

Rating report (for publication)



Long-term credit rating according to the **national rating scale**:

uaA+

Rating interpretation to the national rating scale:

A borrower or a separate debt instrument with rating uaA is characterized by a high solvency compared to other Ukrainian borrowers or debt instruments. The level of solvency is sensitive to the impact of adverse commercial, financial and economic conditions.

Rating according to **the agency's international scale**:

BBB

Rating interpretation to the agency's international scale:

The borrower or the separate debt instrument with the rating uaBBB is characterized by sufficient credit status in comparison with other Ukrainian borrowers or debt instruments. Credit status level depends upon the influence of adverse commercial, financial and economic conditions

Date of rating assignment:

June 8, 2021

Rating update period:

QUARTERLY

Date of rating report update:

At the client's request

KSG Agro S.A.

(full name of the company)

24, rue Astrid, L-1143 Luxembourg

(company location)

Registration Date: 16.11.2010
Phone: +352 28 37 22 206
E-mail: info@www.ksgagro.comagro.com
Web-site: <http://www.ksgagro.com/>

Management company in Dnipro city: Dnipro city, Ukraine, 49000
Komsomolska str., 40B
+380 56 787 07 3

*This report is a rating research, which expresses the opinion of analysts of RA "Expert-Rating".
The report is a justification for the assigned rating, which is also the opinion of analysts of RA "Expert-Rating".
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1. History of development and general characteristics of the company

KSG Agro SA (hereinafter referred to as the Company, Holding Company, Group) was registered under the name Borquest S.A. on November 16, 2010 as a joint stock company (Société Anonyme) in accordance with Luxembourg company law. On March 8, 2011 the name of the Company was changed to KSG Agro S.A.

In 2011, KSG Agro S.A. carried out an initial public offering (IPO) on the main market of the Warsaw Stock Exchange. Due to the sale of 33% of the shares KSG Agro S.A. raised more than USD 40 million. In 2015, the agricultural holding KSG Agro S.A. entered the TOP-20 ranking of the most efficient agricultural companies FORBES, and in 2016 KSG Agro S.A. was accepted as a member of the European Business Association (EBA).

Today, the Company and its subsidiaries produce, store, process and sell agricultural products (cereals, pork and live pigs), and its production capacity are concentrated mainly in Ukraine. Priority development areas of KSG Agro S.A. are: pig farming, crop production and production of renewable biofuels (in particular, fuel pellets). Thus, in 2020, the Holding received 48.35% of its revenues from pig farming, 39.29% – from crop production, 12.36% – from other activities.

The Agroholding KSG Agro S.A. has a clear vertically integrated business structure. As of the beginning of April 2021, it consisted of 27 companies, mostly located in Ukraine. In particular, in 13 of them the share of ownership of KSG Agro S.A. was 100%, in another 13 companies the share of ownership of the holding was 50%, and in one company – 25%. At the same time, the number of operating companies, whose financial indicators were included in the consolidated financial statements of KSG Agro S.A., amounted to 13, others – were either in the temporarily occupied territories (4 companies), or did not operate. The average number of staff employed by the Group in 2020 was 350, of which 45 were senior and middle management, and 305 were full-time employees.

Therefore, KSG Agro S.A. is a vertically integrated agricultural holding, which includes 27 companies operating mainly in Ukraine. The holding produces agricultural products for both domestic consumption and export. In 2011, KSG Agro S.A. became one of the first issuers with business in Ukraine, which successfully performed public offering of its shares on the Warsaw Stock Exchange.

2. Key performance indicators of the company

Analysis of activity of KSG Agro S.A. indicates that during the 2020 year the main balance sheet indicators of the Company decreased (excluding long-term liabilities and current biological assets), which, among other things, was related to the changes in the composition of the companies that were part of the Holding, and whose reporting was included in the consolidated financial statements of KSG Agro S.A.

Among the positive changes in the dynamics of performance indicators of KSG Agro S.A. in 2020, the Agency highlights an increase in EBITDA more than three times in the 2020 year compared to the 2019 year (up to USD 6.53 million) and a corresponding increase in the ratio between EBITDA and the Company's liabilities, which indicates an improvement of the Holding's solvency. In particular, in the 2020 year compared to the 2019 year, the ratio between EBITDA and total liabilities of the Company grew by 8.04 p.p. up to 11.35%, the ratio between EBITDA and the total amount of loans received by KSG Agro S.A. (including a loan from the parent company) grew

by 16.70 p.p. up to 23.94%, and the ratio between EBITDA and bank loans increased by 34.81 p.p. up to 54.28% (table 1).

Table 1

Key performance indicators of KSG Agro S.A. in 2019-2020, th. USD, %

Indicators	I quarter of 2021 (31.03.2021)	2020 year (31.12.2020)	2019 year (31.12.2019)	Change 2020–2019	Growth rate 2020–2019, %
Balance sheet indicators:					
Fixed assets	15 641	15 568	19 559	-3 991	-20,40%
Long-term biological assets	28 204	27 816	33 194	-5 378	-16,20%
Current biological assets	7 702	6 306	6 066	240	3,96%
Stocks and agricultural products	7 215	7 952	8 420	-468	-5,56%
Cash and its equivalents	154	108	299	-191	-63,88%
Accounts receivable	1 012	1 890	2 365	-475	-20,08%
Total assets	63 933	62 952	74 694	-11 742	-15,72%
Long-term bank and other loans	24 554	24 520	17 475	7 045	40,31%
Total long-term liabilities	32 521	32 379	19 479	12 900	66,23%
Short-term bank and other loans	2 950	2 878	11 785	-8 907	-75,58%
Accounts payable	8 098	10 118	17 833	-7 715	-43,26%
Total current liabilities	25 147	25 191	43 893	-18 702	-42,61%
Total liabilities	57 668	57 570	63 372	-5 802	-9,16%
Shareholders' equity	6 265	5 382	11 322	-5 940	-52,46%
Authorized (share) capital	150	150	150	0	0,00%
Financial results:					
Revenue	3 521	21 338	23 889	-2 551	-10,68%
Gross profit	1 261	6 758	2 608	4 150	159,13%
Net profit	752	1 272	4 126	-2 854	-69,17%
Calculated indicators and coefficients:					
EBITDA	1 386	6 532	2 098	4 434	211,34%
Ratio between shareholders' equity and liabilities, %	10,86%	9,35%	17,87%	-8,52 p.p.	-
Ratio between EBITDA and liabilities, %	2,40%	11,35%	3,31%	8,04 p.p.	-
Ratio between EBITDA and total loans (excluding cash and its equivalents), %	5,07%	23,94%	7,24%	16,70 p.p.	-
Ratio between EBITDA and bank loans (excluding cash and its equivalents), %	н/д	54,28%	19,47%	34,81 p.p.	-
ROS	21,36%	5,96%	17,27%	-11,31 p.p.	-
ROA	1,18%	2,02%	5,52%	-3,50 p.p.	-
ROE	12,00%	23,63%	36,44%	-12,81 p.p.	-

Source: Consolidated financial statements of the Company (unaudited), calculations by RA "Expert-Rating"

The Agency also positively evaluates the profitable activities of KSG Agro S.A. according to the results of 2019 year and 2020 year. Despite the rapid development of the coronavirus pandemic, the Company's specialization in the production and processing of agricultural products (including food) provided the Holding with a steady demand for its products, which is not critically affected by the decrease of the business activity level in Ukraine and the world.

The Agency attributes a significant decrease in shareholders' equity of KSG Agro S.A. and a corresponding reduction in the ratio between shareholders' equity and liabilities of the Company, which during 2020 year decreased by 8.52 p.p. down to 9.35% to the negative trends of 2020 year. However, the Agency draws attention that due to the profitable activities of the Holding and its management's measures aimed at increasing the amount of shareholders' equity (in particular, the withdrawal of three subsidiaries from the Holding in the first quarter of 2021 year that had a negative shareholders' equity), the consolidated shareholders' equity of KSG Agro SA for the first three months of 2021 year grew by 16.4% up to USD 6.27 million, and the ratio between shareholders' equity and liabilities increased by 1.51 p.p. up to 10.86%.

Additional analysis of the financial results of KSG Agro S.A. for the first quarter of 2021 year indicates positive trends in the development of the Company. Thus, in the first quarter of 2021 year compared to the same period of 2020 year, EBITDA of KSG Agro S.A. grew by 21.05% up to USD 1.39 million, sales revenue grew by 8.61% up to USD 3.52 million, and net profit amounted to USD 0.75 million (compared to a loss of USD 3.02 million according to the results of the first quarter of 2020 year).

Therefore, the analysis of key balance sheet indicators and financial results of KSG Agro S.A. for 2019-2020 and for the first quarter of 2021 shows the profitable activity of the Company, the increase in the level of the ratio between shareholders' equity and liabilities, and a significant increase in the ratio between EBITDA and liabilities of the Company. Current EBITDA level of KSG Agro S.A. covers a significant share of the Company's interest-bearing liabilities, and according to the results of 2020 year it more than in 4 times exceeds the cost of interest on loans, and more than in three times exceeds the total financial costs of the Holding (which also include the cost of renting land). This means that the Company is able to generate a significant amount of revenue that can be aimed at financing of continuous activity and debt service.

3. Shareholders' equity and liabilities of the company

Shareholders' equity of KSG Agro S.A. as of 31.03.2021 amounted to USD 6.23 million and during the first quarter of 2021 year it grew by 16.41%, which was due to the exclusion of indicators of three companies ("Agrofirma Vesna", LLC, "Trading house of the Ukrainian agro-industrial holding", LLC and "Soyuz-3", LLC) from the consolidated financial statements of the Holding.

Table 2

Structure of shareholders' equity and liabilities of KSG Agro S.A., th. USD, %

Indicators	I quarter of 2021 (31.03.2021)	2020 year (31.12.2020)	2019 year (31.12.2019)	Change 2020-2019	Growth rate 2020-2019, %
Authorized (share) capital	150	150	150	0	0,00%
Emission income	37 366	37 366	37 366	0	0,00%
Repurchased own shares	112	112	112	0	0,00%
Retained earnings (uncovered loss)	-42 672	-43 156	-37 901	-5 255	13,87%
Reserve for exchange rate differences	-510	448	3 877	-3 429	-88,44%
Capital owned by the owners of the company	-5 778	-6 200	-4 374	-1 826	41,75%
Uncontrolled share	12 043	11 582	15 696	-4 114	-26,21%
Shareholders' equity	6 265	5 382	11 322	-5 940	-52,46%
Bank loans	н/д	12 187	10 882	1 305	11,99%
Loans from the parent company	н/д	10 937	10 973	-36	-0,33%
Other loans	н/д	0	1 500	-	-
Interests to pay	н/д	4 274	5 905	-1 631	-27,62%
Total bank and other loans	27 504	27 398	29 260	-1 862	-6,36%
Other short-term financial liabilities	9 070	8 514	9 605	-1 091	-11,36%
Total liabilities	57 668	57 570	63 372	-5 802	-9,16%

Source: Consolidated financial statements of the Company (unaudited), calculations by RA "Expert-Rating"

The authorized capital of KSG Agro S.A. amounts to USD 150.2 thousand and is represented by 15.02 million shares with a par value of USD 0.01 each. All shares issued by the holding are listed and admitted to trading on the Main Market (Main Market) of the Warsaw Stock Exchange. In May 2013, KSG Agro S.A. repurchased 32,172 own shares (representing 0.21% of the share capital), which are accounted for as own shares in the shareholders' equity structure. Placement of shares of KSG Agro S.A. on the Warsaw Stock Exchange took place in May 2011, and over the next few years their value decreased. However, in 2020 year there was a resumption of

investors' interest in shares of KSG Agro S.A., as a result of which their value began to rise. In particular, for the period from January 1, 2020 to May 17, 2021, the share price of KSG Agro S.A. increased from PLN 1.2 to PLN 3.40, i.e. in 2.83 times.

During the analyzed period KSG Agro S.A. used short-term and long-term loans in its activities. In particular, as of March 31, 2021, the share of loans in the liabilities of KSG Agro S.A. amounted to 47.70%, namely: short-term loans – 5.12%, long-term ones – 42.58%.

As of December 31, 2020, the only long-term bank loans of the Group were TASKOMBANK credit lines totaling USD 12.201 million, denominated in US dollars. However, given the fact that the US dollar is not the functional currency of KSG Agro S.A.'s subsidiaries that received loans, the Holding was exposed to the currency risk impact. Therefore, in the first quarter of 2021 year there was a change in the currency of loans from TASKOMBANK from the US dollar to the functional currency, with a simultaneous transition from a fixed interest rate to a variable one. As a result, as of March 31, 2021, the total amount of bank loans in foreign currency was zero US dollars. The annual rate on revised loans for 2021 year is not expected to exceed 12.5%, while the average fixed rate on the same loans in 2020 year was about 10%. As of December 31, 2020, the Agroholding's bank loans were secured by collateral in the form of fixed assets in the amount of USD 9.805 million and real estate provided by related parties.

The Agency draws attention that as of September 2020, the Group successfully repaid all overdue bank loans, including: a) loans from banks CREDIT DNIPRO and PIVDENNYI in the total amount of USD 3.9 million by fully refinancing them through a credit line from TASKOMBANK; b) loan from LBBW, which was aimed at repayment of several loans from CREDIT AGRICOLE BANK in the total amount of USD 1.95 million, repurchased by a third party.

A USD 10.937 million loan from the parent company was provided to KSG Agro S.A. by the company Olbis Investments S.A. until December 2026, when it must be repaid together with all interests accrued before that date. The interest rate on the loan is 3% per annum, and the amount of accrued interests as of 31.12.2020 amounted to USD 4.178 million.

As of the beginning of 2021, the agroholding KSG Agro S.A. did not issue other debt securities, except for short-term promissory notes (as of December 31, 2020, the amount of debt on issued promissory notes was estimated at USD 2.349 million). The Agency notes that if the Company issues other debt securities, including bonds, its rating may be revised depending on the terms of issue.

Thus, as of the beginning of 2021, the shareholders' equity of KSG Agro S.A. covered 44.16% of bank loans and 19.64% of the total volume of loans from banks and the parent company. At the same time, the management of the Holding in 2020-2021 took measures aimed to improve its credit history by fully repaying and restructuring the overdue debts on bank loans, as well as reduced the impact of currency risk on the creditworthiness of KSG Agro S.A., by changing the lending currency from the US dollar to the functional currency, i.e. the currency of operations of subsidiaries. The Agency also notes that the fact of the availability of listing of KSG Agro S.A. shares in the main market of the Warsaw Stock Exchange, under certain conditions, creates opportunities for the Company to access a conditionally free source of financing. In particular, the increase in investors' interest in KSG Agro S.A. shares, which results in an increase in the liquidity and share price of the Company, improves its ability to increase the shareholders' equity by placing shares of the new issue. At the same time, the higher the share price on the stock exchange, the better the Company's chances of raising additional capital through SPO and even replacing part of the borrowed resources with its own funds.

3. Company's owners and external support

The parent company of KSG Agro S.A. is OLBIS Investments LTD S.A., registered in Panama, and the ultimate controlling party is Sergyi Kasyanov (Chairman of the Board of Directors).

As of 31.03.2021 the owner structure of KSG Agro S.A. was the following:

- 64,62% of the share capital (9 705 500 shares) – OLBIS Investments LTD S.A.;
- 0,21% of the share capital (32 172 shares) – own shares;
- 35,17% of the share capital (5 282 328 shares) – shares that are in free float (listed on the main market of the Warsaw Stock Exchange).

Therefore, a significant indirect ownership of the securities of KSG Agro S.A. belongs to Sergyi Kasyanov. No other person has significant direct or indirect ownership of the Company's securities, and has no special rights of control over the authorized capital of the Company.

Based on the above, the level of external support of KSG Agro S.A. the Agency considers it uncertain that is traditional for companies whose beneficial owners are individuals.

4. Other factors taken into account in the assessment

Verification of the information contained in the Unified State Register of court decisions concerning Ukrainian companies that are subsidiaries of KSG Agro S.A. showed that at the time of the rating research they were not the participants of court processes that could significantly adversely affect their financial condition.

As well, the Agency draws attention that KSG Agro S.A. is the issuer of shares listed on the Main Market of the Warsaw Stock Exchange, and therefore the Board of Directors of the Holding must comply with the corporate governance rules of the Warsaw Stock Exchange contained in “the Code of Best Practices for Companies Listed on the WSE”.

5. Conclusions

During the period from May 11 to June 8, 2021 RA “Expert-Rating” conducted a rating research of KSG Agro S.A. According to the results of the research, the rating committee of the Agency made decision to assign a credit rating to KSG Agro S.A. at the level **uaA+**. A borrower or a separate debt instrument with rating uaA is characterized by a high solvency compared to other Ukrainian borrowers or debt instruments. The level of solvency is sensitive to the impact of adverse commercial, financial and economic conditions.

According to the results of the rating research, the following main conclusions can be drawn:

1. KSG Agro S.A. is a vertically integrated agricultural holding, which includes 27 companies operating mainly in Ukraine. The holding produces agricultural products for both domestic consumption and export. KSG Agro S.A. According to the results of 2020 year the Holding received 48.35% of its revenues from pig farming, 39.29% – from crop production, 12.36% – from other activities. In 2011, KSG Agro S.A. became one of the first issuers with business in Ukraine, which successfully performed public offering of its shares on the Warsaw Stock Exchange. As of the beginning of April 2021, 35.17% of the shares of KSG Agro S.A. were in free circulation and quoted on the WSE.

2. KSG Agro S.A. used short-term and long-term loans in its activities. In particular, as of March 31, 2021, the share of loans in the liabilities of KSG Agro S.A. amounted to 47.70%, namely: short-term loans – 5.12%, long-term ones – 42.58%. As of the beginning of 2021, the shareholders’ equity of KSG Agro S.A. covered 44.16% of bank loans and 19.64% of the total volume of loans from banks and the parent company. In 2020-2021 the management of the Holding took measures aimed to improve its credit history by fully repaying and restructuring the overdue debts on bank loans, as well as reduced the impact of currency risk on the creditworthiness of KSG Agro S.A., by changing the lending currency from the US dollar to the functional currency, i.e. the currency of operations of subsidiaries.

3. The analysis of key balance sheet indicators and financial results of KSG Agro S.A. for 2019-2020 and for the first quarter of 2021 shows the profitable activity of the Company, the increase in the level of the ratio between shareholders’ equity and liabilities, and a significant increase in the ratio between EBITDA and liabilities of the Company. In particular, according to the results of the 2020 year compared to the 2019 year, the ratio between EBITDA and total liabilities of the Company grew by 8.04 p.p. up to 11.35%, the ratio between EBITDA and the total amount of loans received by KSG Agro S.A. (including a loan from the parent company) grew by 16.70 p.p. up to 23.94%, and the ratio between EBITDA and bank loans increased by 34.81 p.p. up to 54.28%. Current EBITDA level of KSG Agro S.A. covers a significant share of the Company’s interest-bearing liabilities, and according to the results of 2020 year it more than in 4 times exceeds the cost of interest on loans, and more than in three times exceeds the total financial costs of the Holding (which also include the cost of renting land). This means that the Company is able to generate a significant amount of revenue that can be aimed at financing of continuous activity and debt service..

4. The fact of the availability of listing of KSG Agro S.A. shares in the main market of the Warsaw Stock Exchange, under certain conditions, creates opportunities for the Company to access a conditionally free source of financing. In particular, the increase in investors’ interest in KSG Agro S.A. shares, which results in an increase in the liquidity and share price of the Company, improves its ability to increase the shareholders’ equity by placing shares of the new issue. In particular, for the period from January 1, 2020 to May 17, 2021, the share price of KSG Agro S.A. grew in 2.83 times: from PLN 1.2 to PLN 3.40. At the same time, the higher the share price on the stock exchange, the better the Company's chances of raising additional capital through SPO and

even replacing part of the borrowed resources with its own funds. As well, the availability of listing of KSG Agro S.A. shares on the WSE contributes to the improvement of corporate governance practices in the Holding.

5. As of the beginning of 2021 year, the agroholding KSG Agro S.A. did not issue other debt securities, except for short-term promissory notes (as of December 31, 2020, the amount of debt on issued promissory notes was estimated at USD 2.349 million). The Agency notes that if the Company issues other debt securities, including bonds, its rating may be revised depending on the terms of issue.

6. The parent company of KSG Agro S.A. is OLBIS Investments LTD S.A. (Panama), which owns 64.62% of shares of the Holding, and the ultimate controlling party is Sergyi Kasyanov (Chairman of the Board of Directors). Based on the above, the level of external support of KSG Agro S.A. the Agency considers it uncertain that is traditional for companies whose beneficial owners are individuals.

Appendix A

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Table A

National rating scale. Long-term credit ratings (over one year)*

Rating	Rating interpretation
uaAAA	The borrower or the separate debt instrument with the rating uaAAA is characterized by exceptionally high credit status in comparison with other Ukrainian borrowers or debt instruments
uaAA	The borrower or the debt instrument with the rating uaAA is characterized by very high credit status in comparison with other Ukrainian borrowers or debt instruments
uaA	The borrower or the separate debt instrument with the rating uaA is characterized by high credit status in comparison with other Ukrainian borrowers or debt instruments. Credit status level is sensitive to the impact of adverse commercial, financial and economic conditions
uaBBB	The borrower or the separate debt instrument with the rating uaBBB is characterized by sufficient credit status in comparison with other Ukrainian borrowers or debt instruments. Credit status level depends upon the influence of adverse commercial, financial and economic conditions
uaBB	The borrower or the separate debt instrument with the rating uaBB is characterized by lower than sufficient credit status in comparison with other Ukrainian borrowers or debt instruments. There is high dependence of the level of solvency on the impact of adverse commercial, financial and economic conditions
uaB	The borrower or the separate debt instrument with the rating uaB is characterized by low credit status in comparison with other Ukrainian borrowers or debt instruments. There is a very high dependence of solvency level on the impact of adverse commercial, financial and economic conditions
uaCCC	The borrower or the separate debt instrument with the rating uaCCC is characterized by very low credit status in comparison with other Ukrainian borrowers or debt instruments. There is potential probability of default
uaCC	The borrower or the separate debt instrument with the rating uaCC is characterized by a high probability of default
uaC	The borrower is expecting default of liabilities
uaD	Default. The payout of principal amount and interests on debt obligations of the borrower has been suspended without reaching an agreement with creditors on restructuring the debt upon maturity

«-» or «+» — intermediate rating categories with respect to the major categories.

* — according to the scale, approved by [the Resolution of the Cabinet of Ministers of Ukraine from April 26, 2007 № 665](#)

Relevant appendix is an integral part of the rating report