



RATING ACTION COMMENTARY

Fitch Affirm JSC UzAuto Motors at 'BB-'; Outlook Stable

Mon 20 Nov, 2023 - 08:57 ET

Fitch Ratings - Barcelona - 20 Nov 2023: Fitch Ratings has affirmed JSC UzAuto Motors' (UAM) Long-Term Issuer Default Rating (IDR) at 'BB-' with a Stable Outlook. Fitch has also affirmed UAM's senior unsecured bonds at 'BB-/'RR4'.

The affirmation reflects Fitch's view that the strength of linkage with the Republic of Uzbekistan (BB-/Stable) and its incentives to support UAM remain strong, leading to the equalisation of its rating and Outlook with that of sovereign, in line with Fitch's 'Government-Related Entities Rating Criteria' (GRE). Fitch assesses UAM's Standalone Credit Profile (SCP) at 'b'.

KEY RATING DRIVERS

Strong Socio-Political Impact: Our evaluation of the strong socio-political implications of a possible default of UAM on the sovereign reflects UAM's dominant market position in Uzbekistan's car manufacturing industry. In addition, UAM and related parties have a large domestic workforce of about 30,000 staff, which could lead to socio-political tensions in case of default.

Strong Financial Implication: Our evaluation of strong financial implications of a possible default reflects UAM's exposure to international capital markets after it issued a Eurobond, as one of the few corporates in the country and establishing itself as a government-proxy issuer, in our view.

Strong Links with State: Fitch views the status, ownership and control linkage of UAM with the state as strong due to full state ownership and operational control by the parent over the company's capex and operational strategy.

We assess the support track record as strong due to historical state support in different forms, including shareholder loans on favourable terms; and a favourable regulatory environment, previously supported by high import duties for cars, and income tax exemption, protecting UAM's dominant position in its domestic market.

Car Sales Disruption: UAM has a long-term license agreement with General Motors Company (GM; BBB/Stable), and while there may be alternative offers from foreign competitors, a default of UAM would cause temporary disruption to the delivery of new cars. The regulatory environment has softened over the last two years with falling import duties, but demand for UAM's cars is still strong and it remains the dominant seller in Uzbekistan. UAM supplies the most affordable cars in the local market and we believe that it would be hard to substitute its cars with other foreign brands in the short term.

Constrained SCP: UAM's 'b' SCP reflects a weaker business profile than other Fitch-rated carmakers, with limited scale, a narrow product range and sales concentration in Uzbekistan. This could be mitigated by its entry into new markets in the CIS region. Its business profile is also constrained by the absence of a strong brand, limiting the company's competitive position in relation to global auto manufacturers. UAM's operating activity is fully dependent on its existing long-term license agreement with GM, which provides access to the latter's technological knowledge.

Margin Erosion: Fitch expect UAM's 2023 profitability to be squeezed despite an increase in higher-end C-segment and above cars coming to the market. This is due to sticky raw material and component price inflation, which is partially off-set by higher pricing.

Fitch has revised its medium-term EBITDA margin expectation down to 9% from 10.7% for 2025. The United Auto Workers strike against the Detroit 3, including GM, has minimal impact on UzAuto's operations as the company does not source from the US and vehicle imports from the US factory to Uzbekistan are marginal relative to the total volume.

Inherent Cash Flow Volatility: UAM's cash flow generation has been highly volatile since 2016 and is one of the key rating constraints. Yoy cash flow swings from 2020 to 2022 were attributable to working capital movement, deposits with local banks to support customers' vehicle lending, as well as the company's capex programme. We expect capex to stabilise at 2.5% of revenues beyond 2023, but anticipate free cash flow (FCF) volatility to continue because of the lingering supply chain issues across the auto industry resulting in unpredictable working capital accounts.

Dominant Position: UAM is the main producer of passenger cars in Uzbekistan and has a dominant position in Uzbekistan. Combined with high capex in production facilities and favourable regulation, this provides significant barriers to entry and supports the company's local market share. Nevertheless, ongoing liberalisation of Uzbekistan's economy could increase competition from foreign competitors and erode UAM's sales and profitability as well as our assessment under the GRE criteria.

DERIVATION SUMMARY

In terms of GREs, we view UAM as similar to companies such as JSC Almalyk Mining and Metallurgical Complex (BB-/Stable) and JSC Uzbekneftegaz (BB-/Stable).

Considering UAM's 'b' SCP, its business profile is significantly weaker than that of global automotive manufacturers including GM (BBB/Stable), Ford Motor Company (BBB-/Stable), or Renault SA (WD). The company is not fully comparable with Fitch-rated peers as it does not own the brand of the models it manufactures and the associated technological knowledge. Moreover, despite its dominant position in its domestic market, UAM's scale is much smaller than peers. The company's product and geographical diversification is also significantly lower than global automotive manufacturers.

UAM's EBITDA and EBIT margins, and partially leverage, are commensurate with Fitch's expectation for auto manufacturers in the investment-grade category, but its cash flow generation has been erratic. The historical FCF margin volatility stems from large annual working-capital swings and growth capex.

KEY ASSUMPTIONS

- Revenue around USD4.5 billion over the rating horizon
- EBITDA margin of 7% in 2023 before gradually trending toward 9% by 2025
- Negative to neutral working-capital changes
- Average capex at 2.5% of sales from 2023 to 2026
- Dividend pay-out ratio between 15% and 30%
- No M&A for the next four years

RATING SENSITIVITIES

Factors that Could, Individually Or Collectively, Lead to Positive Rating Action/Upgrade:

- Upgrade of Uzbekistan's sovereign rating, assuming ties with the government remain strong
- EBITDA leverage sustainably below 1.3x accompanied by sustainably positive FCF margin could be positive for the SCP, but not necessarily the IDR

Factors that Could, Individually Or Collectively, Lead to Negative Rating

Action/Downgrade:

- Downgrade of Uzbekistan's sovereign rating
- Evidence of weaker ties between Uzbekistan and UAM (including, but not limited to, a change of UAM's protected status in the market; a decline of government ownership to less than 50%; weakening of financial and other support)
- EBITDA leverage sustainably above 2.3x or sustainably negative FCF could be negative for the SCP but not necessarily the IDR

The following rating sensitivities are for Uzbekistan (25 August 2023):

- **External Finances:** A substantial worsening of external finances, for example, via a large drop in remittances, or a widening in the trade deficit, leading to a significant decline in FX reserves
- **Public Finances:** A marked rise in the government debt-to-GDP ratio or an erosion of sovereign fiscal buffers, for example, due to an extended period of low growth or crystallisation of contingent liabilities
- **Macro:** Consistent implementation of structural reforms that boost GDP growth prospects and macroeconomic stability
- **Public Finances:** Fiscal consolidation that enhances medium-term public debt sustainability
- **Structural:** A marked and sustained improvement in governance standards and an easing in geopolitical risk

LIQUIDITY AND DEBT STRUCTURE

Satisfactory Liquidity: Fitch expects UAM to conclude 2023 with more than USD100 million readily available cash and cash equivalents. We deem this satisfactory to sustain intra-year working-capital swings. UAM has access to a USD75 million short-term trade finance line with CitiBank and a syndicate loan facility of USD100 million for working capital needs, which provides additional liquidity headroom.

Bullet Debt Maturity Profile: The Eurobond is the main borrowing facility in UAM's capital structure, with maturity in May 2026. The company also guarantees UzAuto Motors Powertrain's amortising loan with the Export Credit Agency to fund its capex

programme. Although UAM has no imminent debt maturities, refinancing risk is rising and its own production capacity expansion could mean additional funding needs.

ISSUER PROFILE

UAM is the dominant car producer in Uzbekistan, which is more 99.7% indirectly owned by JSC Uzavtosanoat, the state-owned company that is the dominant controlling body of the automotive industry within the Republic of Uzbekistan (BB-/Stable). UAM produces and sells vehicles and spare parts under the Chevrolet brand, mainly in Uzbekistan and Kazakhstan.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	RECOVERY ↕	PRIOR ↕
JSC UzAuto Motors	LT IDR BB- Rating Outlook Stable Affirmed		BB- Rating Outlook Stable
senior unsecured	LT BB- Affirmed	RR4	BB-

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 13 Oct 2023\)
\(including rating assumption sensitivity\)](#)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

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JSC UzAuto Motors

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