

«RG Brands»
Акцияерлік қоғамы



Акцияерное общество
«RG Brands»

Исх. №204
«19» августа 2018г.

**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» 13 июня 2018 года подтвержден корпоративный рейтинг на уровне «B2/стабильный».

**Председатель Правления
АО «RG Brands»**



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CREDIT OPINION

13 June 2018

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 following B2 rating affirmation

Summary

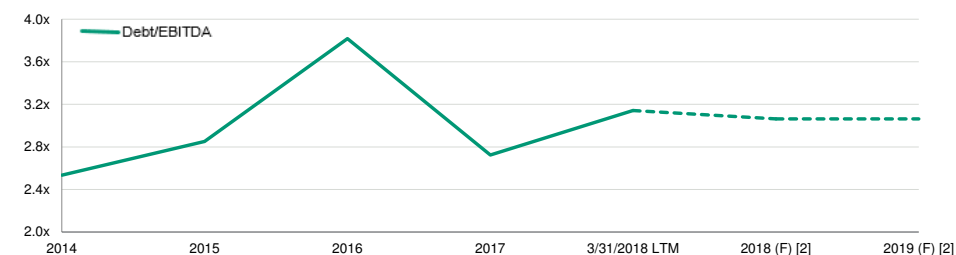
JSC RG Brands' (RG Brands) B2 rating primarily reflects the company's small scale of operations by international standards, with revenue of \$160.8 million in 2017. The rating also captures RG Brands' high geographic concentration in Kazakhstan, which exposes the company to local economic and foreign-exchange 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) strong 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 spare capacity and discretionary investment requirements.

The company's fairly strong business profile allows it to deal with the still-weak consumer environment in Kazakhstan, which resulted from a severe economic slowdown and significant depreciation in the tenge, and should help the company return to positive free cash flow on the back of a projected market recovery, and maintain moderate leverage. Established access to funding from major international financial institutions and state funding at below market interest rates underpin the company's liquidity.

Exhibit 1

RG Brands' leverage evolution [1]



[1] All figures and ratios are calculated using our 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 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 supports liquidity

Credit challenges

- » Small size
- » Limited geographic diversification
- » Weak consumer environment in Kazakhstan
- » High share of short term debt, negative free cash flow in 2017

Rating outlook

The stable outlook on RG Brands' rating reflects our expectation that, over the next 12-18 months, despite the risk of a slow recovery of the still-weak consumer environment in Kazakhstan, the company will demonstrate solid operating results, return to positive free cash flow, 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 FFO/debt above 30% on a sustained basis
- » A strong liquidity 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 below a 8%-10% on a sustained basis
- » An eroding liquidity position

Key indicators

Exhibit 2

JSC RG Brands

in USD millions	Dec-14	Dec-15	Dec-16	Dec-17	LTM (Mar-18)	2018-proj.	2019-proj.
Revenue	223	194	143	161	163	180	200
EBIT Margin %	10%	14%	8%	8%	8%	8%	9%
Debt / EBITDA	2.5x	2.9x	3.8x	2.7x	3.1x	3.1x	3.1x
RCF / Net Debt	27%	11%	27%	35%	24%	19%	17%
EBIT / Interest Expense	3.4x	4.6x	1.9x	2.5x	2.5x	2.3x	2.1x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's projections (proj.) are Moody's opinion and do not represent the views of the issuer.

Source: Moody's Financial Metrics™

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 for the most updated credit rating action information and rating history.

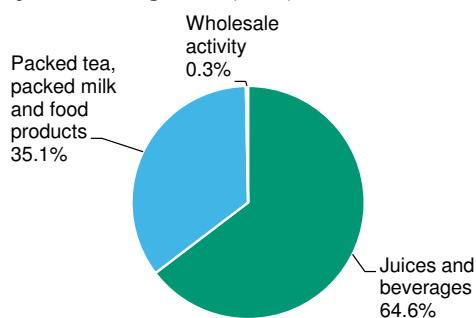
Profile

JSC 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 and Central Asia, with 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. In 2017, the company reported revenue of KZT52.4 billion (\$160.8 million).

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

Exhibit 3

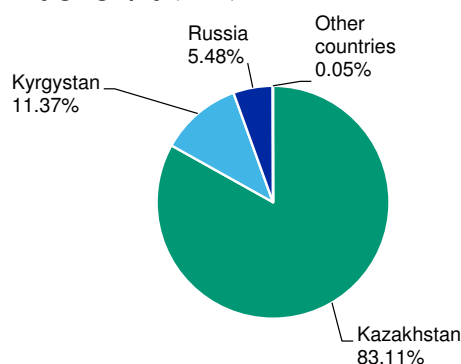
Revenue by business segments (2017)



Source: Company's consolidated financial statements for 2017

Exhibit 4

Revenue by geography (2017)



Source: Company's consolidated financial statements for 2017

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 terms of revenue. However, with revenue of KZT53.0 billion (around \$163 million) in the 12 months ended March 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 also 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 2017. Although we acknowledge the good growth potential of the Kazakh market, given its less-developed environment and projected domestic economic growth of 3.5% in 2018 and 3.0% in 2019, such geographic concentration exposes the company to economic shocks, as well as changes in consumer habits in that particular emerging country and region. RG Brands is now facing the still-weak domestic consumer environment that resulted from the significant slowdown in Kazakhstan's economy in 2015-16, coupled with a weaker and more volatile tenge. Despite the economic recovery in 2017, as reflected by 4.0% growth in Kazakhstan's GDP, the weak domestic consumer environment is yet to start recovering. The population's money income flattened in 2017 and has only recently shown some signs of growth.

Although RG Brands is considering its expansion in the large markets of the Urals, Siberia and Volga regions of Russia, its sales there will remain relatively modest (5.5% of total revenue in 2017) in the short term. In the longer term, the company plans for Russia to account for around 30% of 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 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 to 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.

Strong domestic market position

RG Brands has a strong portfolio of domestic and international brands, and 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, has allowed the company to deliver reasonably healthy operating results despite (1) decreased household consumption and customers' increased price sensitivity; and, at the same time, (2) inflationary pressure, driven by the weak tenge, given that 60% of the company's cost of materials is in foreign currency.

RG Brands managed to protect 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.

In 2017, RG Brands' revenue grew by 7.6% from a year earlier, just slightly above 7.0% inflation. At the same time, the company managed to avoid any significant increase in its cost of materials, helped by some appreciation in the tenge because these costs are mainly in foreign currency. As a result, despite the still weak market in Kazakhstan and increasing marketing expenses in promoting sales, the adjusted EBITDA and EBIT margins slightly improved to 13.3% and 8.4%, respectively, in 2017. A marginal decline in the margins over the 12 months ended March 2018 was mainly due to seasonal demand.

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

Moderate leverage to sustain

In 2017, despite the marginal improvement in profitability, RG Brands' free cash flow, which had been positive for many years, turned negative on the back of a sizable cash outflow owing to its increased working capital needs effected by prepayments to suppliers with a view to getting favorable prices and terms of delivery, and higher capital spending. Tight market conditions drove up the company's working capital needs and encouraged it to modernize its distribution system to support sales.

Nevertheless, RG Brands reduced adjusted debt/EBITDA to 2.7x in 2017 from 3.8x in 2016, primarily by paying debt from its significant accumulated cash reserves (KZT15.7 billion, or \$47.0 million as of year-end 2016). Leverage marginally increased to 3.1x in the first quarter of 2018. The increase is mainly attributed to the company's decision to accumulate reserves in liquid foreign-currency denominated instruments while using debt to finance its working capital and capital spending requirements.

Over the next 12-18 months, in line with its plans, RG Brands expects to return to positive free cash flow generation on the back of the projected market recovery, solid sales and sustainable profitability. As a result, the company should be able to avoid any significant increase in leverage and maintain it at around 3.0x on adjusted basis.

This expectation factors in RG Brands' conservative internal leverage target of unadjusted debt/EBITDA at 2.5x and plans to accumulate up to \$20 million in highly liquid instruments for potential bolt-on acquisitions.

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 these reserves to address any liquidity issues in case of need.

Liquidity analysis

RG Brands' liquidity position is adequate despite a significant amount of short-term debt (61% of total debt). As of the end of March 2018, cash and reserved liquidity, represented by highly liquid foreign-currency denominated instruments, of KZT8.4 billion, together with available long-term committed bank facilities of around KZT13.6 billion, including revolving credit facilities, was sufficient to cover RG Brands' debt maturities of KZT14.2 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.

According to management, the company is targeting to refinance its short-term debt with long-term instruments and decrease the share of short-term debt in total debt towards 30%.

RG Brands significantly benefits from 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 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 based on historical results as of the end of Q1 2018 and a Ba3 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 less developed regulatory, political and legal frameworks than those of mature markets; (2) the small size of the company and (3) high forex exposure.

Exhibit 5

Rating Factors				
JSC RG Brands				
Consumer Packaged Goods Industry Grid [1][2]				
			Current LTM 03/31/2018	
Factor 1 : Scale and Diversification (44%)	Measure	Score		
a) Total Sales (USD billion)	\$0.2	Ca		
b) Geographic Diversification	B	B		
c) Segmental Diversification	A	A		
Factor 2 : Franchise Strength and Potential (14%)				
a) Market Share	Ba	Ba		
b) Category Assessment	Baa	Baa		
Factor 3 : Profitability (7%)				
a) EBIT Margin	8.1%	B		
Factor 4 : Financial Policy (14%)				
a) Financial Policy	Baa	Baa		
Factor 5 : Leverage and Coverage (21%)				
a) Debt / EBITDA	3.1x	Baa		
b) RCF / Net Debt	23.9%	Baa		
c) EBIT / Interest Expense	2.5x	Ba		
Rating:				
a) Indicated Rating from Grid			Ba2	
b) Actual Rating Assigned				

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

[2] As of 03/31/2018 (L); Source: Moody's Financial Metrics™

[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.

Moody's 12-18 Month Forward View As of June 2018 [3]	
Measure	Score
\$0.2	Ca
B	B
A	A
Ba	Ba
Baa	Baa
8%-10%	B
Baa	Baa
3.0x - 3.3x	Baa
17%-20%	Ba
2.5x	Ba
	Ba3
	B2

Ratings

Exhibit 6

Category	Moody's Rating
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JSC RG BRANDS	
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Outlook	Stable
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Corporate Family Rating	B2
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Source: Moody's Investors Service

Appendix

Exhibit 7

Peer comparison

(in USD millions)	JSC RG Brands			B&G Foods, Inc.			TreeHouse Foods, Inc.		
	B2 Stable			B1 Stable			Ba2 Negative		
	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-16	FYE Dec-17	LTM Mar-18
Revenue	\$143	\$161	\$163	\$1,391	\$1,668	\$1,687	\$6,185	\$6,302	\$6,244
EBITDA	\$18	\$21	\$21	\$331	\$345	\$342	\$713	\$671	\$618
Total Debt	\$71	\$57	\$67	\$1,792	\$2,323	\$2,198	\$3,112	\$2,937	\$3,042
Cash & Cash Equiv.	\$47	\$17	\$9	\$29	\$207	\$118	\$62	\$133	\$129
EBIT Margin	7.7%	8.4%	8.1%	20.5%	17.1%	16.7%	6.1%	5.3%	4.6%
EBIT / Int. Exp.	1.9x	2.5x	2.5x	3.7x	3.0x	2.7x	2.9x	2.4x	2.0x
Debt / EBITDA	3.8x	2.7x	3.1x	5.4x	6.7x	6.4x	4.4x	4.4x	4.9x
RCF / Net Debt	27.2%	34.8%	23.9%	7.4%	4.2%	3.5%	14.9%	17.7%	16.0%
FCF / Debt	4.5%	-7.8%	-7.7%	8.2%	-6.2%	-3.0%	9.4%	8.4%	3.9%

All figures and ratios are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 8

Moody's-adjusted debt breakdown

(in USD millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	LTM Ending March-18
As Reported Debt	82.4	73.2	61.5	68.3	52.8	62.1
Operating Leases	6.3	5.4	4.0	3.5	5.1	5.3
Non-Standard Adjustments	3.5	1.2	0.1	-0.9	-0.6	-0.1
Moody's-Adjusted Debt	92.3	79.9	65.6	70.9	57.3	67.3

All figures and ratios are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 9

Moody's-adjusted EBITDA breakdown

(in USD millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	LTM Ending March-18
As Reported EBITDA	33.2	24.4	23.2	17.2	19.6	19.1
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	0.1
Moody's-Adjusted EBITDA	36.6	32.2	36.8	18.1	21.4	20.9

All figures and ratios are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

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