http://finance.lenspecsmu.ru/en/ratings/

Russian Residential Real Estate Developer LenSpetsSMU Affirmed At 'B+/B'; Outlook Negative; National Scale Cut To 'ruA'

- 18-Jun-2015 11:55 EDT

View Analyst Contact Information

- Russia-based residential real estate developer LenSpetsSMU has a manageable debt maturity profile and adequate liquidity, which we bel ieve should help the company to withstand the weaker economic environ ment in Russia.
- We are affirming our 'B+/B' long- and short-term global scale ratings on LenSpetsSMU.
- However, there has been a significant decrease in demand for residential properties in St. Petersburg, LenSpetsSMU's main city of operations.
- We are therefore lowering our Russia national scale rating on CJSC SSMO LenSpetsSMU to 'ruA' from 'ruA+'.
- The negative outlook on the long-term global scale rating reflects or view that adverse market conditions and declining demand for new properties might lead to larger working capital requirements in 2015-2016, and even higher reliance on debt financing.

MOSCOW (Standard & Poor's) June 18, 2015--Standard & Poor's Ratings Services said today that it had affirmed its 'B+' long-term and 'B' short-term global scale corporate credit ratings on Russia-based residential rea l estate developer CJSC SSMO LenSpetsSMU. The outlook is negative. At the same time, we lowered our Russia national scale rating on LenSetsSMU to 'ruA' from 'ruA+'.

We affirmed our 'B+' issue level rating on LenSpetsSMU's senior secured de bt, but lowered the national scale issue level rating on this debt to 'ruA ' from 'ruA+'. The recovery rating on this debt instrument is now '3', ind icating our expectation of meaningful recovery in the event of a payment d efault, in the lower half of the 50%-70% range.

We removed all these ratings from CreditWatch, where we placed them with negative implications on Jan. 20, 2015.

The affirmation of the 'B+' global scale rating reflects our view that, while economic conditions for property developers in Russia will remain ve ry weak, LenSpetsSMU's moderate maturities in the next two years, low expo sure to foreign currency risks, and currently moderate debt leverage of le ss than 2x support the rating. At the same time, we lowered our Russia nat ional scale rating because we see the company's credit quality at the lowe r end of what we see as commensurate for a 'B+' global scale rating and also because of the negative outlook on the global scale rating.

Key elements of the deteriorating environment in Russia are falling disposable incomes pressured by accelerating inflation, as well as increased cost of funding for Russian issuers. As a result, we believe that demand for real estate will materially weaken in 2015-2016, causing a cyclical downturn in the industry.

In our opinion, LenSpetsSMU's business risk profile is "weak."

This reflects our view of the company's exposure to the "high" country rik of operating in Russia and the "moderately high" industry risk associated with property development. We revised our assessment of LenSpetsSMU's competitive position to "weak" from "fair," reflecting the relatively high sensitivity of St. Petersburg's market to the deteriorating macroeconomic environment in Russia, compared with Moscow. At the same, LenSpetsSMU's competitive position is supported by its relatively larger size than peers' and favorable position in St. Petersburg and the surrounding region. Additional strengths include the current low level of land-purchase commitments and profitability metrics that remain broadly in line with industry averages.

Our view of LenSpetsSMU's financial risk profile as "aggressive" is constrained by the inherent volatility of cash flows arising from a long operating cycle, given that LenSpetsSMU takes, on average, 30 months in the construction phase of its projects, and the high working capital swings.

We assess LenSpetsSMU as a "core" subsidiary of Russian real estate developer Etalon Group, mainly given that LenSpetsSMU accounts for more than 95% of Etalon Group's EBITDA. We add Russian ruble 1.6 billion of financial guarantees to LenSpetsSMU's financial debt. In our base case we don't expect financial guarantees to grow from the current level and put pressure on LenSpetsSMU's debt metrics.

The negative outlook reflects our view that adverse market conditions and declining demand for new properties might lead to larger working capital requirements in 2015-2016 and LenSpetsSMU's even higher reliance on debt financing. In our view, this is likely to put further pressure on LenSpetsSMU's credit metrics and its liquidity position.

We could lower the long-term global scale rating if LenSpetsSMU is unable to maintain its "adequate" liquidity in the face of expected cash outflows over the next year. We might also lower the rating if LenSpetsSMU does not maintain its credit metrics in line with an "aggressive" financial risk profile, with debt to EBITDA exceeding 4x and EBITDA interest coverage declining and remaining significantly below 2x. This would likely stem from a continued fall in demand in St. Petersburg, leading to a sharp fall in apartment prices. Such events would likely force LenSpetsSMU to shelve projects and focus on releasing cash from sales of completed properties to cover immediate liquidity needs. Additionally, we could lower the rating if the company were to aggressively launch multiple new projects in the face of a still-weak operating environment.

We could revise the outlook to stable if we saw that LenSpetsSMU had managed to fund its construction needs without excessive reliance on debt financing and returned to a positive free operating cash flows while maintaining "adequate" liquidity.

RELATED CRITERIA AND RESEARCH

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Standard & Poor’s National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Key Credit Factors For The Homebuilder And Real Estate Developer Industry,Feb. 3, 2014
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Primary Credit Analyst:	Anton Geyze, Moscow (7) 495-783-4134; anton.geyze@standardandpoors.com
Secondary Contact:	Franck Delage, Paris (33) 1-4420-6778; franck.delage@standardandpoors.com
Recovery Analyst:	Esther Delanoe, Frankfurt +49 69 33 999 293; esther.galvin@standardandpoors.com
Additional Contact:	Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P’s opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com andwww.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party