«RG Brands Kazakhstan»
Акционерлік қоғамы

RG BRANDS
НА ВСЮ ЖИЗНЬ

Акционерное общество
«RG Brands Kazakhstan»

Исх.№394
от 21.06.2019г.

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» 11 июня 2019 года подтвержден корпоративный рейтинг на уровне «B2/стабильный».

Главный управляющий
по финансовым вопросам **Агыбаев А.Е.**

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CREDIT OPINION

11 June 2019

Update

Rate this Research

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

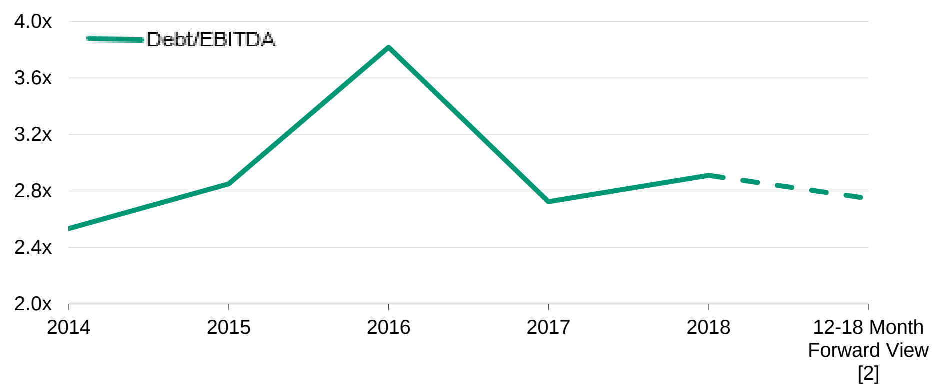
Update to credit analysis

Summary

JSC RG Brands' (RG Brands) B2 rating primarily reflects the company's small scale of operations by international standards, with revenue of around $153.6 million in 2018. The rating also captures RG Brands' high geographic concentration in Kazakhstan (Baa3 stable), which exposes the company to (1) local economic risk and foreign-exchange risk; (2) changes in consumer demand; and (3) 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) strong domestic market position; (2) diversified product portfolio with strong brand names, including its long-term exclusive bottling agreement with PepsiCo, Inc. (A1 stable) in Kazakhstan; (3) modern production facilities; (4) moderate leverage; and (5) access to funding from major international financial institutions and state funding at below-market interest rates, which underpins the company's liquidity.

Exhibit 1
RG Brands' leverage evolution [1]



[1] All figures and ratios are calculated using Moody's estimates and standard adjustments.
[2] This represents Moody's estimate and forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Sources: Moody's Financial Metrics™, Moody's Investors Service forecast

Credit strengths

» Strong domestic market position

» Solid business fundamentals, with a modern asset base and a balanced product portfolio

» Moderate leverage

» Proven access to external funding and accumulated liquidity reserves, which support liquidity

Credit challenges

» Small size

» Limited geographic diversification

» High share of short-term debt

Rating outlook

The stable outlook on RG Brands' rating reflects our expectation that, over the next 12-18 months, the company will demonstrate solid operating results and maintain its credit metrics within the rating guidance while proactively and timely addressing liquidity needs.

Factors that could lead to an upgrade

» A material increase in revenue generation while maintaining a significant market share in key markets

» Adjusted debt/EBITDA below 2.5x and funds from operations/debt above 30% on a sustained basis

» Strong liquidity and compliance with all debt covenants

Factors that could lead to a downgrade

» Adjusted debt/EBITDA above 3.5x and funds from operations/debt below 10% on a sustained basis

» Adjusted EBITA margin below 8%-10% on a sustained basis

» An eroding liquidity position

Key indicators

Exhibit 2

JSC RG Brands [1]

US Millions	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	12-18 Month Forward View [2]
Revenue	223	194	143	161	154	194
EBIT Margin %	10%	14%	8%	8%	11%	10%
EBITA Margin %	10%	14%	8%	8%	11%	10%
Debt / EBITDA	2.5 x	2.9 x	3.8 x	2.7 x	2.9 x	2.7x - 3x
RCF / Net Debt	27%	11%	27%	35%	19%	18% - 20%
FFO / Debt	31%	15%	14%	27%	20%	25% - 27%
EBIT / Interest Expense	3.4 x	4.6 x	1.9 x	2.5 x	2.7 x	2.6x - 3x

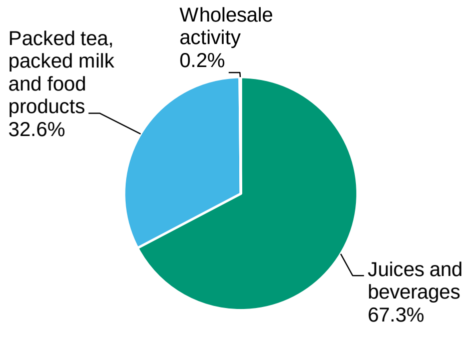
[1] All figures and ratios are calculated using Moody's estimates and standard adjustments.
[2] This represents Moody's estimate and forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Revenue in 2018 is affected by adoption of IFRS 15.
Source: Moody's Financial Metrics™

Profile

JSC RG Brands (RG Brands) is a leading private beverage and food company in Kazakhstan, with its own manufacturing and distribution facilities. The company predominantly operates in Kazakhstan, Kyrgystan and some minor operations in Russia. The company's 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. According to our estimates, the company generated revenue of KZT53.0 billion ($153.6 million) in 2018.

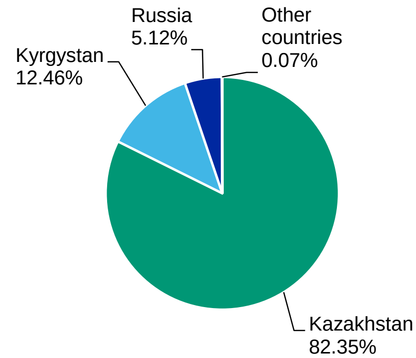
RG Brands is majority-owned by two individuals, Kairat Mazhibayev and Erkin Koshkinbayev, who hold around 97% of the company's shares.

Exhibit 3
Revenue by business segments (2018)



Sources: Company, Moody's Investors Service estimate

Exhibit 4
Revenue by geography (2018)



Sources: Company, Moody's Investors Service estimate

Detailed credit considerations

Small size and limited geographic diversification remain key rating constraints

RG Brands is one of the largest packaged goods companies in the broader Central Asia region in terms of revenue. However, with a revenue of KZT53.0 billion ($153.6 million) in 2018, the company is still very small in an 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 has limited geographic diversification, because the company generates more than 90% of its sales in the Central Asia region, with over 80% coming from Kazakhstan in 2018.

Although we acknowledge the good growth potential of the Kazakh market, given its less-developed environment and projected domestic economic growth of 3.2% in 2019 and averagely in 2020-21, such geographic concentration exposes the company to economic shocks and changes in consumer habits in that particular emerging country and region. This happened in 2015-16 when RG Brands' operations and financial profile weakened because of the weak domestic consumer environment that had resulted from the significant slowdown in Kazakhstan's economy, coupled with a weaker and more volatile tenge.

We currently expect RG Brands to continue to benefit from Kazakhstan's growing economy and real incomes, which recovered from the economic shock of the recent past. In 2018, real money incomes increased by 4.3% (2017: by 1.0% [Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan]). Economic growth prospects underpin further growth in incomes, even if at a slower rate, given our projections for Kazakhstan's GDP growth to moderate to 3.2% compared with 4.1% in 2017-18. The advantages of the current consumer environment, however, cannot offset the risks of the company's limited geographic diversification.

Although RG Brands has plans to expand in the large markets of the Urals, Siberia and Volga regions of Russia, its sales there will remain relatively modest (around 6% of total revenue in 2018) in the short term. In the longer term, RG Brands plans to earn around 30% of its total revenue from Russia (Baa3 stable), keeping the company's 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 its product ranges and flavors, actively managing its brands' composition, and introducing new products and packaging. Moreover, the company's fairly flexible production facilities are able to quickly change the product mix, allowing RG Brands to promptly react to changing consumer demand.

Product diversification is beneficial for RG Brands because it (1) helps reduce the company's exposure to the seasonality in the consumption of products such as carbonated soft drinks, water, and to a lesser extent, juices, with this risk being mitigated 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. The balanced portfolio of countercyclical products also strengthens the company's resilience to economic downturns because sales of tea and milk, which are seen as necessities, are more stable than those of carbonated soft drinks and juices. At the same time, higher-margin carbonated soft drinks and juices serve as key revenue drivers in periods of economic growth.

Strong domestic market position

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

A strong market position, with high brand recognition, a diversified product portfolio and modern production base, allowed the company to deliver reasonably healthy operating results during the economic slowdown in 2015-16, despite (1) decreased household consumption and increased price sensitivity of customers; and (2) inflationary pressure, driven by the weak tenge, given that 60% of the company's cost of materials was in foreign currency.

RG Brands protects its market share and top line while sustaining adequate margins by (1) adjusting its product offerings and improving the efficiency of its sales and marketing initiatives; (2) selectively increasing prices; (3) effectively 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.

A few of these measures and initiatives, in particular rebranding of some products, had been implemented through Q3 2018. Their positive impact on the company's sales and margins emerged only in Q4 2018 and should be fully materialized in 2019. Despite this somewhat delayed positive impact, RG Brands' revenue grew by around 7% (excluding an accounting effect of the introduction of new standards) in 2018, which was slightly above 6.0% inflation. However, the cost of materials, which are mainly in foreign currency, increased because of a depreciation of tenge and somewhat offset the effect of the revenue growth. Nevertheless, supported by foreign-exchange gain (associated with the revaluation of sizable investments in dollar-denominated liquid instruments, while tenge is depreciating) and investment income (from the mentioned investments), RG Brands' EBITDA and EBIT margins improved to around 15% and around 10%, respectively (excluding an accounting effect of the introduction of new standards).

We expect RG Brands to sustain or even steadily improve its margins, though at a slow pace, over the next two to three years. This expectation factors in the improved domestic consumer environment in Kazakhstan and a potential for the company's expansion in the broader Central Asia region and in Russia.

Leverage to remain moderate

In 2018, in line with its own plan and our expectations, RG Brands returned to generating positive free cash flow (FCF). The FCF turned positive because a sizable cash outflow to fund working capital needs, as it was the case in 2017, gave way to a significant cash inflow in 2018 mainly because of the company's progress in improving and optimising terms and conditions of its cooperation with suppliers. The cash inflow was sufficient to offset the strain on the FCF from significantly increased dividend payments and higher capital spending in 2018.

RG Brands' Moody's adjusted debt/EBITDA increased to 2.9x in 2018 from 2.7x in 2017, given that the company's debt growth was ahead of its EBITDA growth (27% versus 19%). We understand that RG Brands increased its debt, because it was keen to increase investments in dollar-denominated highly liquid instruments for potential bolt-on acquisition and for the purpose of mitigating foreign-currency exchange risk. The company invested a sizable part of its generated cash flow into these instruments (their total value reached around $25 million as of year-end 2018) and had to raise additional debt to fund capital spending and dividends, despite its positive FCF.

Over the next 12-18 months, we expect RG Brands to remain FCF positive on the back of the improved domestic consumer environment, solid sales and sustainable profitability. As a result, the company should be able to avoid any significant increase in leverage above 3.0x on adjusted basis. Our expectation factors in RG Brands' conservative internal leverage target of unadjusted debt/EBITDA at 2.5x.

We understand that although RG Brands may use its accumulated foreign-currency liquidity to finance a potential M&A opportunity, should such an opportunity arise, it can use the reserves to address any liquidity issues.

Liquidity analysis

RG Brands' liquidity is adequate despite a significant amount of short-term debt (65% of total debt). As of the end of 2018, cash and reserved liquidity, represented by highly liquid foreign-currency-denominated instruments, of KZT15.8 billion, together with available long-term committed bank facilities of around KZT11.6 billion was sufficient to cover RG Brands' debt maturities of KZT17.9 billion over the next 18 months. Together with the company's operating cash flow, these sources should cover all the company's cash needs in the same period, including capital spending and dividends.

RG Brands has not yet gone ahead with its plan to refinance its short-term debt with long-term instruments and decrease the share of short-term debt in total debt toward 30%. However, the plan has not been abandoned.

RG Brands significantly benefits from its established access to long-term funding from leading financial institutions, such as International Finance Corporation (Aaa stable), European Bank of Reconstruction & Development (Aaa stable), Asian Development Bank (Aaa stable) and Eurasian Development Bank (Baa1 stable), as well as state funding on 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 Ba2 rating. The difference between the scorecard-indicated outcome and the assigned rating of B2 is mainly because of (1) the company's exposure to the Kazakh market, which has less-developed regulatory, political and legal frameworks than those of mature markets; (2) the small size of the company; and (3) the high foreign-exchange exposure.

Exhibit 5

Rating Factors				
JSC RG Brands				
Consumer Packaged Goods Industry Grid [1][2]	Current FY 12/31/2018		Moody's 12-18 Month Forward View As of 5/20/2019 [3]	
Factor 1 : Scale and Diversification (44%)	**Measure**	**Score**	**Measure**	**Score**
a) Total Sales (USD Billion)	$0.2	Ca	$0.2	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	10.8%	Ba	10%	Ba
Factor 4 : Financial Policy (14%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 5 : Leverage and Coverage (21%)				
a) Debt / EBITDA	2.9x	Baa	2.7x - 3x	Baa
b) RCF / Net Debt	19.3%	Ba	18% - 20%	Ba
c) EBIT / Interest Expense	2.7x	Ba	2.6x - 3x	Ba
Rating:				
a) Indicated Rating from Grid		Ba2		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 12/31/2018.(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 Financial Metrics™

Ratings

Exhibit 6

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

Source: Moody's Investors Service

Appendix

Exhibit 7
Peer comparison

(in US millions)	JSC RG Brands B2 Stable FYE Dec-16	FYE Dec-17	FYE Dec-18*	B&G Foods, Inc. B1 Stable FYE Dec-17	FYE Dec-18	LTM Dec-18	TreeHouse Foods, Inc. Ba3 Stable FYE Dec-17	FYE Dec-18	LTM Dec-18
Revenue	$143	$161	$154	$1,646	$1,701	$1,701	$6,302	$5,812	$5,812
EBITDA	$18	$21	$27	$345	$326	$326	$673	$561	$561
Total Debt	$71	$57	$63	$2,324	$1,723	$1,723	$2,937	$2,785	$2,785
Cash & Cash Equiv.	$47	$17	$18	$207	$12	$12	$133	$164	$164
EBIT Margin	7.7%	8.4%	12.5%	17.3%	15.4%	15.4%	5.3%	4.4%	4.4%
EBIT / Int. Exp.	1.9x	2.5x	3.1x	3.0x	2.3x	2.3x	2.4x	1.9x	1.9x
Debt / EBITDA	3.8x	2.7x	2.6x	6.7x	5.3x	5.3x	4.4x	5.0x	5.0x
RCF / Net Debt	27.2%	34.8%	19.3%	4.2%	-2.6%	-2.6%	17.7%	10.9%	10.9%
FCF / Debt	4.5%	-7.8%	4.2%	-6.2%	2.5%	2.5%	8.4%	7.5%	7.5%

All figures and ratios are calculated using Moody's estimates and standard adjustments.
* Excluding non-public adjustments.
Source: Moody's Financial Metrics™

Exhibit 8
Moody's-adjusted debt breakdown
JSC RG Brands

(in US Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18*
As Reported Debt	**82.4**	**73.2**	**61.5**	**68.3**	**52.8**	**59.9**
Operating Leases	6.3	5.4	4.0	3.5	4.5	4.5
Non-Standard Adjustments	3.5	1.2	0.1	-0.9	-0.7	-1.0
Moody's-Adjusted Debt	**92.3**	**79.9**	**65.6**	**70.9**	**57.2**	**63.5**

All figures and ratios are calculated using Moody's estimates and standard adjustments.
*Excluding non-public adjustments.
Source: Moody's Financial Metrics™

Exhibit 9
Moody's-adjusted EBITDA breakdown
JSC RG Brands

(in US Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18*
As Reported EBITDA	**33.2**	**24.4**	**23.2**	**17.2**	**19.6**	**25.7**
Operating Leases	2.1	1.9	2.1	1.1	1.7	1.7
Unusual	1.2	5.9	11.5	-0.2	0.1	-0.5
Moody's-Adjusted EBITDA	**36.6**	**32.2**	**36.8**	**18.1**	**21.4**	**26.9**

All figures and ratios are calculated using Moody's estimates and standard adjustments.
*Excluding non-public adjustments.
Source: Moody's Financial Metrics™

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