

«RG Brands»  
Акцияерлік қоғамы



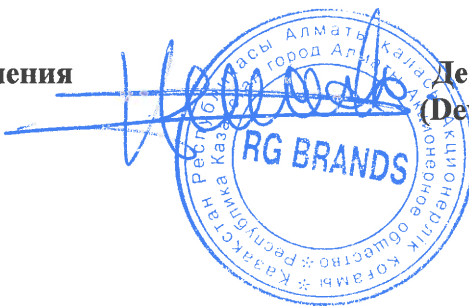
Акцияерное общество  
«RG Brands»

Исх. №112  
«21» августа 2017г.

Председателю Правления  
АО «Казахстанская фондовая биржа»  
г-же Алдамберген А.

Настоящим письмом АО «RG Brands» (далее – «Компания») сообщает о том, что рейтинговым агентством «Moody's Investors Service» 09 августа 2017 года подтвержден корпоративный рейтинг на уровне «B2/стабильный».

Председатель Правления  
АО «RG Brands»



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# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

9 August 2017

Update

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#### RATINGS

##### JSC RG Brands

Domicile	Kazakhstan
Long Term Rating	B2
Type	LT Corporate Family Ratings - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## JSC RG Brands

Annual update

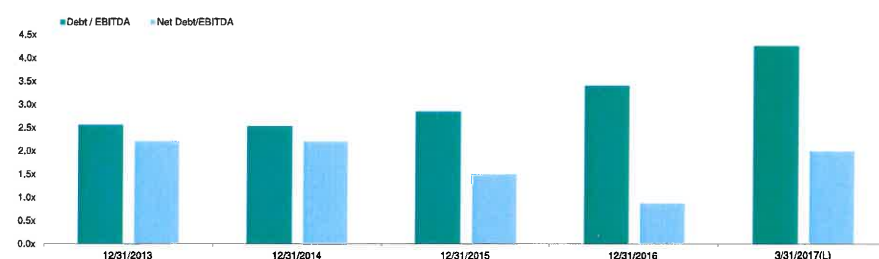
### Summary

JSC RG Brands' (RG Brands) B2 rating primarily reflects the company's small scale of operations by international standards, with revenue of less than \$150 million. The rating also reflects RG Brands' high geographic concentration in Kazakhstan, which exposes the company to local economic and foreign exchange risks, changes in consumer demand as well as risks related to the country's less-developed regulatory, political and legal frameworks.

At the same time, RG Brands' rating takes into account the company's (1) leading domestic market position; (2) diversified product portfolio, with a good product mix and strong brand names including its long-term exclusive bottling agreement with PepsiCo and Pepsi Lipton International; and (3) modern production facilities with substantial spare capacity and limited investment requirements.

The company's fairly strong business profile, together with its prudent operating management, allows it to deal with the ongoing weakness in the consumer environment in Kazakhstan amid an economic slowdown and significant tenge depreciation and preserve a healthy operating and financial profile. A substantial US dollar cash cushion as well as the established access to funding from major international financial institutions and state funding at below market interest rates provide additional comfort.

Exhibit 1



Source: Moody's Investors Service

## Credit strengths

- » Leading domestic market position
- » Strong business fundamentals, with a modern asset base and a balanced product portfolio
- » Healthy operating and financial performance, despite challenging market conditions
- » Sound liquidity, with a substantial cash cushion and proven access to funding

## Credit challenges

- » Small size
- » Limited geographic diversification
- » Weak consumer environment in Kazakhstan amid an economic slowdown and tenge depreciation

## Rating outlook

The stable outlook on RG Brands' rating reflects our expectation that despite a challenging consumer environment in Kazakhstan, the company will demonstrate solid operating results and restore its credit metrics within the rating guidance while maintaining a sound liquidity profile.

## Factors that could lead to an upgrade

- » A material increase in revenue generation while maintaining a meaningful market share in key markets
- » Adjusted debt/EBITDA below 2.5x and FFO/debt above 30% on a sustained basis
- » A satisfactory liquidity position and compliance with all debt covenants

## Factors that could lead to a downgrade

- » Adjusted debt/EBITDA above 3.5x and FFO/debt below 10% on a sustained basis
- » Adjusted EBITA margin declining to, and remaining, below 10% on a sustained basis
- » An eroding liquidity position

## Key indicators

Exhibit 2

### KEY INDICATORS [1]

JSC RG Brands

	3/31/2017(L)	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Total Sales (USD Billion)	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2
EBIT Margin	5.8%	7.7%	14.4%	9.9%	10.8%
Debt / EBITDA	4.3x	3.4x	2.9x	2.5x	2.6x
RCF / Net Debt	17.4%	40.1%	10.9%	27.4%	32.5%
EBIT / Interest Expense	1.3x	1.9x	4.6x	3.4x	3.6x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

optimizing costs, including price hedges for key commodities; and (4) actively managing its relationship with suppliers and local retailers. In addition, as a leading private company, RG Brands participates in a number of state programs aimed at supporting exports and domestic operations.

Overall, in 2016, RG Brands' revenue grew by over 18% from a year earlier. Although the company's profitability visibly weakened, further suppressed by increasing marketing expenses in developing Russian business and by a less favorable change in its product mix, its adjusted EBITDA margin stayed at a fairly healthy level of 12.7%. A drop in the company's adjusted EBITA margin to 7.7% in 2016 was also driven by a significant revaluation of its assets, which resulted in a corresponding step-up in depreciation charges. We expect RG Brands to restore this ratio back to above 10% in 2017 (10.4% in Q1 2017) as the company's revenue base continues to grow, while it will likely be able to maintain its adjusted EBITDA margin at above 12% (14.7% in Q1 2017).

### Healthy financial profile despite higher leverage

Despite a decline in profitability, RG Brands preserved a healthy financial profile supported by (1) strong free cash flow generation driven by growth in topline, effective working capital management and moderate capital spending requirements; (2) a substantial US dollar cash cushion conservatively maintained by the company as protection against potential market turmoil and further tenge devaluation; and (3) a declining share of foreign-currency-denominated debt, which comprised only 13% of total debt as of the end of Q1 2017 and is likely to decline further in 2017.

Although RG Brands' adjusted leverage increased to 3.4x in 2016 and 4.3x in the 12 months ended March 2017 (2.9x in 2015), the increase was largely attributed to RG Brands' decision in 2015 to start accumulating cash reserves in a foreign currency while using debt to finance its working capital requirements. As a result, on a net debt basis, the company's leverage remained comfortable at 0.9x and 2.0x, respectively.

In 2017-18, the company is likely to start using its positive free cash flow to repay debt, which, together with strong sales and stabilized profitability, should drive its adjusted leverage metrics back toward 3.0x. We understand that although RG Brands may use its accumulated cash cushion to finance a potential M&A opportunity, should such an opportunity arise, it is still determined to maintain the major part of its cash as a reserve.

The positives of the company's conservative financial policy include (1) internal financial targets of net debt/EBITDA of 2.5x; (2) a focus on maintaining a proportion of short-term debt at around 30% of total debt; (3) diversifying financing sources between European, Asian and regional banks; (4) limiting foreign-currency-denominated debt to a targeted 30% of its total debt portfolio; and (5) maintaining a cash cushion of no less than \$10 million.

### Liquidity analysis

RG Brands' liquidity position as of the end of Q1 2017 is solid and should be sufficient to cover all of its cash needs for the following 18 months. This strong liquidity position is underpinned by (1) the company's positive free cash flow, which reflects healthy operating cash flow generation and moderate capital spending requirements; and (2) around \$74 million available under long-term credit facilities as of the end Q1 2017. These factors, together with substantial cash reserves of around \$38 million, should be sufficient to cover all the company's cash needs in the same period, including its debt maturities of around \$43 million.

The company's liquidity is further supported by its established access to long-term funding from leading financial institutions, such as the International Finance Corporation, the European Bank of Reconstruction and Development, the Asian Development Bank and the Eurasian Development Bank, as well as state funding under favorable terms.

### Rating methodology and Scorecard factors

We consider RG Brands' corporate family rating in the context of the key rating drivers cited in our Global Packaged Goods rating methodology, published in January 2017. The company's operating and financial profile maps to a Ba3 rating based on historical results as of the end of Q1 2017 and a Ba2 rating based on our forward-looking view for the next 12-18 months. The difference between the grid-implied rating and the actual assigned rating of B2 is mainly because of (1) the company's exposure to the Kazakh market, which has a less developed regulatory, political and legal framework compared with mature markets; and (2) the small size of the company.

## Corporate profile

JSC RG Brands is a leading private beverage and food company with its own manufacturing and distribution capacities. The company predominantly operates in Kazakhstan and Central Asia and, to a lesser extent, in Russia. Its beverages portfolio consists of juices, soft drinks, energy drinks and mineral water, while its food product and snacks portfolio includes packaged goods such as tea, ultra-high-temperature milk and snacks.

RG Brands is majority-owned by two individuals, Mr. Mazhibayev and Mr. Kozhkinbayev, who hold around 97% of the company's shares.

## Detailed credit considerations

### Small size and limited geographic diversification are key rating constraints

RG Brands is one of the largest packaged goods companies in the broader Central Asia region in revenue terms. However, with revenue of around KZT49.5 billion (around \$148 million) in the 12 months ended March 2017, the company is still very small in the international context. This small size can restrict the company's diversification, its ability to leverage costs of all kinds and its financial flexibility.

RG Brands also has limited geographic diversification, as the company generates more than 92% of its sales in the Central Asia region, with over 80% coming from Kazakhstan. Although we acknowledge the good growth potential of the Kazakh market given its less-developed environment, such geographic concentration exposes the company to economic shocks as well as changes in consumer habits in that particular emerging country and region. Thus, RG Brands is now facing the ongoing weakness in the domestic consumer environment because of the slowdown in Kazakhstan's economy since the end 2014, coupled with a weaker and more volatile tenge.

Although RG Brands is now focused on active expansion in the large markets of the Urals, Siberia and Volga regions of Russia, its sales there will remain relatively modest (around 10% of total revenue in 2016) in the short term. In the longer term, the company plans for Russia to account for around 30% of its total revenue, keeping its reliance on the domestic market fairly high.

### Balanced product portfolio

RG Brands benefits from product diversification through its seven main product categories (1) carbonated soft drinks and iced tea, (2) juices and juice-based products, (3) energy drinks, (4) packaged tea, (5) ultra-high temperature milk, (6) water, and (7) snacks and other food products. The company further reinforces its product portfolio by diversifying product ranges and flavors, actively managing its brands' composition, and by introducing new products and packaging. Moreover, the company's fairly flexible production facilities are able to quickly switch from producing one product to another, allowing RG Brands to promptly react to changing consumer demand.

Product diversification is beneficial for RG Brands as it (1) helps to reduce its exposure to the seasonality in consumption of products such as carbonated soft drinks, water, and to a lesser extent, juices, with this being offset by the more stable consumption pattern in packaged tea and milk; and (2) gives the company the opportunity to better address specific needs in each sales region by adapting its product mix respectively. The balanced portfolio of countercyclical products also strengthens the company's resilience to economic downturns as sales of tea and milk are more stable than those of carbonated soft drinks and juices since the former are considered to be necessities.

### Leading domestic market position

With a strong portfolio of domestic and international brands, RG Brands is one of the leading packaged goods companies in Kazakhstan. The company ranks among the top three producers in terms of market position in the majority of its operating segments supported by (1) introduction of new products, flavors and packaging innovations; and (2) active investments in marketing campaigns and improved customer loyalty.

RG Brands' leading market position with strong brand recognition, diversified product portfolio and prudent operating management has allowed the company to preserve fairly healthy operating results despite (1) declining household consumption and customers' increasing price sensitivity, and, at the same time, (2) rising inflationary pressure driven by the weak tenge, given that 60% of the company's cost of materials remains in foreign currency.

RG Brands managed to protect its market share and topline while sustaining adequate margins by (1) adjusting its product offerings and improving the efficiency of its sales and marketing initiatives; (2) selectively and gradually increasing prices; (3) effectively

## Exhibit 3

Rating Factors				
JSC RG Brands				
Consumer Packaged Goods Industry Grid [1][2]				
	Current LTM 3/31/2017		Moody's 12-18 Month Forward View As of 7/18/2017 [3]	
Factor 1 : Scale and Diversification (44%)	Measure	Score	Measure	Score
a) Total Sales (USD Billion)	\$0.1	Ca	\$0.1	Ca
b) Geographic Diversification	B	B	B	B
c) Segmental Diversification	A	A	A	A
Factor 2 : Franchise Strength and Potential (14%)				
a) Market Share	Ba	Ba	Ba	Ba
b) Category Assessment	Baa	Baa	Baa	Baa
Factor 3 : Profitability (7%)				
a) EBIT Margin	5.8%	Caa	7% - 10%	B
Factor 4 : Financial Policy (14%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 5 : Leverage and Coverage (21%)				
a) Debt / EBITDA	4.3x	Ba	3x - 3.5x	Baa
b) RCF / Net Debt	17.4%	Ba	20% - 30%	Baa
c) EBIT / Interest Expense	1.3x	B	2x - 3x	Ba
Rating:				
a) Indicated Rating from Grid		Ba3		Ba2
b) Actual Rating Assigned				B2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 3/31/2017(L);

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Investors Service

## Ratings

## Exhibit 4

Category	Moody's Rating
JSC RG BRANDS	
Outlook	Stable
Corporate Family Rating	B2

Source: Moody's Investors Service



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