

External debt
Russia

Corporate bonds
Company update
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Renaissance
Capital

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Mirax management meeting

So many realistic scenarios

- **Abrupt changes.** Over August and September, Mirax's cash inflows remained in line with previous patterns, reaching about \$170-\$190mn per month. Its most recent purchase transactions in the Federation Tower development achieved record prices of \$12,000/m². However, in mid-September, the global financial crisis, the equity market collapse, the liquidity squeeze and lending constraints changed the picture dramatically.
- **Realistic about uncertainties.** We note that Mirax was quick to realise and acknowledge the market has changed, and has already put all its early-stage projects on hold. Management sees a 25% reduction in prices as realistic, but says the company is able to weather this (our sensitivity analysis, conducted in Mar 2008, supports this view). The potential degree of price correction, evolution of price expectations, demand pull-back and cash-flow reduction are all uncertain at this stage, as there has been no comparable situation on the Russian real estate market in the past.
- **Cash-flow visibility fine till year-end, reducing thereafter.** Most of Mirax's sales (in both the residential and commercial segments) have largely been conducted on a deferral basis, usually with a six-month settlement period. Management estimates the amount of total receivables at close to \$1bn. In the residential segment, signed contracts are not easy to reverse, but large office take-ups are potentially cancellable (although we do not expect cancellations to be widespread, as Mirax's projects are high-end and command premiums, despite growing competition in the Moscow City business district). If there is any significant demand on the market over the next six months, we think Mirax should be able to benefit. Management acknowledges that cash-flow visibility beyond three-to-six months is low. Mirax does not count on receiving aid from the Moscow government's recently announced \$2bn initiative, but we think it could target support from the VEB-sponsored \$50bn government programme.
- **Redemptions schedule.** Mirax has \$100mn of debt falling due before YE08 (in equal parts, in October and December), and \$380mn due in 1Q09 (\$200mn in February, \$180mn in March). Management indicates that the company has more than \$200mn in cash balances. Mirax's construction expenses are typically no more than \$120mn a month.
- **Positive NAV, even with 50% value destruction.** We estimate that, even if project valuations are slashed by half, Mirax's capital structure is still sound. Its total debt of \$870mn will not, under that assumption, exceed 25-30% of its project value. The company's project portfolio is balanced and reasonably well seasoned. Mirax's own offices in the Federation Tower alone (50,000 m²) are worth \$300-400mn, setting aside unsold areas elsewhere. Recovery rates for debt investors will, therefore, eventually be high, in our view, even if events take a negative course. That said, converting this future value into present cash is Mirax's key problem now, as is the case for the whole industry. We think the most efficient way out would be to sell equity blocks in separate projects to investors with long-term funding bases. Mirax has admitted that it was in advanced talks with Temasek last year, and we think similar initiatives are likely to intensify now.
- **Working capital: A source of negative publicity.** Over the past month, Mirax has been changing its payment terms with suppliers, which previously received advances from the company around two months in advance (2007 US GAAP accounts show \$185mn of pre-payments to contractors). A side-effect of weaker real estate demand is likely to be that construction services turns from a seller's market into a buyer's market. Mirax is now pushing its contractors to accept delayed payments, and has broken-off relations with some. We understand that ensuing disputes have prompted recent negative headlines in the press.