MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Globaltrans' CFR to Ba2; stable outlook

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London, 14 April 2017 -- Moody's Investors Service, (Moody's) has upgraded to Ba2 from Ba3 the corporate family rating (CFR) and to Ba2-PD from Ba3-PD the probability of default rating (PDR) of Globaltrans Investment PLC ("Globaltrans", "the company"), one of the largest freight and logistics rail transportation groups operating in Russia and the Commonwealth of Independent States. The outlook on all the ratings is stable.

"Our decision to upgrade Globaltrans' ratings reflects its strong financial performance thanks to its business model, which proved to be relatively resilient to the market downturn in Russia. The upgrade is also an acknowledgement of the clearly articulated and balanced dividend policy, which the company made public at the end of March this year", says Julia Pribytkova, a Vice President -- Senior Analyst at Moody's.

RATINGS RATIONALE

The upgrade of Globaltrans' CFR to Ba2 with stable outlook reflects the strengthening of its credit metrics as a result of substantial deleveraging over 2015-16. Thanks to its business model, whereby two-thirds of net revenues from operations of rolling stock come from long-term service contracts, of which the largest are with PJSC Oil Company Rosneft (Ba1 stable), JSC Holding Company METALLOINVEST (Ba2 stable) and Magnitogorsk Iron & Steel Works (Ba1 stable). These contracts allowed Globaltrans to maintain stable freight transportation volumes during Russia's recent recession and defend its profitability at a time when gondola railcar daily rates came under pressure as a result of railcar surplus on the market.

Globaltrans' modern railcar fleet (43,276 gondola cars, 22,475 tank cars, 75 locomotives and 2,685 other railcars including petrochemical tank containers) with an average age of owned fleet of 10.3 years at the end of 2016, is minimally impacted by the new regulation that prescribes a compulsory scrappage of railcars by operators after the expiry of their useful life (22 years for gondola cars and 32 years for tank cars). While detrimental for owners of older fleets, the law drove a significant reduction in gondola cars numbers and a subsequent upsurge in daily rates. A slowdown in domestic production of new railcars and a recovery in demand for transportation of non-oil cargoes, allowed Globaltrans to grow revenue and deliver solid profitability. Moody's expects rates for universal gondola cars, mostly used for metals and other bulk products to further rise in 2017-18, as around 20,000 gondola cars (4% of overall gondola fleet) will reach the end of their useful life in 2017, and new additions will likely be limited. Tank car segment will continue to suffer in 2017 despite continued scrappage (around 14,000 tank cars, or 5% of overall tank fleet in 2017) due to the weak demand as more oil and oil products are transported via newly-launched pipelines, and refined oil products output is on the decline.

Moody's expects Globaltrans' Moody's-adjusted operating margin to recover to 17%-19% during 2017-18, thanks to an increase in revenue, driven by higher rates and growth in freight turnover. Along with a material reduction in debt, the improvement in operating margin will positively affect coverage and leverage metrics, which will, however, mostly remain in the same rating categories.

Globaltrans' leverage, measured by adjusted debt/EBITDA, improved to 1.2x as of end-2016 as a result of a reduction in debt. Moody's expects it to remain at this or lower level in the next 12-18 months as the company's current investment plan is modest and envisages generation of a positive free cash flow.

The agency notes that Globaltrans intends to pay a higher-than-average dividend in 2017 in the amount of RUB7.0 billion to compensate for lower payments in the previous two years (nil in 2015, RUB2.2 billion in 2016). The distribution will be funded with cash balances of around RUB4.8 billion as of end-2016, and the company's ample committed credit facilities. Going forward Moody's expects the company to distribute dividends in line with its recently announced dividend policy, which links the distributable amount to the company's leverage and availability of funding for basic cash obligations including debt payments, and business expansion. The policy specifically mentions maintenance of the company's credit ratings as one of the considerations when determining the level of shareholder distributions.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects the agency's view that Globaltrans is adequately positioned in its rating category.

WHAT COULD CHANGE THE RATING UP/DOWN

Given Globaltrans' scale of operations (annual revenue of $1.2-$1.5 billion), there is a limited potential for an upgrade to a higher Ba category at this stage. A material increase in scale of operations alongside maintenance of robust credit metrics and conservative financial policy could put positive pressure on the rating over time.

Conversely, Globaltrans' rating could be downgraded if the company's liquidity profile, and operating and financial performance materially deteriorate, with debt/EBITDA increasing above 2.5x (Moody's-adjusted) on a sustained basis.

The principal methodology used in these ratings was Global Surface Transportation and Logistics Companies published in April 2013. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Globaltrans Investment PLC is one of the largest freight and logistics rail transportation groups operating in Russia and the Commonwealth of Independent States. In 2016, the company generated approximately RUB69.5 billion of revenue and RUB18.5 billion of EBITDA (Moody's-adjusted). Globaltrans is a public company that has been listed on the London Stock Exchange since 2008. The company is 40.8% owned by its co-founders, 0.2% by management and independent directors, and 59% is in free float.

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