MOODY'S INVESTORS SERVICE

Rating Action: Moody's upgrades Borets to Ba3, outlook stable

Global Credit Research - 07 Nov 2017

London, 07 November 2017 -- Moody's Investors Service (Moody's) has today upgraded to Ba3 from B1 the corporate family rating (CFR) and to Ba3-PD from B1-PD the probability of default rating (PDR) of Borets International Ltd (Borets) . Concurrently, Moody's upgraded Borets' senior unsecured notes issued by Borets Finance DAC, a wholly owned subsidiary of Borets incorporated under the laws of Ireland, and guaranteed by the parent company and its principal Russian subsidiary, Borets Company, to Ba3 (LGD4) from B1 (LGD4).

The outlook on the ratings has been changed to stable from positive.

"Our decision to upgrade Borets reflects a strengthening in its operating profile, as well as an improvement in liquidity following placement of the new senior unsecured notes earlier this year," says Julia Pribytkova, a Vice-President-Senior Analyst at Moody's.

RATINGS RATIONALE

Borets maintained a relatively strong financial profile notwithstanding the low oil price environment in late 2014-15. Whilst the company's international sales halved in 2016 compared with the 2014 level, its total revenue in rouble terms continued to grow, driven by a high-margin rental business which will contribute together with services around 44% to revenue in 2017. Borets increased its net debt over 2014-17 to finance investment into its own rental business (in 2014-17 the company invested more than $180 million and plans to continue to invest up to $50 million a year, depending on demand), however an increase in the EBITDA helped Borets to bring down leverage measured by Moody's adjusted net debt/EBITDA to 2.6x at end-June 2017 (2015: 3.8x, 2016: 2.7x).

Moody's notes that Russia's oil producers who are Borets' major customers (PJSC Oil Company Rosneft accounts for 30% of Borets' total sales) have retained strong financial profiles as they benefit from dollar-denominated export revenues while their cost base is in weakened roubles. Unlike global peers at times of low oil prices, Russian oil majors did not reduce their spend on conventional oilfield services in rouble terms. Local providers of equipment and services such as Borets remain better positioned to meet local demand thanks to their rouble cost-base. Borets' international business has somewhat recovered after weak 2015-2016 and will contribute around a quarter of total revenue in 2017. The company has lost a large chunk of its US sales and shifted focus to other countries such as Colombia, Brazil, Middle East and the Gulf countries.

Borets' Ba3 rating will remain constrained by 1) the company's modest scale by global standards; 2) its focus on a single product line (ESP), and, to a lesser extent 3) its limited geographic and customer diversification. Additionally, Moody's notes the company's exposure to the currency mismatch between its revenues (around three quarters of which are in roubles) and mostly US-dollar-denominated debt. As a result, a devaluation of the local currency would trigger a substantial increase in leverage. Modest maintenance capex requirements of around $20 million a year, scalable rental business investment plan, and a large and relatively diversified client base help to mitigate elevated foreign exchange risk at Borets.

The rating positively takes into account (1) the company's leading position in the niche ESP market, with long-standing customer relationships; (2) a large installed base, with a growing portion of revenues derived from the replacement and servicing of existing ESPs; (3) active development of the rental business and new technologies. Moody's also positively acknowledges Borets' adherence to sound corporate governance standards under the existing shareholding structure.

Moody's notes that as a result of the bond issuance in April 2017 Borets has accumulated sizeable cash balances of more than $100 million, which the company intends to use for the repayment of indebtedness including the $133 million outstanding senior unsecured notes due in September 2018.

RATIONALE FOR STABLE OUTLOOK

The stable outlook on the ratings reflects Moody's expectation that Borets will continue to maintain 1) robust operating and financial profile with leverage measured by Moody's adjusted debt/EBITDA below 3.0x, and 2) good liquidity, timely addressing refinancing risks.

WHAT COULD CHANGE THE RATINGS UP/DOWN

There is a limited potential for upgrade in the next 12-24 months given the company's size, scale of operations, business profile, absolute amount of debt and foreign exchange exposure.

Moody's would consider downgrading Borets if (1) its competitive position deteriorated, resulting in a decline in revenue in rouble terms and weakening of profitability; and/or (2) there is a material increase in leverage, as measured by adjusted debt/EBITDA, sustainably above 4.0x. Any concerns about the company's liquidity may also pressure the rating.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Oilfield Services Industry Rating Methodology published in May 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Borets International Ltd domiciled in UAE specialises in the design and manufacture of electric submersible pumps (ESP) for the oil sector and the provision of related services including rental of equipment. Borets derives three quarters of its revenue from Russia and actively exports its products to the Americas, Middle East and the Gulf countries; services and rental of equipment contribute more than 40% to the company's revenue. Borets has 11 manufacturing facilities, predominantly in Russia, and a service network globally. In the last twelve months ended 30 June 2017, Borets generated $546 million in sales and $152 million of Moodys' adjusted EBITDA.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Julia Pribytkova
Vice President - Senior Analyst
Corporate Finance 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

Victoria Maisuradze
Associate Managing Director
Corporate Finance 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

under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.