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## Research Update:

# Credit Union Payment Center Upgraded To 'BB' On Resilient Performance And Sustainable Financial Policy; Outlook Stable

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## Table Of Contents

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Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Ratings List

## Research Update:

# Credit Union Payment Center Upgraded To 'BB' On Resilient Performance And Sustainable Financial Policy; Outlook Stable

## Overview

- Center of Financial Technologies Group (CFT Group) continues to show resilient financial performance despite ongoing challenging operating conditions in the Commonwealth of Independent States (CIS), where the group mostly operates, and we view positively the group's adherence to a conservative financial policy, which suggests a zero debt policy, cautious organic growth, and modest dividends.
- As a result, we have revised upward our assessment of the group credit profile for CFT Group to 'bb' from 'bb-', indicating our view of the group's strengthened creditworthiness.
- We are therefore raising our long-term counterparty credit ratings on Credit Union Payment Center, the core subsidiary of CFT Group, to 'BB' from 'BB-' and raising the Russia national scale rating to 'ruAA' from 'ruAA-'.
- The stable outlook reflects our opinion that CFT Group will maintain its competitive position and resilient financial performance over the next 12-18 months, despite the difficult operating environment in the CIS.
- In addition, we have corrected an error in the application of our Corporate Methodology, published Nov. 19, 2013, regarding the assessment of industry risk and competitive position of CFT Group. The revised assessment has had no impact on our ratings.

## Rating Action

On May 23, 2017, S&P Global Ratings raised its foreign and local currency long-term counterparty credit ratings to 'BB' from 'BB-' on Russia-based Credit Union Payment Center (RNKO), the core subsidiary of Center of Financial Technologies Group (CFT Group). The outlook is stable. At the same time, we affirmed our 'B' short-term rating on RNKO.

Also, we raised the Russia national scale rating to 'ruAA' from 'ruAA-'.

## Rationale

The upgrade reflects our view of CFT Group's resilient financial performance in both money transferring and IT segments despite the challenging operating environment in the Commonwealth of Independent States (CIS), where the company operates. In particular, we view positively CFT Group's adherence to a

conservative financial policy, suggesting management's commitment to a zero debt policy, cautious organic growth, and modest dividend payouts.

We no longer see a significant degree of event risk of increased leverage, stemming from the company's acquisition policy, its shareholder remuneration policy, or its organic growth strategy, relative to our previous base-case forecast.

We don't expect CFT Group to make any acquisitions in the next 12-24 months, as it already has leading market positions in both its main segments: money transferring and IT software for banks. That said, we believe that the probability that antitrust authorities would permit any deal is pretty low. We assume that CFT Group will not issue debt over the rating horizon, given the group's excess of liquidity. Shareholder returns are limited by the regulatory ratios in RNKO's dividend policy. We forecast dividends for the next four years of around 30%-40% of expected net profit, while the payout for 2017 will be above that estimate, since CFT Group didn't pay dividends for 2015-2016 and the group has significant excess capital available for distribution to shareholders.

Our assumptions of organic growth are limited, at around 1% of revenues growth, for the next three years.

We now assess the group credit profile for CFT Group at 'bb', from 'bb-' previously. Our ratings on CFT Group continue to reflect our assessments of its weak business risk profile and minimal financial risk profile.

We base our business risk profile assessment on CFT Group's established positions in:

- The money transfer industry, especially in Russia and the CIS, where it dominates with a 70% market share, balanced with the high country risk environment of the region. CFT Group is the third-largest global money transfer company, behind market leaders Western Union and MoneyGram.
- The banking software development and maintenance segment, which includes the development, sale, installation, and maintenance of software products primary related to automated banking systems and sales of related equipment. CFT Group is the market leader (close to 30%-40% market share) in the Russian core banking software market and has a strong customer base that includes Russia's top-tier banks. The software business represented 24% of group revenues at year-end 2016, while amounting to about 40% of profits.

Nevertheless, our assessment of high country risk in the regions where CFT Group operates influences our opinion of its business risk profile.

Our assessment of the group's financial risk profile is based on our view that the company has no outstanding debt and our expectation that it will not issue any debt within our 2017-2019 forecast horizon.

We continue to apply a negative adjustment for our comparable ratings analysis, as we believe that the group lacks diversity and scale compared with international peers in the money transfer market. The group's IT segment has narrow and concentrated product offerings, as well as concentrated geography versus peers. We also take into account CFT Group's high business concentration in the CIS and low probability of penetration in Western Europe.

The rating on RNKO reflects our view of its status as a core subsidiary of CFT Group. The group owns 100% of RNKO, which is the group's settlement center for money transfer and payment systems. RNKO's business, operations, and strategy are closely integrated with those of the group. We view RNKO as an infrastructure vehicle whose primary goal is to secure the settlement of transactions in CFT Group's payment systems. We consider that CFT Group does not have any incentive to sell RNKO, as this would disrupt payment flows. The creation or purchase of another settlement center would be costly and time-consuming, in our view.

In error, we previously considered the business risk of CFT Group in the context of a single business line, applying our criteria "Key Credit Factors For Financial Services Finance Companies" (published Dec. 9, 2014, on RatingsDirect). We have corrected this error, applying paragraph 27 of our "Corporate Methodology," (published Nov. 19, 2013) to assess two business lines separately: IT software business and money transferring lines, and we use the weighted average for the two business lines. Accordingly, we apply our "Key Credit Factors For The Technology Software And Services Industry" (published Nov. 19, 2013) for software business and our "Key Credit Factors For Financial Services Finance Companies" (published Dec. 9, 2014) for money transferring. As a result, our assessment of CFT Group's business risk profile remains weak. The correction results in no change to our ratings on RNKO.

## **Outlook**

The stable outlook on RNKO reflects our opinion that CFT Group will maintain its competitive position and resilient financial performance in the next 12-18 months, despite the still weak operating conditions in the region where it has its main operations.

### **Downside scenario**

We could consider taking a negative rating action over the next 12-18 months if, contrary to our expectations, CFT Group's operating conditions lead to a material decline in revenues and its profitability weakens substantially. We could also lower the ratings in the unlikely event that CFT Group raised a significant amount of debt, such that its debt to EBITDA exceeded 2x.

### **Upside scenario**

We do not view a positive rating action as likely at this stage, given the group's high business concentration and its business position relative to that

of its peers.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	BB/Stable/B	BB-/Positive/B
Group Credit Profile	bb	bb-
Business Risk	Weak	Weak
Country Risk	High	High
Industry Risk	Moderately high	Moderately high
Competitive Position	Fair	Fair
Financial Risk	Minimal	Minimal
Anchor	bb+	bb+

### Modifiers:

Diversification/ Portfolio Effect:	Neutral (no impact)	Neutral (no impact)
Capital Structure	Neutral (no impact)	Neutral (no impact)
Financial Policy	Neutral (no impact)	Negative (-1)
Liquidity	Adequate (no impact)	Adequate (no impact)
Management and Governance	Fair (no impact)	Fair (no impact)
Comparable Ratings Analysis	Unfavorable (-1)	Unfavorable (-1)

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria - Financial Institutions - Finance Companies: Key Credit Factors For Financial Services Finance Companies, Dec. 9, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013

- Criteria - Corporates - Industrials: Key Credit Factors For The Technology Software And Services Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Upgraded; Ratings Affirmed

	To	From
Credit Union Payment Center Counterparty Credit Rating Russia National Scale	BB/Stable/B ruAA/--/--	BB-/Positive/B ruAA-/---/--

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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