MOODY'S RATINGS

Rating Action: Moody's Ratings assigns first time Ba3 rating to UzAuto Motors; outlook stable

12 May 2025

DIFC - Dubai, May 12, 2025 -- Moody's Ratings (Moody's) has today assigned a Ba3 corporate family rating (CFR) and a b1 Baseline Credit Assessment (BCA) to JSC UzAuto Motors (UzAuto Motors or the company), an Uzbekistan-based auto manufacturer that operates under license from General Motors Company (GM, Baa2 stable). The outlook is stable.

RATINGS RATIONALE

UzAuto Motors' Ba3 CFR reflects the company's BCA of b1 and government-related issuer (GRI) assumptions of 'high' default dependence and 'strong' extraordinary support that we expect its ultimate shareholder, the Government of Uzbekistan (Ba3 stable), would provide if required.

UzAuto Motors' BCA of b1 is supported by (1) the company's extraordinary market share of 82% of passenger car sales in Uzbekistan in 2024; (2) Uzbekistan's fast growing economy and underpenetrated auto market, which supports further sustained market growth; (3) the car sector's strategic importance to the government's industrial strategy that supports continued localization of parts manufacturing and an expansion of overall production for local and export markets; (4) prudent financial management with low leverage of 1.1x debt to EBITDA and strong EBIT interest coverage of 12.7x for the 12 months that ended June 2024 (all metrics are Moody's adjusted).

The BCA also takes into account (1) the company's small scale compared to other global rated auto manufacturers; (2) its geographic concentration on one main country, Uzbekistan, which accounts for around 90% of sales and exposure to the economic, regulatory and political environment in the country; (3) increasing competition from private auto manufacturers, as well as government initiatives to increase local production of electric vehicles (EVs) by competitor BYD Company Limited (BYD), albeit in a controlled way that is intended to preserve UzAuto Motors' leading position; (4) the company's dependence on license agreement with GM and dependence on continued supply of essential parts through the GM network; (5) its limited and relatively outdated model ranges with no immediate plans to introduce EVs or other low-emission alternatives; (6) its negative free cash flow generation over the past two years due to significant working capital outflow; and (7) only marginally adequate liquidity, and refinancing risk related to the maturity of its inaugural $300 million international bond in May 2026.

We expect the likelihood of extraordinary support from the government in case of need to be strong because of UzAuto Motors' position as the dominant domestic auto manufacturer and the crucial economic and social role it plays by providing affordable, mass-market models. The company is also instrumental to the government's industrial strategy that aims at expanding the country's auto manufacturing sector to help increase skilled employment and exports. The government's commitment to retaining majority ownership, its previous financial assistance for expansion, and regulations that effectively limit competition and protect the company's market-leading position further reinforces the importance of UzAuto Motors.

Governance considerations are reflected in our G-3 issuer profile score (IPS), which reflects that the company is controlled by the government of Uzbekistan, which owns 99.7% of the company and the fact that only three out of nine of its board members are independent. It also reflects that the company conducts a substantial amount of related party transactions with other government related auto companies, which creates the potential for transactions being conducted at off-market terms. This is partially offset by a prudent financial strategy and the management team's credible track record. While UzAuto Motors lacks a clearly defined financial policy and has a relatively high regular dividend payout target of 50% of net income, the company has solid credit metrics, including low financial leverage and good EBIT interest coverage.

LIQUIDITY

The company's liquidity is marginally sufficient for the next 12 months. As of the end of March 2025, UzAuto had $77 million of cash and bank deposits that are accessible on short notice. In addition we expect the company will generate positive free cash flow of around $100 million after paying around $165 million in dividends over the next 12 months. Together these sources of liquidity are sufficient to cover debt amortizations of $56 million over the same period of time. The company's $300 million international bond matures in May 2026 and we understand the company will look to refinance it well ahead of maturity. The company also has the ability to unlock up to $125 million of restricted deposits and is additionally working on raising a new liquidity facility.

STABLE OUTLOOK

The stable outlook reflects our expectation that UzAuto Motors' sales volumes and revenue will stabilize from 2025 onwards, following a volume decline of 5% and revenue decline of 8% in 2024. It also reflects our expectation that free cash flow will turn positive again over the next 12 to 18 months, credit metrics will remain solid, the company will refinance its debt maturities well ahead of time and its liquidity will remain adequate.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

We could upgrade UzAuto Motors' rating if we upgrade the government bond rating of Uzbekistan and upgrade the BCA, provided we do not lower our assumptions for extraordinary government support.

We could upgrade the BCA if the company establishes a track record of sustained growth despite increased competition in Uzbekistan or if it significantly increases exports and improves its geographic diversification of sales. For an upgrade of the BCA we would also expect debt to EBITDA to remain below 3.5x, retained cash flow (RCF) to debt to remain above 30%, free cash flow to be sustainably positive and liquidity to improve (all metrics are Moody's adjusted).

A downgrade of the rating is likely if the government bond rating of Uzbekistan is downgraded, or if we downgrade the BCA or reassess the probability of extraordinary support to a lower level.

We could downgrade the BCA if the company's sales significantly decline. We would also consider a downgrade if the license agreement with GM is not extended beyond 2027 or its terms and conditions significantly weaken for UzAuto Motors. Debt to EBITDA trending towards 4.5x or RCF to debt trending towards 20%, both on a sustained and Moody's adjusted basis, as well as weakening liquidity, could also lead to a downgrade of the BCA.

PRINCIPAL METHODOLOGIES

The methodologies used in this rating were Automobile Manufacturers published in April 2025 and available at https://ratings.moodys.com/rmc-documents/441075, and Government-Related Issuers methodology published in January 2024 and available at https://ratings.moodys.com/rmc-documents/406502. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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