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Russian Construction And Development Group LenSpetsSMU Proposed Senior Unsecured Notes Rated 'B'

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PARIS (Standard & Poor's) Nov. 22, 2012--Standard & Poor's Ratings Services said today that it assigned its 'B' issue rating to the proposed RUB5.0 billion senior unsecured notes with a five-year maturity, to be issued by Russian construction and development group CJSC SSMO LenSpetsSMU (LSS) in line with the corporate credit rating on LSS (B/Positive/B). We have also assigned an 'ruA' Russia national scale rating to the issue.

At the same time, we have assigned a recovery rating of '4' to the proposed notes, indicating our expectation of average (30%-50%) recovery prospects in the event of a payment default.

The existing RUB2 billion 14.5% senior unsecured notes due 2013, RUB2 billion senior unsecured 16% notes due 2012, and $150 million series 2010-01 limited-recourse credit-linked notes (CLN) due 2015 are rated 'B', in line with the corporate credit rating. The recovery rating on the ruble notes and the underlying loan linked to the CLN is '4', indicating our expectation of average (30%-50%) recovery prospects in the event of a payment default.

We have assumed that the proceeds of the proposed notes will be used to refinance existing debt.

We expect the outstanding RUB0.4 billion Series 01 and RUB1.1 billion Series ##-02 senior unsecured bonds due December 2012 and May 2013, respectively, to be redeemed by the company according to its initial repayment schedule.

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RECOVERY ANALYSIS

The recovery and issue ratings are supported by the group's tangible asset base, but constrained by the unsecured nature of the notes, our view of the Russian insolvency regime as unfavorable for creditors, and the subordination of the rated instruments to various debt facilities.

To estimate recovery prospects, we simulate a default scenario. Our hypothetical default scenario contemplates a default in 2014 driven by a decline in business, due to deteriorating overall economic conditions, and in turn, a pronounced decline in residential real estate prices in St. Petersburg.

We use a discrete asset valuation approach to assess the recovery prospects associated with the group's underlying value, given our view that it would likely sell off properties in the event of a payment default.

Our valuation assumptions include stresses on the expected book value of LSS' properties at various discount levels, depending on the type of property and the stage of development. We apply a significantly higher discount to unfinished construction than that applied to completed properties. In our scenario, we apply a blended haircut of about 60% to the estimated inventory of the guarantor entity.

We calculate a stressed enterprise value of about RUB16 billion at our simulated point of default. After deducting about RUB1.1 billion of enforcement costs and about RUB6.8 billion of various secured or structurally senior claims, we estimate recovery prospects in the 30%-50% range for the noteholders, assuming RUB18.5 million of senior unsecured claims outstanding at default including debt, trade and tax creditors, customer advances, and guarantees.

RELATED CRITERIA AND RESEARCH

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Key Credit Factors: Global Criteria For Single-Family Homebuilders, Sept. 27, 2011
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009

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