

# RatingsDirect®

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## Credit Union Payment Center

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# Credit Union Payment Center

## Rationale

### Business Risk

- High country and industry risks and limited business diversification.
- Operating margin in line with the market leaders.
- Steadily increasing demand for noncash payments in Russia.
- Dominant market share in the money transfer industry in Russia and other Commonwealth of Independent States (CIS) Countries.

### Counterparty Credit Rating

BB-/Stable/B

*Russia National Scale*

*ruAA-/--/--*

### Financial Risk

- "Minimal" financial risk profile, with no outstanding debt.
- Possible additional debt considering the limited debt restrictions under financial policy framework.
- Adequate liquidity, balancing volatility of settlement liabilities against sizable liquidity cushions, as measured by excess of the sources over the uses of liquidity.

## Outlook

The stable outlook reflects Standard & Poor's Ratings Services' expectation that Russia-based CFT Group (CFT or the group) and its core subsidiary Credit Union Payment Center (RNKO) will continue to grow organically and that processing services will make a greater contribution to the group's total revenue. Nevertheless, we anticipate that competition in the money transfer industry and high country risks could counteract any material benefit in earnings that relate to business growth and diversification.

### Downside scenario

We could lower the rating if deteriorating operating conditions for Russian banks and market volatility cause CFT's revenues to continue to decline in 2015 and 2016 to such an extent that the group's profitability weakens substantially. We could also lower the ratings if CFT were to raise a significant amount of debt, exceeding 3x debt-to-EBITDA levels.

### Upside scenario

CFT's high country and industry risks and limited business diversification will continue to limit the rating. However, we could raise our rating on RNKO if we expected the group to significantly increase its market share while maintaining its profitability.

## Standard & Poor's Base-Case Scenario

Our base-case scenario incorporates our view that CFT's revenues will remain under pressure in 2015, having declined about 20% in 2014 in U.S. dollar terms, mainly driven by currency depreciation and the difficult operating conditions for its client base of Russian and CIS region banks. Given management's efforts to increase product diversification and

reprice them, we expect revenues to grow on average by 5%-10% in 2016-2017. At the same time, EBITDA margin will come under pressure due to intensifying competition in the money transfer business and decreasing tariffs.

### Assumptions

- Volatile revenues in U.S. dollar terms, with average revenue growth close to zero or marginally declining in 2015.
- EBITDA in 2015 to be in line with 2014.
- No outstanding debt.

### Key Metrics

|                  | 2014A | 2015E   | 2016E   |
|------------------|-------|---------|---------|
| EBITDA margin    | 20%   | 18%-20% | 18%-20% |
| Operating margin | 17%   | 15%-17% | 15%-17% |
| Debt/EBITDA      | 0.0x  | 0.0x    | 0.0x    |

A--Actual. E--Estimate.

## Company Description

RNKO is a core subsidiary of CFT, which operates in two segments: software and payment processing, such as interbank transactions, credit card, and loyalty card processing; and money transfers.

CFT's payment network, which operates under the brand "Zolotaya Korona," provides mainly money transfer services in Russia and the other CIS countries and operates credit, debit, prepaid cards, as well as other electronic payment systems for consumers, businesses, and governments. Due to its critical functions, the government has included RNKO in its register of socially important payment system operators in Russia. CFT has a dominant market share of about 60% in money transfers in Russia and other CIS countries. The processing business segment generates more than 75% of total revenues and includes money transfers and a broad range of activities, such as cards and bill payment services.

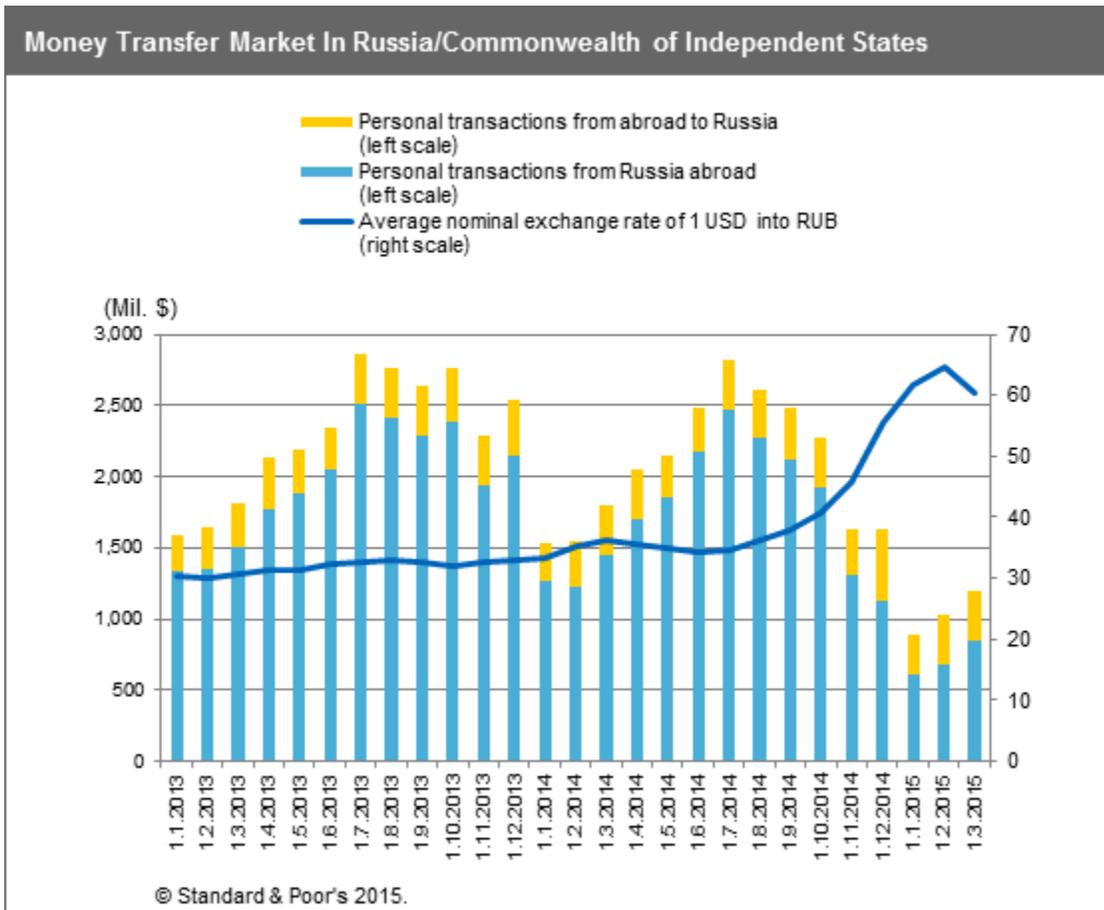
In terms of its software business, CFT is the market leader in the Russian software market and its strong customer base includes Russia's top-tier banks. This is due to the quality and complexity of its key product, which the larger banks need. The group currently holds about a 40% market share.

## Business Risk

Our "fair" business risk assessment is based on CFT's good market position in the money transfer industry, especially in Russia/CIS. CFT is the third-largest global money transfer companies, behind market leaders Western Union and MoneyGram. The overall expansion of the global remittance market in Russia/CIS has fueled CFT's growth. In the money transfers business, CFT has a market share of about 60% in Russia and other CIS countries, through its payment network brand Zolotaya Korona. Pricing is a clear advantage of Zolotaya Korona's network. The company is able to compete on prices due to its significant cost synergies and cross-selling capabilities. Although money transfer flows have decelerated in 2014 in U.S. dollar terms, we expect the market to remain volatile in 2015 and to recover gradually in the following years.

We expect CFT will continue to expand its processing business, despite market volatility, increasing its market penetration by replacing foreign players and increasing cross-selling; this will partly offset the negative impact of limited growth and reducing margins in the software business. At the same time, we anticipate that the difficult operating conditions affecting Russian banks could increase competition, weighing on CFT's business position.

**Chart 1**



**Peer comparison**

CFT benefits from above average margins in software business, as compared with peers. Overall, CFT's operating margins, at about 15%-17%, are in line with its peer average.

At the same time, the EBITDA margin for CFT's money transfer business lags that of Western Union, the worldwide market leader. The lower margin (below 15% during 2014) partly signifies that CFT's business is concentrated in Russia/CIS region and it has had to adapt to region-specific market conditions to maintain its leadership position in Russia/CIS region.

We assess CFT's business risk profile as "fair," in line with that of MoneyGram. However, we assess Western Union's and Euronet's business risk profiles as "satisfactory" above that of CFT. In our view, CFT and MoneyGram have weaker diversity and market position compared with market leaders.

## Financial Risk

Our assessment of CFT's financial risk profile as "minimal" reflects our view that the company has no outstanding debt and our expectation that the company will not issue any debt in the forecast horizon.

## Liquidity

We assess liquidity as adequate, balancing volatility of settlement liabilities against sizable liquidity cushions, as measured by the amount sources of liquidity exceeds uses.

Based on expected sources and uses of liquidity over the next 12 months, and incorporating our performance expectations, CFT Group has an adequate liquidity profile, according to our criteria.

### Principal liquidity sources

- Cash of approximately \$105 million as of Dec. 31, 2014, which will increase over the next two years; and
- Estimated cash flow from operations of about \$55 million-\$70 million.

### Principal liquidity uses

- Capital expenditures of about \$5 million-\$7 million in 2015 and 2016; and
- Dividend distribution of about 50% of cash flow from operations.

## Other Credit Considerations

Although currency devaluation and the weak operating environment in Russia/CIS has triggered a certain volatility in business volumes in U.S. dollar terms, we consider this to be neutral for CFT's financial profile. This is mainly because currency conversion operations for its money transfer customers entail limited currency risk. The currency is acquired daily and the exchange rate is reset at least three times a day to minimize the risk. Moreover, cash flows are not affected by exchange rate movements, as the group's cash inflows and outflows are predominantly in Russian rubles.

At the same time, our assessment of CFT's financial policy, based on its private ownership, negatively affects our rating. In our view, CFT's strategic plans and management's financial policy framework have not been widely disclosed. In our view, although CFT's no-debt financial profile is sustainable given its current business model, there is a risk that CFT could increase its leverage in the event of business expansion, beyond our base-case scenario.

## Group Support

The rating on RNKO reflects its status as a core subsidiary of the CFT group. CFT 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's payment systems, instead of profit maximization. We consider that CFT does not have any incentives 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.

Under our group rating methodology, we do not assess the creditworthiness of core subsidiaries on a stand-alone basis, and we equalize our ratings on a subsidiary with the group credit profile (GCP).

## Ratings Score Snapshot

Issuer Credit Rating: BB-/Stable/B

Group Credit Profile: bb-

Business Risk: Fair

- Country Risk: High
- Industry Risk: Moderately high
- Competitive Position: Fair

Financial Risk: Minimal

Anchor: bb+

Modifiers:

- Diversification/Portfolio Effect: Neutral (no impact)
- Capital Structure: Neutral (no impact)
- Financial Policy: Negative (-2)
- Liquidity: Adequate (no impact)
- Management and Governance: Fair (no impact)
- Comparable Ratings Analysis: Neutral (no impact)

## Related Criteria And Research

### Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For Financial Services Finance Companies, Dec. 9, 2014
- Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Corporate Methodology, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

### Related Research

- S&P Lists Rating Components Of European Financial Services Finance Companies Following Criteria Revision, Dec. 15, 2014

- Standard & Poor's Applies Its Revised Financial Services Finance Companies Criteria To 11 EMEA Finance Companies, Dec. 12, 2014
- Credit Union Payment Center, June 27, 2014

**Ratings Detail (As Of June 29, 2015)**

**Credit Union Payment Center**

|                              |              |
|------------------------------|--------------|
| Counterparty Credit Rating   | BB-/Stable/B |
| <i>Russia National Scale</i> | ruAA-/--/--  |

**Counterparty Credit Ratings History**

|             |                              |              |
|-------------|------------------------------|--------------|
| 30-May-2013 |                              | BB-/Stable/B |
| 30-May-2013 | <i>Russia National Scale</i> | ruAA-/--/--  |

**Sovereign Rating**

|                              |  |                   |
|------------------------------|--|-------------------|
| Russian Federation           |  |                   |
| <i>Foreign Currency</i>      |  | BB+/Negative/B    |
| <i>Local Currency</i>        |  | BBB-/Negative/A-3 |
| <i>Russia National Scale</i> |  | ruAAA/--/--       |

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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