

Rating Action: Moody's upgrades ratings of 14 Russian sub-sovereigns; affirms four ratings

12 Feb 2019

London, 12 February 2019 -- Moody's Investors Service, ("Moody's") has today upgraded the ratings of 12 regional governments (RLGs) in Russia and two government-related issuers (GRIs). At the same time, Moody's affirmed the ratings of four other RLGs. Following these rating actions, the long-term issuer rating of Oblast of Moscow carries a positive outlook while long-term ratings of all other affected RLGs and GRIs carry stable outlooks.

The upgrades reflect the easing in systemic pressures following the upgrade of Russia's sovereign rating to Baa3 from Ba1 on 8 February 2019, as well as idiosyncratic credit improvements. For additional information on the sovereign rating action, please refer to the related announcement: https://www.moodys.com/research/--PR_394165. The affirmations reflect persistent idiosyncratic credit challenges which limit upside rating potential.

Moody's upgraded the following 12 RLGs by one notch: Moscow, City of (upgraded to Baa3 from Ba1), St. Petersburg, City of (upgraded to Baa3 from Ba1), Moscow, Oblast of (upgraded to Ba1 from Ba2), Bashkortostan, Republic of (upgraded to Ba1 from Ba2), Tatarstan, Republic of (upgraded to Ba1 from Ba2), Khanty-Mansiysk AO (upgraded to Ba1 from Ba2), Samara, Oblast of (upgraded to Ba2 from Ba3), Chuvashia, Republic of (upgraded to Ba2 from Ba3), Krasnodar, Krai of (upgraded to Ba3 from B1), Krasnoyarsk, Krai of (upgraded to Ba3 from B1), Komi, Republic of (upgraded to Ba3 from B1) and Nizhniy Novgorod, Oblast (upgraded to Ba3 from B1).

Moody's upgraded the following two GRIs by one notch: SUE Vodokanal of St. Petersburg (upgraded to Ba1 from Ba2) and OJSC Western High-Speed Diameter (upgraded to Ba2 from Ba3).

Conversely, Moody's affirmed the following four RLGs: Omsk, Oblast of (Ba3), Omsk, City of (B1), Krasnodar, City of (B1), and Volgograd, City of (B2).

The full list of affected issuers and credit ratings can be found at the end of this press release.

RATINGS RATIONALE

-- RATIONALE FOR UPGRADE OF 12 RLGs AND TWO GRIs

The one-notch upgrade of the issuer ratings of the 12 abovementioned RLGs reflects the easing in systemic pressures following the upgrade of Russia's sovereign rating to Baa3 from Ba1 as well as idiosyncratic credit improvements.

The revenues of these RLGs have grown strongly in the last two years, mainly driven by modest real GDP growth in 2017-18 and favorable commodity prices in Russian rubles, which have lifted the profits of Russia's largest taxpayers and fueled regional budgets with higher profit tax contributions. Improvements in tax administration also helped to increase revenue from existing sources and expand the tax base. Together with tighter cost controls, higher revenues have improved regions' operating performances in the last two years and provide greater financial flexibility for 2019-2021.

Moreover, the Russian government's program for refinancing market debt with cheap budget loans reduced many regions' refinancing risks. At the same time, strict controls over regions' debt levels have also helped to decrease leverage over the last two years and provide better long-term visibility over regions' future debt policies, mitigating refinancing risks.

Furthermore, despite periodic market turbulence, overall debt affordability has improved compared to 2015-16, supported by ongoing lending from banks, sporadic access to the local capital market and, although recently increasing, the historically low interest rate environment.

The upgrade of the two GRIs -- SUE Vodokanal of St. Petersburg and OJSC Western High-Speed Diameter --

reflects their status as GRIs fully owned by the City of St. Petersburg and their strong credit linkages with the city. OJSC Western High-Speed Diameter also benefits from a guarantee on its debt principal payments from the Russian government.

--RATIONALE FOR AFFIRMATION OF FOUR RLGs

The affirmation of the Ba3 issuer ratings of the Oblast of Omsk with a stable outlook reflects its weak operating performance and significant refinancing risks which are unlikely to improve in 2019-2020 given the subdued growth of the regional economy. Moody's estimates the region's gross operating balance will remain modest at around 3%-5% of operating revenues in 2019-2020. At the same time, its leveraged financial profile and a high share of short-term debt will continue to constrain the region's credit profile. Modest operating performances and a consistent need for market access for debt refinancing mean the Oblast of Omsk is more vulnerable than higher-rated Russian regions to an ongoing supply of credit and possible adverse economic scenarios.

The affirmation of the B1 issuer ratings of the City of Omsk reflects its strong linkages with the Oblast of Omsk given that it is reliant on transfers to service its debt. Moody's expects these transfers to remain at around 50% of the city's total revenues in 2019-2020. At the same time, the city has operated with a small negative gross operating balance as a percentage of operating revenue in recent years. While this should marginally improve in the next two years, the city's operating performance will remain weaker than the Oblast's for the foreseeable future, making it more vulnerable to economic shocks.

The affirmation of the B1 issuer ratings of the City of Krasnodar reflects the fact that unlike the Krai, that improved its operating performance in the last two years, the city continues to operate with a negative gross operating balance of around -1% of operating revenue. The city is also reliant on transfers from the Krai of Krasnodar's to generate revenue (50% of revenue over the last three years) and service its debts. This relative credit weaknesses compared to the Krai explain the one-notch differential.

The affirmation of the B2 issuer ratings of the City of Volgograd reflects the city's very high debt burden and significant near-term refinancing pressure. Its net direct and indirect debt relative to own-source revenue remains the highest among Moody's Russian rated RLGs and is estimated at around 1.3x in 2018. Moreover, absent any external assistance, Moody's does not expect the city's fiscal performance to improve going forward. These negative credit pressures substantially outweigh the positives related to the sovereign upgrade and constrain the issuer ratings at B2.

--OUTLOOKS

The stable outlook for 17 of the affected issuers is aligned with the stable outlook on the Russian sovereign ratings and reflect Moody's expectations of no substantial changes in the RLGs' idiosyncratic risk factors in 2019-2020.

The positive outlook assigned to Oblast of Moscow reflects Moody's expectations that the dynamic local economy, fueled by the rapidly growing population and investments into real sectors of the economy, will support growth of the region's revenue and will lift the region's wealth compared to the Russian average. At the same time, healthy gross operating balance will support capital investments to address demographic and social challenges without incurring additional leverage. These trends should increase the region's budget flexibility and help diversify the region's revenue sources.

--WHAT COULD CHANGE THE RATINGS UP/DOWN

Another upgrade in the sovereign rating could exert upward credit pressure on Russian RLG and GRI ratings provided their budget performances do not deteriorate. For the Oblast of Moscow, upward credit pressure could also arise if it is able to sustain improvements in its financial performances and debt metrics.

Given the recent upgrade and stable outlooks, negative credit pressures are unlikely to develop for the RLGs and GRIs covered in today's rating action. At the same time, any unexpected deterioration in the credit metrics of sub-sovereigns, i.e. unexpected revenue declines or more generous expenditures resulting into growing debt burdens, could exert downward pressure on their ratings or outlooks.

The sovereign action required the publication of this credit rating action on a date that deviates from the previously scheduled release date in the sovereign release calendar, published on www.moody.com

The specific economic indicators, as required by EU regulation, are not available for these entities. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this

credit rating action.

Sovereign Issuer: Russia, Government of

GDP per capita (PPP basis, US\$): 27,893 (2017 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 1.6% (2017 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 2.5% (2017 Actual)

Gen. Gov. Financial Balance/GDP: -1.5% (2017 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 2.1% (2017 Actual) (also known as External Balance)

External debt/GDP: 32.8% (2017 Actual)

Level of economic development: Moderate level of economic resilience

Default history: At least one default event (on bonds and/or loans) has been recorded since 1983.

SUMMARY OF MINUTES FROM RATING COMMITTEE

On 07 February 2019, a rating committee was called to discuss the rating of the Bashkortostan, Republic of; Chuvashia, Republic of; Khanty-Mansiysk AO; Komi, Republic of; Krasnodar, City of; Krasnodar, Krai of; Krasnoyarsk, Krai of; Moscow, City of; Moscow, Oblast of; Nizhniy Novgorod, Oblast; OJSC Western High-Speed Diameter; Omsk, City of; Omsk, Oblast of; SUE Vodokanal of St. Petersburg; Samara, Oblast of; St. Petersburg, City of; Tatarstan, Republic of; Volgograd, City of. The main points raised during the discussion were: The systemic risk in which the issuer operates has materially decreased. Improvements in idiosyncratic factors for some entities.

The principal methodology used in rating Moscow, City of, St. Petersburg, City of, Bashkortostan, Republic of, Tatarstan, Republic of, Khanty-Mansiysk AO, Moscow, Oblast of, Samara, Oblast of, Chuvashia, Republic of, Krasnodar, City of, Krasnodar, Krai of, Nizhniy Novgorod, Oblast, Omsk, Oblast of, Komi, Republic of, Volgograd, City of, Krasnoyarsk, Krai of and Omsk, City of was Regional and Local Governments published in January 2018. The principal methodology used in rating SUE Vodokanal of St. Petersburg and OJSC Western High-Speed Diameter was Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

-- RATINGS AFFECTED

Upgrades:

..Issuer: Bashkortostan, Republic of

...LT Issuer Rating, Upgraded to Ba1 from Ba2

..Issuer: Chuvashia, Republic of

...LT Issuer Rating, Upgraded to Ba2 from Ba3

..Issuer: Khanty-Mansiysk AO

...LT Issuer Rating, Upgraded to Ba1 from Ba2

..Issuer: Komi, Republic of

...LT Issuer Rating, Upgraded to Ba3 from B1

..Issuer: Krasnodar, Krai of

...LT Issuer Rating, Upgraded to Ba3 from B1

..Issuer: Krasnoyarsk, Krai of

....LT Issuer Rating, Upgraded to Ba3 from B1

..Issuer: Moscow, City of

....LT Issuer Rating, Upgraded to Baa3 from Ba1

..Issuer: Moscow, Oblast of

....LT Issuer Rating, Upgraded to Ba1 from Ba2

..Issuer: Nizhniy Novgorod, Oblast

....LT Issuer Rating, Upgraded to Ba3 from B1

..Issuer: Samara, Oblast of

....LT Issuer Rating, Upgraded to Ba2 from Ba3

....Senior Unsecured Regular Bond/Debenture, Upgraded to Ba2 from Ba3

..Issuer: St. Petersburg, City of

....LT Issuer Rating, Upgraded to Baa3 from Ba1

..Issuer: Tatarstan, Republic of

....LT Issuer Rating, Upgraded to Ba1 from Ba2

..Issuer: OJSC Western High-Speed Diameter

....Backed Senior Unsecured Regular Bond/Debenture, Upgraded to Ba2 from Ba3

..Issuer: SUE Vodokanal of St. Petersburg

....LT Issuer Rating, Upgraded to Ba1 from Ba2

Affirmations:

..Issuer: Krasnodar, City of

....LT Issuer Rating, Affirmed B1

..Issuer: Omsk, City of

....LT Issuer Rating, Affirmed B1

..Issuer: Omsk, Oblast of

....LT Issuer Rating, Affirmed Ba3

..Issuer: Volgograd, City of

....LT Issuer Rating, Affirmed B2

Outlook Actions:

..Issuer: Omsk, City of

....Outlook, Remains Stable

..Issuer: Omsk, Oblast of

....Outlook, Remains Stable

..Issuer: Samara, Oblast of

...Outlook, Changed To Stable From Positive

..Issuer: St. Petersburg, City of

...Outlook, Changed To Stable From Positive

..Issuer: Tatarstan, Republic of

...Outlook, Changed To Stable From Positive

..Issuer: Volgograd, City of

...Outlook, Remains Stable

..Issuer: OJSC Western High-Speed Diameter

...Outlook, Changed To Stable From Positive

..Issuer: SUE Vodokanal of St. Petersburg

...Outlook, Changed To Stable From Positive

..Issuer: Bashkortostan, Republic of

...Outlook, Changed To Stable From Positive

..Issuer: Chuvashia, Republic of

...Outlook, Changed To Stable From Positive

..Issuer: Khanty-Mansiysk AO

...Outlook, Changed To Stable From Positive

..Issuer: Komi, Republic of

...Outlook, Changed To Stable From Positive

..Issuer: Krasnodar, City of

...Outlook, Remains Stable

..Issuer: Krasnodar, Krai of

...Outlook, Changed To Stable From Positive

..Issuer: Krasnoyarsk, Krai of

...Outlook, Changed To Stable From Positive

..Issuer: Moscow, City of

...Outlook, Changed To Stable From Positive

..Issuer: Moscow, Oblast of

...Outlook, Remains Positive

..Issuer: Nizhniy Novgorod, Oblast

...Outlook, Changed To Stable From Positive

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Semyon Isakov
Vice President - Senior Analyst
Sub-Sovereign Group
Moody's Investors Service Limited, Russian Branch
7th floor, Four Winds Plaza
21 1st Tverskaya-Yamskaya St.
Moscow 125047
Russia
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Mauro Crisafulli
Associate Managing Director
Sub-Sovereign Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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