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Key rating assessment factors

## ACRA affirms A-(RU) to Setl Group, Ltd, outlook Stable, and A-(RU) to its bond issues

The credit rating of [Setl Group, Ltd](#) (hereinafter, the Company, Group, or Setl Group) is based on the Company's strong market position and strong business profile, very low leverage, very high interest payment coverage indicator, as well as high business profitability and strong liquidity. At the same time, very high industry risk puts pressure on the credit rating. At the same time, the rating is constrained by the very high industry risk and medium level of corporate governance.

Setl Group is the largest residential real estate developer in the north-west of Russia, and the third largest player in the Russian construction market. In 2019, the Company commissioned 1.33 mln sq. m of floor space; at the start of June 2020, the total floor space in the portfolio of projects under construction amounted to 2.54 mln sq. m according to the Unified Developer Resource.

**Industry risk is assessed as very high** due to the pronounced cyclical nature of the sector, high amount of overdue receivables, and the substantial number of companies that have defaulted in the last five years. The industry that the Company belongs to is a strong factor limiting the credit rating.

**Strong business profile and moderate corporate governance assessment.** The Company's strong business profile is based on the very high diversification of its project portfolio, stable structure of schedules and conditions for project implementation, and the strong market positions of the Company's proprietary brokerage and consulting divisions in St. Petersburg. The medium level of corporate governance stems from the high quality of strategic management, adequate risk management system, and adequate management and organizational structures of the Group. ACRA notes the Company's consistency and success in pursuing its strategy.

**High business profitability.** 2019 was an extremely successful year for the Company: in the first half of the year, prior to the sector's transition to the escrow account system, there was elevated demand for real estate in both St. Petersburg and Russia in general. This led to growth in sales in physical terms and to a considerable growth in prices. In addition, the Company was able to increase its profitability by carrying out projects to redevelop old industrial zones, where prices per square meter are much higher than in the suburbs and areas of integrated development thanks to the location of these properties in St. Petersburg's old neighborhoods. The Company's FFO before interest and taxes grew from 16% in 2018 to 25% in 2019. In 2020, ACRA expects the Company to record a 16% fall in sales year-on-year as a result of the current crisis related to the COVID-19 pandemic, and also due to the high base of 2019. At the same time, taking into account the fall in supply triggered by the consolidation of the market due to the switch to escrow accounts, and also the considerable fall in mortgage rates, ACRA does not expect a major fall in primary market real estate prices in St. Petersburg in 2020. ACRA expects the profitability of the Company's business to decline to a certain extent in the forecast period compared to 2019: the Company's FFO before interest and taxes in 2020–2022 is expected to range between 15–17% in 2020–2022, while the weighted average for this indicator for 2017–2022 is expected at 18.8%

**Very low leverage.** In its calculation of the ratio of net debt to FFO before interest and taxes, ACRA adjusted the total debt for the amount of borrowed funds fully secured by funds held on escrow accounts and raised from homebuyers. Subject to this adjustment, the weighted average ratio of net debt to FFO before net interest is estimated at 0.4x for the period from 2017 to 2022.

**Average cash flow assessment.** ACRA assesses the average weighted FCF (free cash flow) margin for 2017 to 2022 adjusted for project financing under escrow accounts at 2.1%. The FCF margin is average due to the payment of dividends. ACRA is of the opinion that the very low leverage, very high coverage of interest payments and strong liquidity indicate that the impact of FCF margin on the Company's creditworthiness is neutral.

## Key assumptions

- Fall in sales by 16% in 2020 compared to 2019;
- The Company will complete its projects according to schedule and meet sales targets;
- Only projects under construction and projects to be commissioned as set forth in the current financial plan of the Company were included in ACRA's estimations;
- Prices in St. Petersburg's primary real estate market will not change significantly compared to 2109.

## Potential outlook or rating change factors

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

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

- Corporate governance assessment improving to the highest level;
- FFO before net interest and taxes exceeding RUB 50 bln;
- Average weighted FFO margin before interest and taxes consistently above 20%.
- Steady decline of the average weighted total debt to capital ratio to below 0.5x.

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

- The weighted average ratio of FFO before net interest to net interest falling below 8.0x, the weighted average ratio of total debt to equity growing above 2.0x, and the weighted average ratio of net debt to FFO before net interest growing above 1.0x;
- Residential real estate prices in St. Petersburg declining by more than 15% in 2020–2022, while prices for construction work and materials increasing as projected;
- Regulatory changes capable of having a material adverse effect on the Company's performance.

## Rating components

**Standalone creditworthiness assessment (SCA):** a-.

**Adjustments:** none.

## Issue ratings

[Exchange-traded interest-bearing certified unregistered bond issued by Setl Group, Ltd, 001P-01 series \(ISIN RU000A0ZYEQ9\)](#), maturity date: October 27, 2022, issue volume: RUB 5 bln — **A-(RU)**.

[Exchange-traded interest-bearing non-convertible certified bearer bonds subject to mandatory centralized custody issued by Setl Group, Ltd, 001P-02 series \(RU000A100MG6\)](#), maturity date: January 1, 2023, issue volume: RUB 5 bln — **A-(RU)**.

**Rationale.** The issues represent senior unsecured debt instruments of Setl Group, Ltd. Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to ACRA's methodology, the unsecured debt repayment level corresponds to the first category. Therefore, the credit rating of the issues is equivalent to that of [Setl Group, Ltd](#), i.e. A-(RU).

## Regulatory disclosure

The credit ratings have been 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](#). To assign credit ratings to the above bond issues the [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments on the National Scale for the Russian Federation](#) was also applied.

The credit rating of Setl Group, Ltd and the credit ratings of the bond issues of Setl Group, Ltd (RU000A0ZYEQ9, RU000A100MG6) were published by ACRA for the first time on June 19, 2017, November 2, 2017, and July 23, 2019, respectively. The credit rating of of Setl Group, Ltd and its outlook and the credit rating of the bond issues of Setl Group, Ltd (RU000A0ZYEQ9, RU000A100MG6) are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on the data provided by Setl Group, Ltd, information from publicly available sources, as well as ACRA's own databases. The credit ratings are solicited, and Setl Group, Ltd participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by Setl Group, Ltd in its financial statements have been discovered.

ACRA provided no additional services to Setl Group, Ltd. No conflicts of interest were discovered in the course of credit rating assignment.

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