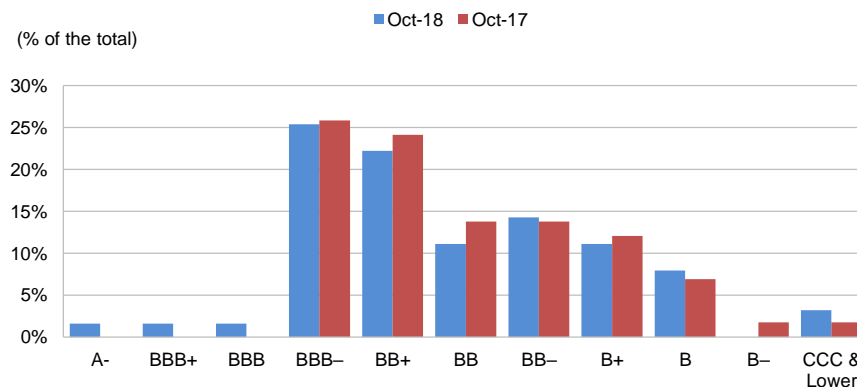
- 48% in Oct 2018, 52% in Oct 2017

Russian Corporates Ratings Distribution — International Scale
(As of October 2018)



Source: Fitch Ratings

Russian Corporates Ratings Distribution — International Scale



Source: Fitch Ratings

Positive Momentum Continues



Upgrades heavily outweigh downgrades

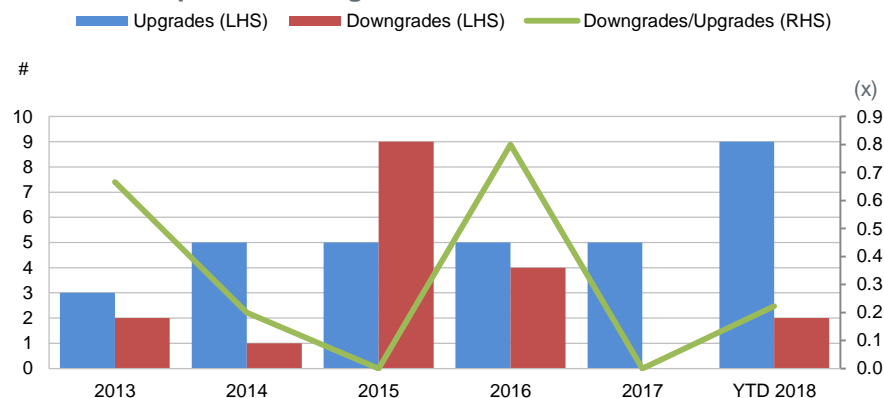
Positive Outlooks continue to outweigh Negative Outlooks

Almost 20% of the portfolio on Positive Outlook

- Positive Outlook on the sovereign drives many corporates outlooks

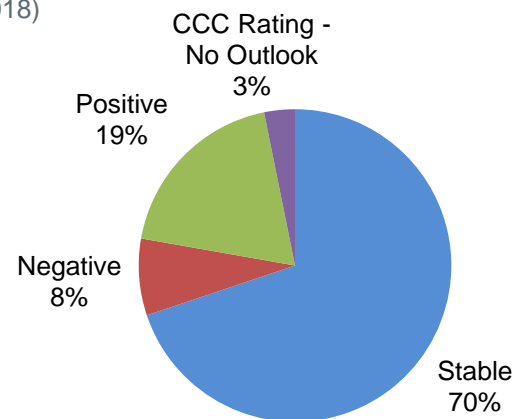
Positive momentum is likely to continue into 2019

Russian Corporates Rating Actions Distribution



Source: Fitch Ratings

Ratings Outlook/Watch
(As of October 2018)



Source: Fitch Ratings

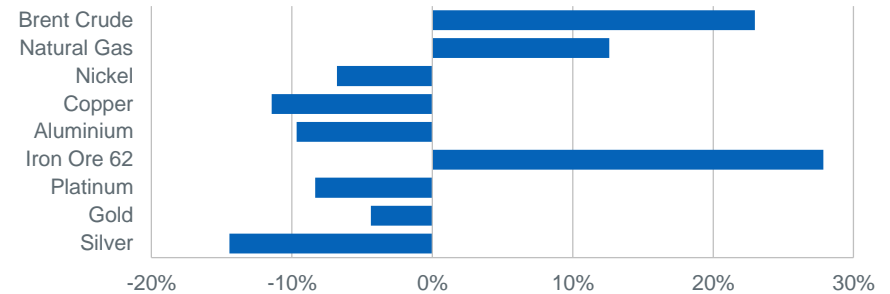
Commodities Prices Comfortable



Commodities prices are reasonably comfortable

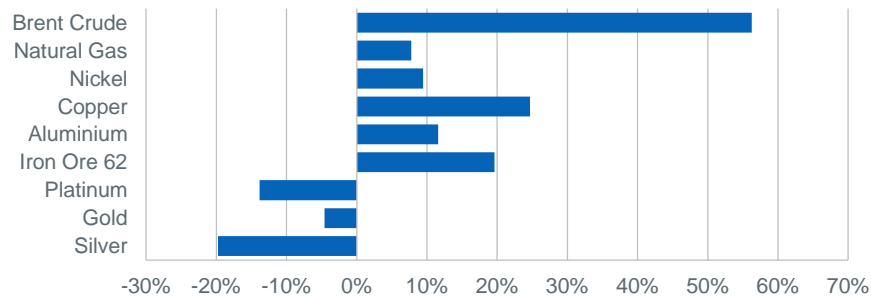
Particularly on a medium-term basis

Commodity price changes
30 October 2018, year on year



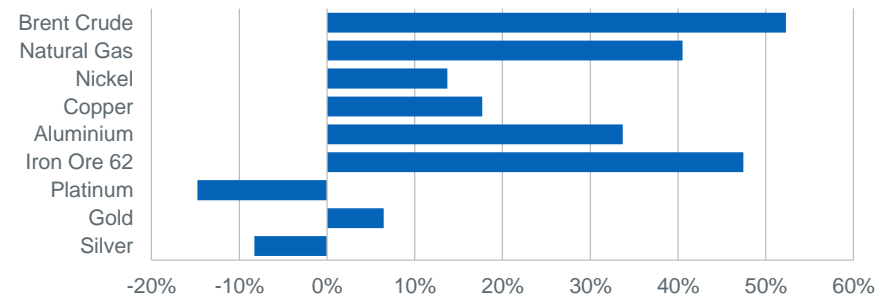
Source: Bloomberg

Commodity price changes
30 October 2018, 2 years change



Source: Bloomberg

Commodity price changes
30 October 2018, 3 years change



Source: Bloomberg



Low inflation resilient in the face of FX pressure

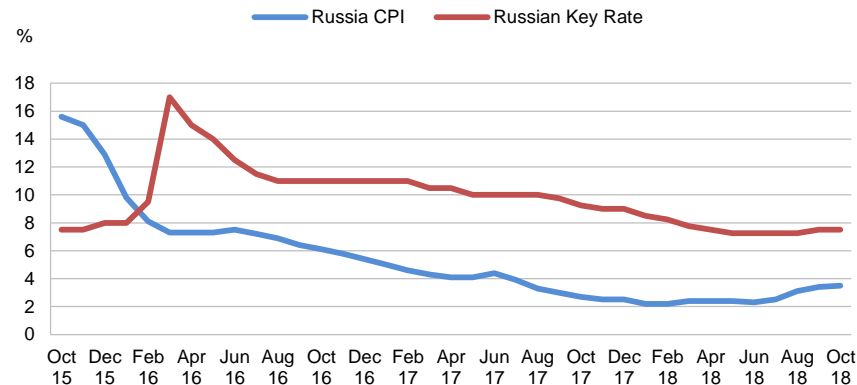
- Inflation is modestly rising but close to historic lows
 - Below 4% CBR target

Growth is sluggish and slowing down

- Fitch estimates/expects GDP growth at
 - 2% in 2018
 - 1.5% in 2019
 - 1.9% in 2020

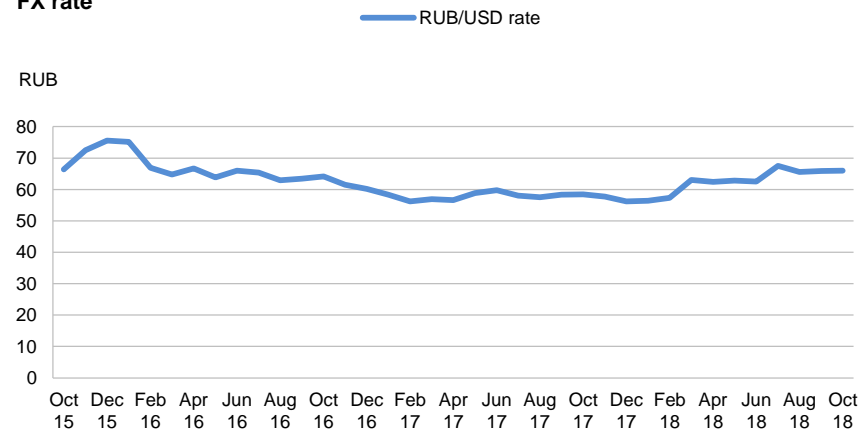
Inflation and Central Bank's Key Rate

monthly data



Source: Bloomberg

FX rate



Source: Bloomberg

Modest Growth



Modest corporate growth ahead

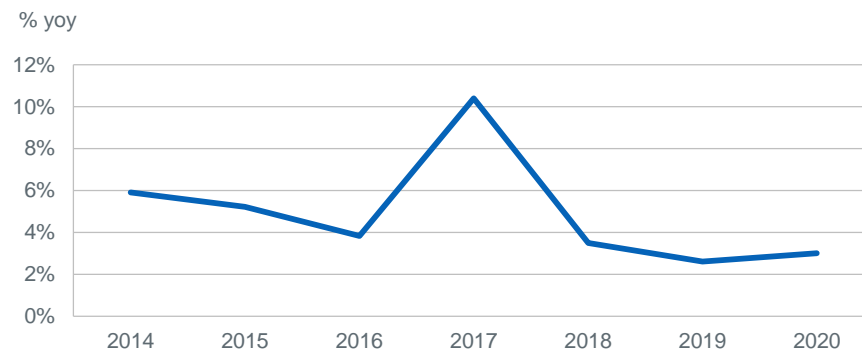
- Sharp deceleration from 2017
- Growth expectations reflect conservative price deck assumptions on key commodities

Profitability Improving

- May be hit by lower commodities prices from 2019 onwards

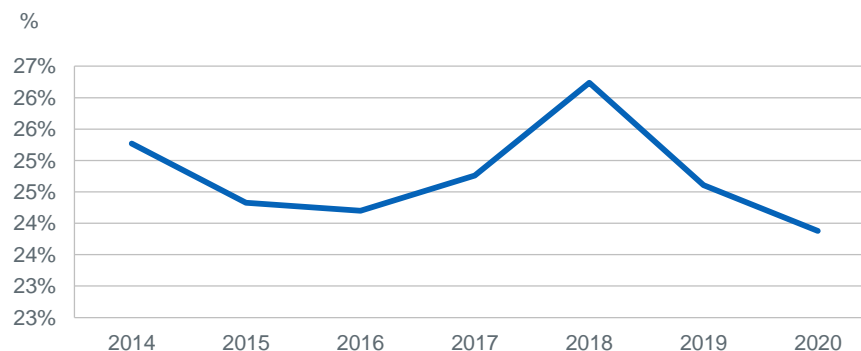
Sanctions discourage opportunistic search for growth

Russian Corporates Median Revenue Growth



Source: Fitch, companies

Russian Corporates Median EBITDA Margin



Source: Fitch, companies

Moderate Leverage



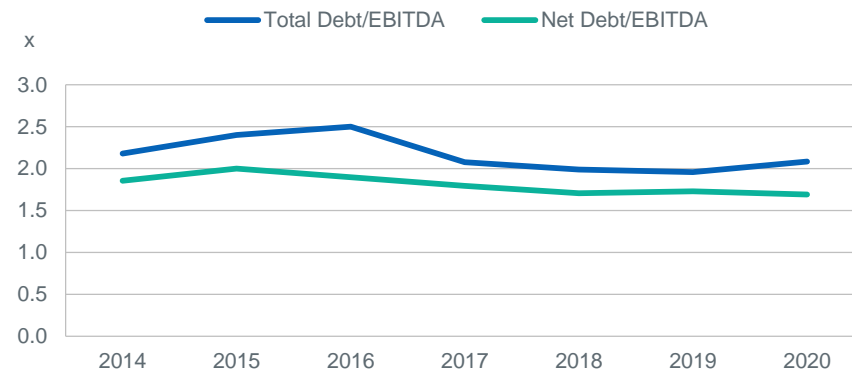
Deleveraging no longer a priority

- Significant deleveraging since 2015
- Leverage remains modest in absolute terms
- But also in the international peer context

Conservative capital structures reflect geopolitical risks

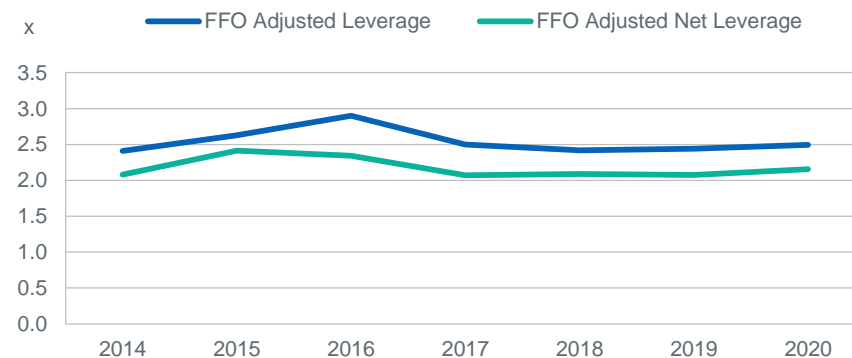
- Corporates are wary that they may be hit by squeezes in the Russian banking sector and access to international funding

Russian Corporates: TD/EBITDA and ND/EBITDA Medians



Note: 61 companies in the sample
Source: Fitch, companies

Russian Corporates: FFO Adjusted Gross and Net Leverage Medians



Note: 61 companies in the sample
Source: Fitch, companies

Declining Coverages

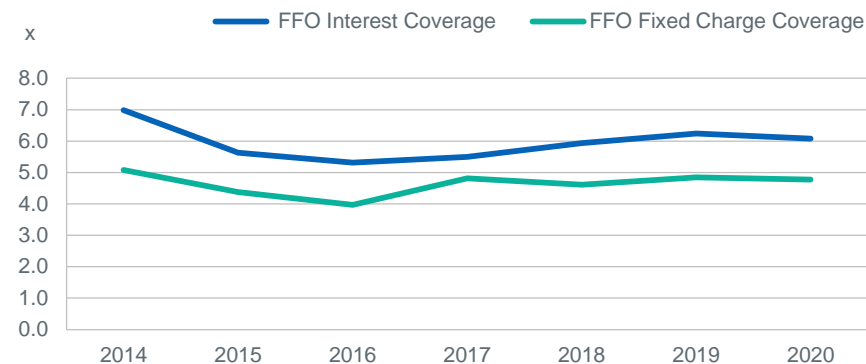


Modest coverage improvement continues

- Primarily an impact of lower interest
- Substantial lag effect
- Also benefiting from moderate leverage
- Coverages tighter vs. international peers

Liquidity is generally not a concern

Russian Corporates FFO Interest Coverage and FFO Fixed Charge Coverage



Note: 61 companies in the sample
Source: Fitch, companies

Robust Cash Flow



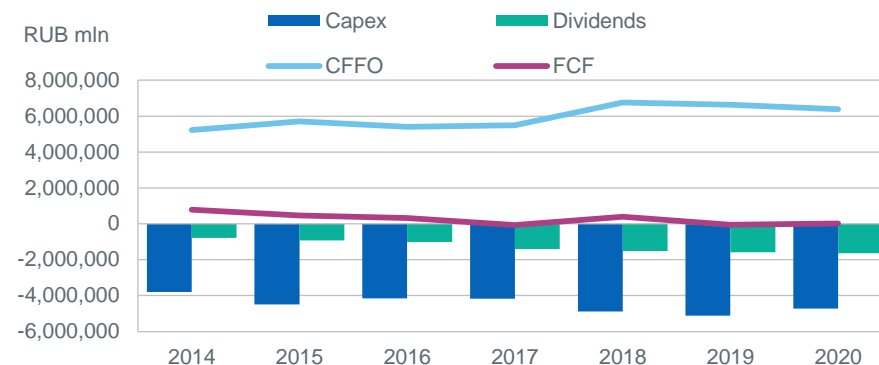
Internally generated cash flow is sufficient to cover capex

- Capex is expected to grow

Free cash flow post dividends is close to zero

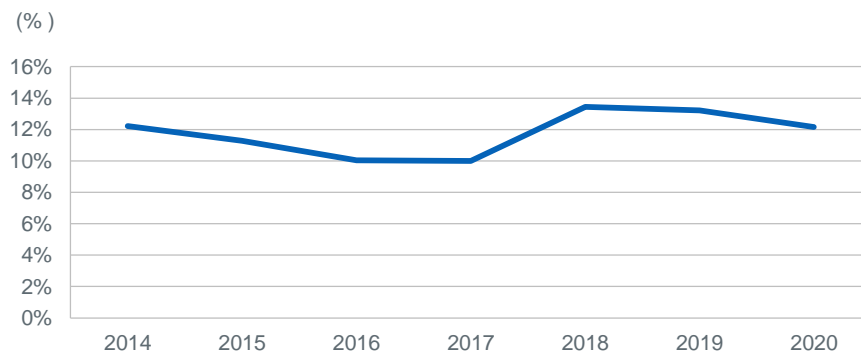
- Free cash is largely returned to shareholders
- Significant flexibility with shareholder remuneration

Russian Corporates Aggregate Cash Flow Items



Note: 61 companies in the sample
Source: Fitch, companies

Russian Corporates Median Capex/Revenue Ratio



Source: Fitch



FX funding discipline strong

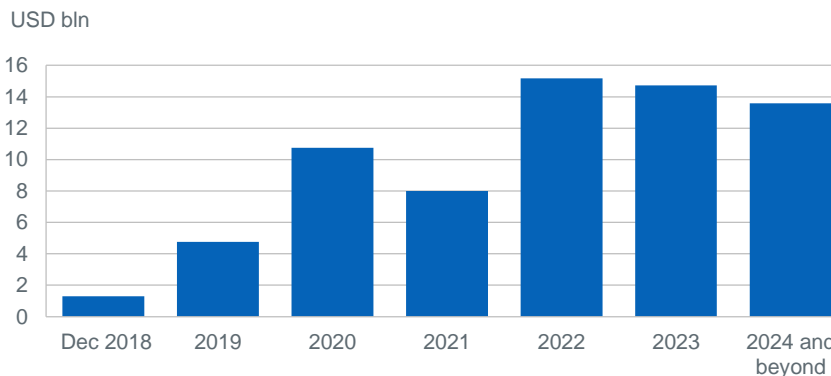
- Good match between FX debt and cash flows

Low short-term FX redemptions

- Higher refinancing risks in 2020

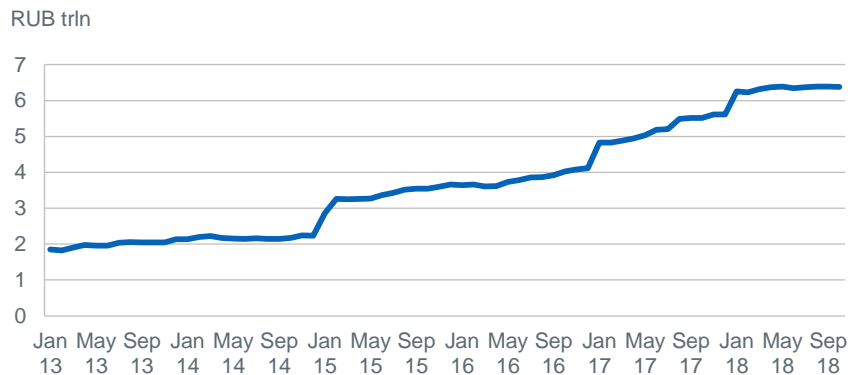
Rouble funding is key

Russian Eurobonds Maturity Schedule, as of November 2018



Source: Fitch, CBR, cbonds

Outstanding Public Domestic Debt Instruments Issued By Non-Financial Corporates



Source: CBR, Fitch

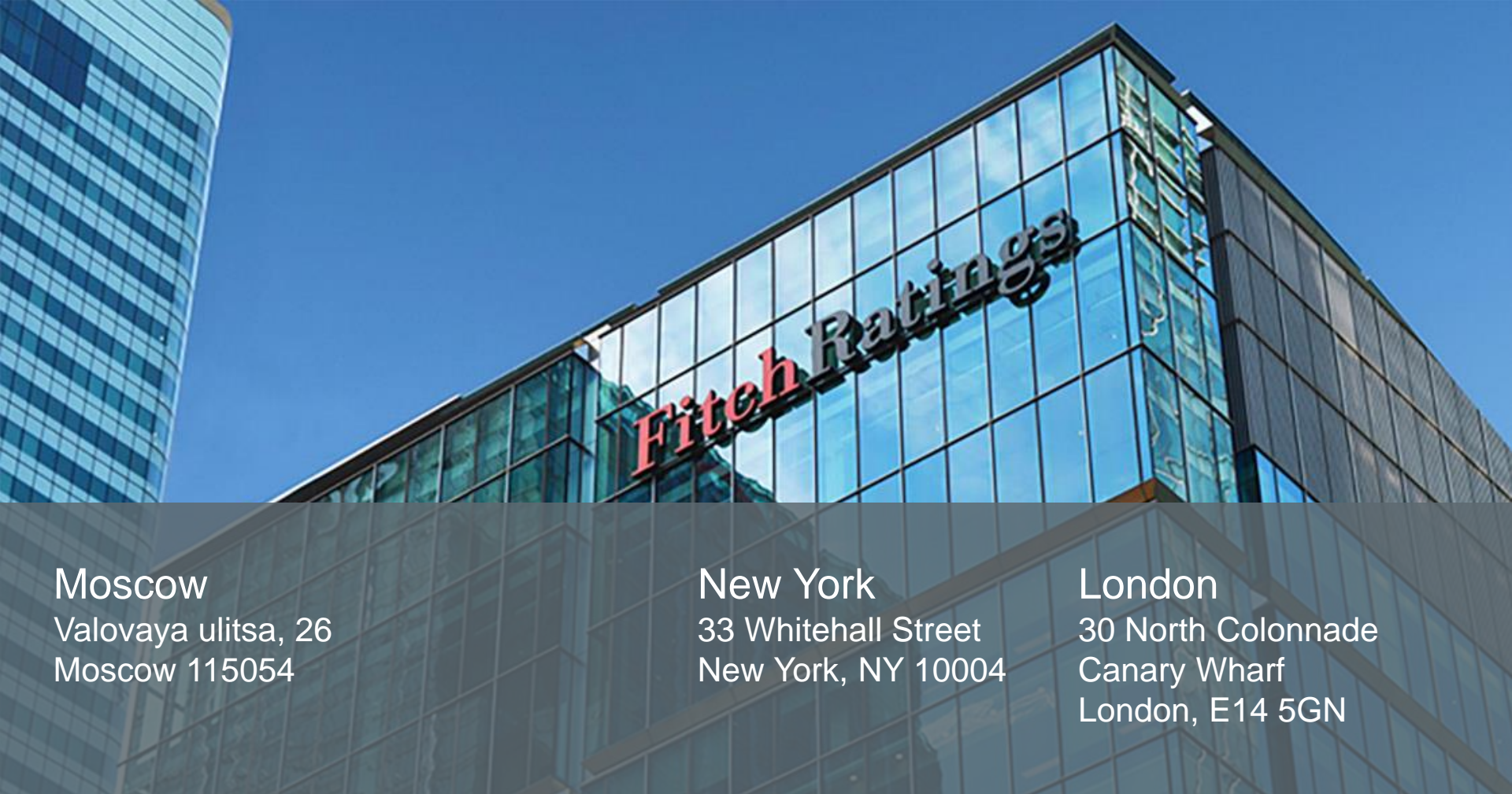
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