ACRA affirms A+(RU) to the Orenburg Region, outlook Stable, and A+(RU) to its bonds

The credit rating of the Orenburg Region (hereinafter, the Region) is based on the Region’s high liquidity coupled with the budget’s moderately high operating efficiency and low debt load. The rating is limited by the moderate economic development indicators compared to the national averages and the dependence of economic and fiscal indicators on the dominant industry in the Region.

The Orenburg Region is located in the Volga Federal District at the crossroads of two continents, Europe and Asia. The Region borders five other regions in Russia, as well as Kazakhstan. 1.3% of Russia’s population lives in the Region and it accounts for 1.2% of Russia’s total gross regional product (GRP). The Region produces around 3% of Russia’s crude oil and gas annually.

Low debt load and minimal refinancing risk. At the start of 2020, the Region’s debt to operating income ratio was 24.6%. According to ACRA’s assessments, this ratio will still be low at the end of 2020, despite a predicted fall in the income of the regional budget. As of June 1, 2020, the Region’s debt was RUB 22.0 bln, and included bonds (44%) and budget loans (56%). The Region’s interest expenses are not burdensome thanks to this debt structure. The average1 of interest expenses for 2016–2020 should equal no more than 2% of total budget expenditures (excluding subventions). The lion’s share of debt (around 60% of the total) is scheduled for repayment after 2024. In the period from 2020 to 2023, the Region will have to refinance no more than 13% of its debt annually (as per the budget loan repayment schedule valid as of January 1, 2020).

High level of budget liquidity. The high assessment of the liquidity ratio stems from the large volume of funds in treasury and deposit accounts (totaling RUB 10.3 bln as of June 1, 2020) coupled with RUB 3 bln worth of undrawn credit lines from banks with terms of more than a year.

Over the last 12 months, account balances on average exceeded regional budget expenditures by around 20%. As of June 1, 2020, accumulated liquidity covered almost half of the Region’s total debt. According to the Region’s current budget law, part of these funds will be used to finance budget deficits of future periods. The Region has not borrowed money from the Federal Treasury Department since the start of 2019, and starting from July 1, 2019 it has placed funds in deposits.

Moderately strong budget profile and moderately high operating efficiency. The average ratio of the balance of current operations to operating income is consistently positive and amounted to 14.5% from 2016 to 2019. ACRA expects the Region’s tax revenues to decline (primarily income tax paid by oil and gas companies) in connection with the unfavorable macroeconomic situation. ACRA expects the Region’s operating efficiency to fall to 10% in 2020. In 2016–2018, the average share of tax and non-tax revenues (TNTR) in the budget income (excluding subventions) was 83%. This indicator should fall to 81% in 2019–2020 amid growth in transfers. The ratio of the modified budget deficit to operating income for 2016 to 2020 should be positive, which indicates that the Region does not need to resort to resort to debt financing.

1 Hereinafter, averages are calculated according to the Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation.
ACRA affirms A+(RU) to the Orenburg Region, outlook Stable, and A+(RU) to its bonds

June 19, 2020

**Moderately developed economy focused on hydrocarbon production.** The backbone of the Region’s economy is the extraction of hydrocarbons and related sectors. According to ACRA’s assessment, the extraction, processing and sale of hydrocarbons accounted for from 39.9% to 47.8% of the Region’s tax revenues from 2015 to 2019. According to the Region, tax revenues from the ten largest taxpayers accounted for 38.4% of the Region’s consolidated budget in 2019. Five of the taxpayers are part of the oil and gas sector; they provided 31.5% of tax revenues.

The Region’s GRP structure is similar to that of its tax revenues — the largest share of GRP is provided by the commodities sector (41% in 2018). The Region’s average per capita GRP indicator is consistently around 85% of the national average. Given the concentration of the regional economy on the extraction, processing and sale of hydrocarbons, ACRA does not expect any new opportunities for improvement of the Region’s economic indicators which could have a positive impact on the Region’s financial profile.

The ratio of the average wage to regional subsistence wage in 2016–2019 was around three, while unemployment in the Region is lower than the national average and is on a downward trend.

**Key assumptions**

- TNTR falling by no more than 17% in 2020 compared to 2019;
- Declining budget expenditures in the event of reduced TNTR;
- Maintenance of conservative fiscal and debt policies;
- Average wage continuing to grow at a faster rate than the regional subsistence wage.

**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:*

- Increased diversification of the economy;
- Maintaining internal revenues at the 2019 level.

*A negative rating action may be prompted by:*

- Deterioration of the situation in the hydrocarbons market coupled with the Region being unable to lower its current expenditures;
- GRP falling behind the national average;
- TNTR declining by more than 20% compared to 2019 without a reduction in expenditures;
- Accumulated liquidity being used to finance current budget expenditures.

**Issue ratings**

- **Orenburg Region Government Bond, 35002 (ISIN RU000A0JUPE3);** maturity date: June 14, 2021, issue volume: RUB 6 bln — A+(RU).
- **Orenburg Region Government Bond, 35003 (ISIN RU000A0JVM81);** maturity date: July 3, 2025, issue volume: RUB 5 bln — A+(RU).
- **Orenburg Region Government Bond, 35004 (ISIN RU000A0ZYKH5);** maturity date: December 2, 2027, issue volume: RUB 4 bln — A+(RU).

**Rationale.** In ACRA’s opinion, the bonds issued by the Orenburg Region are senior unsecured debt instruments, and their credit rating is equal to that of the Orenburg Region.

**Regulatory disclosure**

The credit ratings of the Orenburg Region and the bonds of the Orenburg Region (RU000A0JUPE3, RU000A0JVM81, RU000A0ZYKH5) have been assigned 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. The
Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments on the National Scale for the Russian Federation was also applied to assign credit ratings to the above issues.

The credit rating of the Orenburg Region and the credit ratings of the government bonds (RU000A0JUPE3, RU000A0JVM81, RU000A0ZYKH5) of the Orenburg Region were published by ACRA for the first time on January 31, 2018. The credit rating of the Orenburg Region and its outlook, as well as the credit ratings of the government bonds (RU000A0JUPE3, RU000A0JVM81, RU000A0ZYKH5) of the Orenburg 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 the data provided by the Orenburg Region, 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 Government of the Orenburg Region participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by the Orenburg Region in its financial statements have been discovered.

ACRA provided no additional services to the Government of the Orenburg Region. No conflicts of interest were discovered in the course of credit rating process.
ACRA affirms A+(RU) to the Orenburg Region, outlook Stable, and A+(RU) to its bonds

(C) 2020
Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA’s main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA’s opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA’s opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA’s website – www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA’s official website – www.acra-ratings.com. Information is provided on an “as is” basis.

Information shall be considered by users exclusively as ACRA’s statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA’s information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations and instruments of a rated entity at the time of publication of the relevant Information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.