

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 Moody's 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



© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment

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.