ACRA affirms A-(RU) to the Kemerovo Region – Kuzbass, outlook Stable, and A-(RU) to bond issue

The credit rating of the Kemerovo Region – Kuzbass (hereinafter, the Region) is based on the Region’s strong liquidity, moderately flexible budget expenses, and low debt load. The Region’s rating is limited by moderate economic development compared to national averages and economic dependence on the dominant industry in the Region.

The Region is part of the Siberian Federal District and is home to 2.7 million people (1.8% of Russia’s total population). According to the Region, its GRP amounted to RUB 1.25 trln in 2018, nearly 1.2% Russia’s total GRP annually.

Low debt load with minimal refinancing risk. According to ACRA, debt to current revenues in 2019–2020 should be around 21–23% (RUB 31–33 bln in absolute terms). As of January 1, 2020, the Region’s debt amounted to RUB 33.2 bln and consisted of bonds (27%), budget loans (49%), guarantees (3%), and other debt obligations (21%). Interest expenses are not burdensome for the Region with this debt structure. The average level of interest expenses in 2016–2020 should amount to around 2% of total budget expenses excluding subventions. The majority of the Region’s debt (55%) is due in the beginning of 2023. The Region needs to repay an average of 15% of its total debt each year in 2020-2022. In 2020, the Region will have to repay at least 6% of its total debt.

High level of liquidity in the Region’s budget. The Region’s strong liquidity is based on a large amount of funds in treasury accounts (RUB 22 bln as of January 1, 2020) and the current volume of undrawn credit lines with a drawing period of more than a year in banks (RUB 7.5 bln). Over the past 18 months, account balances at the end of the month have regularly exceeded monthly expenses by almost two times. The Region has placed funds in deposits since 2017. As of January 1, 2020, accumulated liquidity covers about two-thirds of the Region’s total debt. Based on the approved budget laws, accumulated funds will be used partially to finance future deficits.

Moderate budget profile with moderate budget flexibility. The average share of the Region’s capital expenses increased by 1.6 times from 2017 to 2019 and amounted to 8%. According to ACRA, these expenses will not exceed 10% in 2020, indicating moderate spending flexibility.

By the end of 2019, the operating efficiency of the Region’s budget had decreased to 7% compared to 24% in 2018 (based on the updated budget execution forecast). Decreased income tax revenues led to a reduction in internal revenues by 8% in 2019, while current budget expenses increased by 9%. ACRA believes the Region will maintain a moderate level of operating efficiency in the budget in 2020. In 2016-2020, the average share of tax and non-tax revenues (TNTR) in budget revenues (excluding subventions) should amount to 84%. The modified budget deficit to current revenues should remain positive in 2020, which indicates that there is no need for debt financing. According to the Region, the budget deficit will amount to about 14% of TNTR (RUB 16.7 bln) in 2020 and will be covered fully by accumulated liquidity.

The Region’s economy is highly concentrated on the mining sector. The Region’s economy relies primarily on coal mining and related industries. In 9M 2019, six of the ten largest taxpayers in the Region worked in coal mining. The main contributor to tax revenues in 2017-2018 was the coal mining industry (38-39%). The Region’s GRP per capita in 2014-2017 averaged 68-73% compared to national figures. The average wage to regional living wage ratio exceeded 300% in 2015-2018.

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1 Hereinafter, averages are calculated according to the Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation.
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Key assumptions
- Maintaining conservative budget and debt policies;
- Income tax revenues dropping by no more than 8% in 2020 compared to 2019;
- Using accumulated liquidity to finance the budget deficit.

Potential outlook or rating change factors
The Stable outlook assumes that the credit rating will most likely remain unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:
- Increased operational efficiency in the budget without the need for debt financing;
- Increased flexibility in budget expenses.

A negative rating action may be prompted by:
- Further deterioration of conditions in the coal market and the inability to reduce current budget expenses;
- Financing current budget expenses with accumulated liquidity.

Issue ratings
Kemerovo Region, 35002 (ISIN RU000A0ZYB40), maturity date: September 26, 2024, issue volume: RUB 9 bln — A-(RU).

Rationale. In ACRA’s opinion, the bond listed above is a senior unsecured debt instrument, the credit rating of which corresponds to the credit rating of the Kemerovo Region.

Regulatory disclosure
The credit ratings have been assigned to the Kemerovo Region – Kuzbass and the bond (RU000A0ZYB40) issued by the Kemerovo Region under the national scale for the Russian Federation based on the Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation and the Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities. In the course of assigning a credit rating to the bond issue above, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation has also been used.

The credit rating of the Kemerovo Region – Kuzbass and the credit rating of the bond (RU000A0ZYB40) issued by the Kemerovo Region were first published by ACRA on August 29, 2017, and October 2, 2017, respectively.

The credit rating of the Kemerovo Region – Kuzbass and its outlook, as well as the credit rating of the bond (RU000A0ZYB40) issued by the Kemerovo Region are expected to be revised within 182 days following the publication date of this press release as per the Calendar of planned sovereign credit rating revisions and publications.

The credit ratings were assigned based on data provided by the Kemerovo Region – Kuzbass, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA’s own databases. The credit ratings are solicited, and the Kemerovo Region – Kuzbass Government participated in their assignment.

No material discrepancies between the provided data and data officially disclosed by the Kemerovo Region – Kuzbass in its financial reports have been discovered.

ACRA provided no additional services to the Kemerovo Region – Kuzbass Government. No conflicts of interest were discovered in the course of credit rating assignment.
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