MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades NCSP's rating to Ba2; stable outlook

21 Aug 2018

London, 21 August 2018 -- Moody's Investors Service ("Moody's") has today upgraded to Ba2 from Ba3 the corporate family rating and to Ba2-PD from Ba3-PD the probability of default rating of Novorossiysk Commercial Sea Port, PJSC (NCSP) the largest operator of marine port terminals in Russia. The outlook on all ratings is stable. Concurrently, Moody's has upgraded NCSP's baseline credit assessment (BCA) to ba2 from ba3.

RATINGS RATIONALE

Today's upgrade of NCSP's ratings results from Moody's decision to upgrade the company's BCA, which is a measure of the company's standalone credit strength under Moody's Government-Related Issuers (GRI) rating methodology, to ba2 from ba3.

As the Russian government owns a 20% stake in NCSP and a "golden share", Moody's applies its GRI rating methodology. The Ba2 CFR reflects a combination of (1) a BCA of ba2; (2) the Russia's Ba1 foreign currency rating with positive outlook; (3) the moderate default dependence between NCSP and the government; and (4) the low probability of government support in the event of financial distress.

NCSP's BCA has been upgraded reflecting the company's established track record of fairly stable financial performance through the cycle, underpinned by its position as Russia's largest multi-cargo seaport operator with a strong geographical position.

NCSP's credit metrics and liquidity should remain strong in the next 12-18 months with FFO/debt remaining well above 30%, as the company continue to generate positive free cash flow, underpinned by its healthy operating results and moderate capital spending programme.

Moody's notes that the company is now considering a range of large-scale development projects, which may potentially drive a material step-up in investments, although the exact size and timing of the projects are yet to be defined. Moody's, however, expects NCSP to maintain its solid financial profile, supported by the comfortable capacity under the current rating and its fairly conservative financial policy, with an internal target reported net debt/EBITDA of below 3.0x. Overall, Moody's forecasts NCSP to sustain FFO/interest above 5.0x and FFO/debt above 20%.

The rating remains constrained by NCSP's exposure to Russia's volatile operating environment, which is mitigated by the company's focus on export commodities, while some diversification into growing oil products and more profitable dry bulk cargoes helps partly offset the risks related to its high product concentration in oil, in which cargo volumes are declining.

Moody's also acknowledges the remaining uncertainty related to a potential change in NCSP's ownership structure, further exacerbated by the criminal investigation against one of its major shareholders, Ziyavudin Magomedov (the owner of Summa Group, which effectively holds 27.75% stake in the company). Any material negative consequences for NCSP's business are, however, somewhat limited because of the strengthened position and support from its largest strategic shareholder, the state-owned Transneft, PJSC (Transneft, Baa3 positive), which recently reiterated its intention to increase its stake in the company to a controlling level from its current 35.57%. NCSP's credit profile may benefit further if Transneft becomes the majority shareholder because this will (1) remove the long-lived uncertainty related to the existing shareholding structure, (2) facilitate decisions on future strategic development, and (3) allow to consider a certain level of support to the company's credit profile from the higher-rated state-owned entity.

In addition, while NCSP is exposed to the evolving regulatory and legal environment in Russia, the recently introduced law on port tariffs should, however, have no material impact on the company's credit profile. Moreover, Moody's positively acknowledges the resolution of the large tax claim in favour of the company, while also expects NCSP to be able to successfully resolve its ongoing disputes with Federal Antimonopoly Service.

RATIONALE FOR STABLE OUTLOOK

The outlook on NCSP's rating is stable, which reflects Moody's expectation that the company will maintain its strong market position in Russia and healthy operating performance. Moody's also expects NCSP's financial metrics and liquidity to remain commensurate with the current Ba2 rating on a sustained basis.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Positive pressure on NCSP's rating could build if the company (1) maintains its strong financial and operating performance, in conjunction with positive cargo volume dynamics; (2) maintains funds from operations (FFO)/debt above 25%, as well as healthy liquidity at all times, including during an active investment phase; and (3) establishes a track record of stable ownership, with effective and transparent corporate governance.

NCSP's rating could be downgraded if its liquidity and financial profiles deteriorate materially, with FFO/debt declining below 15% on a sustained basis as a result of (1) weakening of the company's market position and deterioration in its operating performance, and (2) an aggressive investment programme or shareholder distributions resulting in a breach of NCSP's current financial policy guidance. Increasing concerns over any transformational change in NCSP's ownership or business structure with uncertain or negative consequences on its credit profile may also strain the rating.

PRINCIPAL METHODOLOGY

The methodologies used in these ratings was Privately Managed Port Companies published in September 2016, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Novorossiysk Commercial Sea Port, PJSC is the largest operator of marine port terminals in Russia and the third largest in Europe by volume. The company generates most of its cargo volumes and revenue by providing stevedoring services and operates two key ports: (1) the port of Novorossiysk, located in the Black Sea basin; and (2) the Primorsk Trade Port, in the Baltic Sea basin. These ports accounted for 59% and 41%, respectively, of the group's 2017 cargo volumes of 143.5 million tons.

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