Fitch Assigns New Forwarding Company's Local Bond 'BB+' Final Rating

Fitch Ratings-London/Moscow-19 February 2018: Fitch Ratings has assigned Joint--Stock Company New Forwarding Company's (NFC), a wholly owned subsidiary of Globaltrans Investment Plc (GLTR), RUB5 billion 7.25% five-year domestic bond a final local-currency senior unsecured rating of 'BB+'.

The bonds are issued by NFC, one of GLTR's key operating subsidiaries, and are rated at the same level as GLTR's Long-Term Local Currency Issuer Default Rating (IDR) due to the benefit of the public irrevocable offer issued by GLTR. The bond's proceeds are intended to be used to refinance debt and for general corporate purposes. As a result, we expect limited impact on GLTR's leverage metrics following this transaction compared to our previous forecasts.

GLTR's 'BB+' IDR reflects its solid financial and operational profiles on the back of improved market conditions led by a recovery in the Russian economy, improving gondola rates, and low FX risks. Fitch expects GLTR's funds from operations (FFO) adjusted net leverage to average around 1x over 2017-2020. This is partially offset by GLTR's exposure to cyclicality and its smaller scale of operations than JSC Freight One. GLTR is one of the leading rolling-stock operators in a highly fragmented Russian freight rail transportation market, accounting for about 8% of 1H17 freight rail volumes.

KEY RATING DRIVERS

Bonds are Issued by Operating Company: NFC issued RUB5 billion bonds under its registered RUB100 billion domestic bond programme. NFC is one of GLTR's main operating subsidiaries, which is wholly owned, and fully consolidated in the group accounts. NFC generates around 57% of GLTR's net cash from operating activities and owned about 42% of its property, plant and equipment in 1H17. GLTR provided sureties for the majority of NFC's outstanding debt at end-6M17.

Public Irrevocable Offer: Bondholders benefit from GLTR's public irrevocable offer under which the parent undertakes to offer to purchase the bonds if NFC is in default, making this instrument effectively recourse to GLTR. Fitch understands that GLTR's obligation under the irrevocable offer will rank pari passu with the group's unsecured obligations. As a result, Fitch rates the proposed notes at the same level as GLTR's Long-Term Local Currency IDR. This is also supported by prior-ranking debt constituting less than 2x of group EBITDA.

Improved Performance: GLTR reported strong 1H17 results. Its revenue reached RUB38.2 billion, up 16.8% yoy, driven by improved rail transportation volumes in Russia, improving gondola rates and efficient fleet management, with the overall empty-run ratio improving to 47% in 1H17 from 48% in 1H16 (38% from 39% for gondola cars). We expect mid-single-digit revenue growth and an improved EBITDA margin adjusted by Fitch for pass-through items to average 41% in 2017-2020, up from 38% in 2015-2016. We estimate free cash flow (FCF, Fitch-calculated) in 2017 to be negative, due to a special dividend, before turning positive thereafter.

Rate-Supportive Overcapacity Reduction: The ban on the use of old railcars from 2016 prompted their gradual retirement and the overall railcar number in the market has decreased by 13% from its 2014 level (16% in gondolas and 11% in tank cars). GLTR benefited from the ban as its railcars had an average age of 9.4 years for gondolas and 13.8 years for rail tank cars at end-1H17, respectively, compared with an average useful life of 22 years and 32 years. The capacity reduction, together with limited production of new railcars, supported the recovery of gondola rates in 2016-2017.

We expect a further improvement in gondola rates in 1H18, albeit at a slower pace, as old railcars continue to be retired, the production of new railcars remains limited and moderate economic growth continues.

Long-Term Contracts Mitigate Customer Concentration: GLTR's ratings are constrained by customer concentration as its top-five customers accounted for 70% of net revenue from operation of rolling stock in 1H17. This is partially mitigated by the long-term nature of service contracts with the top-three customers, which accounted for around 60% of net revenue from the operation of rolling stock in 1H17, and counterparties' strong credit quality. GLTR intends to diversify its customer base by increasing the number of mid- and small-size clients. Further expansion of longer-term agreements with customers should increase its cash-flow visibility.

Focus on Non-Oil Cargoes: GLTR has focused on non-oil, especially metallurgical cargoes, increasing their share in transportation turnover to 87% in 2016, from 78% in 2012. Despite a decrease in oil and oil products turnover in 2012-2016, total turnover increased by 6% CAGR in the period. We expect overall market freight rail volumes to continue to recover in 2018 at low single-digit rates as we forecast Russian GDP to grow 2% in 2018. Dry cargo is likely to see a much greater recovery than oil and oil products, which we expect to continue to be pressured by increased competition from existing pipelines, commissioning of new pipelines, and decreasing production volumes of oil products.

Large Operator: GLTR is one of the largest freight railcar transportation groups in Russia by transported volumes by rail with about an 8% market share; however, it operates on a smaller scale than JSC Freight One. GLTR benefits from a modern railcar fleet relative to Russian peers and its maintenance and fleet renewal costs are smaller.

DERIVATION SUMMARY

GLTR's credit profile is somewhat stronger than JSC Freight One's (BB+/Stable), but is similar to that of PJSC Transcontainer (BB+/Stable), the largest Russian rail container transportation company. Transcontainer operates in a more volatile market and on a smaller scale. GLTR's ratings are constrained by its smaller size relative to JSC Freight One, a relatively complex group structure and concentrated customer base, although the latter is somewhat mitigated by its medium- to long term contracts with major clients. Unlike JSC Freight One, GLTR focuses on transportation of higher-priced metallurgical cargo and oil products and operates a relatively young railcar fleet. Most of the Russian rail transportation companies, including GLTR, remain disciplined in terms of FX exposure.

KEY ASSUMPTIONS

Fitch's Key Assumptions within Our Rating Case for the Issuer
- Domestic GDP growth of 1.8%-2% over 2017-2020.
- Inflation of 3.7%-4.5% over 2017-2020.
- Freight transportation rates to have increased above inflation in 2017 but to rise below inflation
thereafter.
- Capex in line with management expectations at slightly above 2016 levels in 2017 and at about
2016 levels from 2018.
- Dividends of RUB15 billion paid in 2017 in respect of 2016 and 1H17 and as per management
expectations in line with approved dividend policy thereafter.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action
- Further diversification of the customer base and lengthening of contract duration with better volume visibility and lower rate volatility.
-Sustained stronger economic growth and infrastructure improvements and/or a

substantial increase in GLTR's market share in terms of fleet numbers and consequently transported volumes and revenue, allowing greater efficiency.

Developments That May, Individually or Collectively, Lead to Negative Rating Action
-A sustained rise in FFO lease-adjusted net leverage above 2x and FFO fixed charge coverage of below 3x, which would have rating implications, due to GLTR's complex corporate structure, and lead to a rating review.
-Sustained slowdown of the Russian economy leading to material deterioration of the group's credit metrics.
-Unfavourable changes in Russian legislative framework for the railway transportation industry, which continues to be under reform.

LIQUIDITY

Upcoming Debt Maturities: Over 75% of GLTR's total debt matures in the next three years, but we believe it will retain good access to the local financial market and view GLTR's liquidity position as manageable. At end-1H17 GLTR's cash and cash equivalents were RUB8.8 billion and, together with unused credit facilities from Russian subsidiaries of European banks, are sufficient to cover short-term maturities of RUB7.4 billion, despite negative FCF (as calculated by Fitch) estimated for 2017 due to a special dividend payment.

Limited FX and Rate Risks: GLTR is not exposed to FX fluctuations as only a negligible share of operating expenses is denominated in foreign currencies and at end-1H17, almost all of its debt was denominated in roubles. Interest rates are fixed, eliminating interest-rate risks. Dividends are paid in US dollars, but announced in roubles and converted into US dollars on the date of the annual general meeting/board approval. GLTR holds part of its cash in foreign currencies.

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Date of Relevant Rating Committee: 31 January 2018

Summary of Financial Statement Adjustments
Operating leases: Fitch adjusted GLTR's debt by adding 4x the annual operating lease expense related to railcar fleet. The multiple is lower than the 6x multiple typical for Russia to reflect the flexibility of rent contracts for the rail fleet. The remaining operating lease expenses were capitalised using a 6x multiple.

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Criteria (pub. 07 Aug 2017) (https://www.fitchratings.com/site/re/901296)
Non-Financial Corporates Notching and Recovery Ratings Criteria (pub. 21 Dec 2017) (https://www.fitchratings.com/site/re/914144)
Parent and Subsidiary Rating Linkage (pub. 15 Feb 2018) (https://www.fitchratings.com/site/re/10019836)
Parent and Subsidiary Rating Linkage - Effective from 31 August 2016 to 15 February 2018 (pub. 31 Aug 2016) (https://www.fitchratings.com/site/re/886557)

Additional Disclosures
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