

**Rating Action: Moody's upgrades State Transport Leasing Company's CFR to Ba1 from Ba2**

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12 Feb 2019

London, 12 February 2019 -- Moody's Investors Service ("Moody's") has today upgraded the corporate family rating (CFR) of Russia-based State Transport Leasing Company PJSC (STLC) to Ba1 from Ba2. At the same time, Moody's has upgraded the foreign currency backed senior unsecured debt rating of GTLK Europe DAC (an Ireland-based wholly-owned subsidiary of STLC) to Ba2 from Ba3. The issuer outlooks for STLC and GTLK Europe DAC were changed to stable from positive.

The rating action follows Moody's upgrade of Russia's sovereign debt rating to Baa3 from Ba1 on February 8, 2019. (Please see "Moody's upgrades Russia's rating to Baa3 from Ba1; changes outlook to stable from positive" [https://www.moodys.com/research/--PR\\_394165](https://www.moodys.com/research/--PR_394165)).

Moody's has also withdrawn the existing outlooks on STLC's CFR and GTLK Europe DAC's backed senior unsecured debt rating for its own business reasons. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, [www.moodys.com](http://www.moodys.com)

A full list of affected ratings can be found at the end of this press release.

**RATINGS RATIONALE**

The upgrade of Russia's sovereign rating to Baa3 from Ba1 led Moody's to upgrade the CFR of STLC. The rating agency considers that STLC benefits from the enhanced creditworthiness of Russian government given its systemic importance, government ownership and role in discharging public policy.

As a result, STLC's CFR incorporates a high likelihood of government support, resulting in four notches of rating uplift from its standalone assessment of b2. Moody's support assumptions reflect (1) STLC's 100% government ownership and operational control via the Ministry of Transport and 2) the company's special policy role as a government agent to facilitate the development of the transport sector in Russia. As a result, Moody's believes the Russian government has a strong incentive to support STLC, should the need arise.

STLC's b2 standalone assessment incorporates the company's (1) leading market franchise in Russia with solid and strengthening competitive position in aviation, railroad and water transportation sectors; (2) good quality of its lease portfolio which is almost equally split between finance and operating leases (3) ample capitalization supported by government capital injections with tangible common equity (TCE) to tangible managed assets (TMA) of around 14% at end-September 2018. These strengths are balanced against: (1) risks related to the company's rapid growth in recent years, which Moody's expects will continue albeit at a slower pace; (2) fast liquidity consumption because of the rapid growth, thereby increasing funding needs; (3) concentrated lease portfolio (4) historically modest profitability which along with increasing borrowings results in high leverage, measured as Debt/EBITDA.

For the first nine months of 2018, STLC reported net income of RUB523 million up from a net loss of RUB1.6 billion reported for 9M2017. STLC's profitability has historically been modest and is not a key performance indicator for the company, given its policy role.

The upgrade of GTLK Europe DAC's backed senior unsecured debt rating to Ba2 from Ba3 is driven by the upgrade of STLC's CFR to Ba1 and reflects the application of Moody's Loss Given Default for Speculative-Grade Companies and the structural subordination of unsecured obligations to STLC's substantial amount of secured debt.

**WHAT COULD CHANGE THE RATINGS UP/DOWN**

A positive rating action is unlikely over the next 12-18 months. However, in the longer term, the company's ratings could be upgraded following a material improvement of the country's macroeconomic environment, combined with a material improvement in the company's profitability and strengthening its liquidity profile. The backed senior unsecured debt rating could be upgraded if the CFR is upgraded or due to a positive change to

STLC's debt capital structure that would increase the recovery rate for senior unsecured debt classes.

STLC's CFR could be downgraded as a result of 1) negative action on the sovereign ratings or Moody's perception of a reduced probability of government support for the company; 2) as a result of material deterioration in the company's standalone assessment if its rapid expansion results in a material weakening of its asset quality and/or capitalisation metrics and increased reliance on extraordinary capital or liquidity support from the government. The backed senior unsecured debt rating could be downgraded if the CFR is downgraded.

#### LIST OF AFFECTED RATINGS

Issuer: State Transport Leasing Company PJSC

..Upgrades:

....Long-term Corporate Family Rating, upgraded to Ba1 from Ba2, previously Positive debt level outlook withdrawn

..Outlook Action:

....Outlook changed to Stable from Positive

Issuer: GTLK Europe DAC

..Upgrades:

....Backed Senior Unsecured Regular Bond/Debenture, upgraded to Ba2 from Ba3, previously Positive debt level outlook withdrawn

..Outlook Action:

....Outlook changed to Stable from Positive

The principal methodologies used in rating State Transport Leasing Company PJSC were Finance Companies published in December 2018, and Government-Related Issuers published in June 2018. The principal methodology used in rating GTLK Europe DAC was Finance Companies published in December 2018. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

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