

CREDIT OPINION

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Update

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Omega Funds Investment Ltd

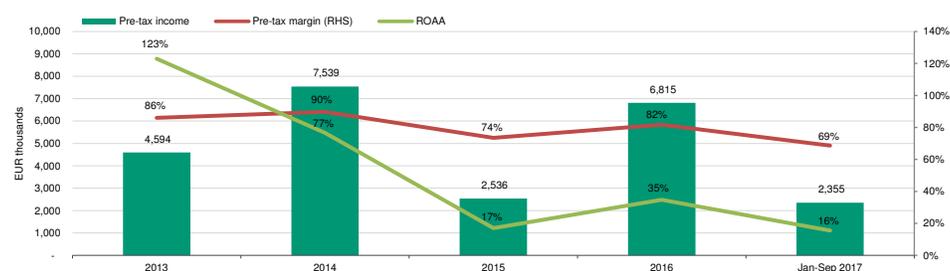
Semiannual update

Summary

The B2 long-term issuer rating, with a stable outlook, that we assign to [Omega Funds Investment Ltd](#) (Omega) is largely constrained by the company's small and undiversified customer franchise, resulting in concentrated business and revenue streams. This concentration renders the company highly exposed to the operations of a few large clients, making its earnings highly volatile. However, the rating is supported by Omega's low leverage with zero debt, ample capital cushion, strong liquidity position and sound profitability results.

Exhibit 1

Omega's profitability is strong, but its earnings are highly volatile



Sources: Moody's Financial Metrics, Omega Funds Investment

Credit strengths

- » Ample capital cushion, with no debt
- » Robust liquidity position
- » Strong profitability

Credit challenges

- » Small and undiversified franchise, resulting in concentrated business and revenue streams
- » Volatile earnings
- » Growing exposure to market risk

Rating outlook

The B2 rating carries a stable outlook, reflecting our expectation that the firm will maintain its current credit fundamentals over the next 12-18 months.

Factors that could lead to an upgrade

- » Material growth of the company's franchise
- » A significant decrease in its single-name concentration

Factors that could lead to a downgrade

- » A significant increase in leverage
- » A weakening of the firm's liquidity profile
- » Loss of key customers, resulting in a significant scaling down of the company's activities and risking the continuity of its business

Profile

Omega is a small brokerage firm, with assets of €12.3 million as of 30 September 2017 (year-end 2016: \$20.5 million). Despite being domiciled in Limassol, Cyprus, Omega has strong links with Russia via its shareholders, key customers, other counterparties and representative office in Moscow, which opened in December 2016. Omega's principal activity is providing brokerage services to corporate clients.

Omega held clients funds under management in the amount of €1.11 billion as of 30 September 2017 (year-end 2016: €1.28 billion) according to its combined financial statements. The company recognizes these amounts off balance sheet based on standalone IFRS and following its auditor's opinion. Omega is acting as a trustee in substance with respect to these assets and is not legally allowed to perform any operations with them at its own discretion.

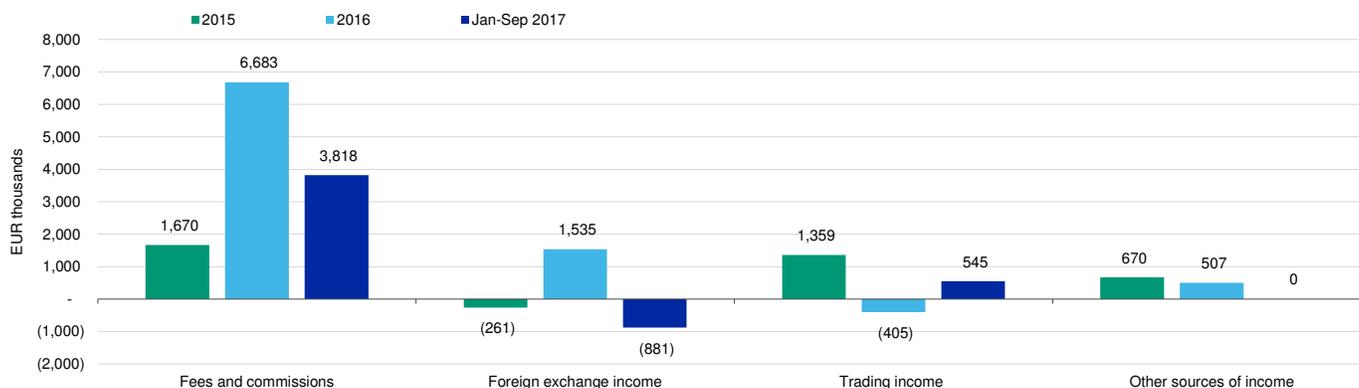
Detailed credit considerations

Scale and profitability: Small and highly concentrated franchise, generating strong but highly volatile earnings

Omega is a small brokerage firm, with pre-tax income of €6.8 million (\$7.5 million) in 2016. The firm's principal activity is providing brokerage services to corporate clients. These services mainly include operations with securities, and, to a much lesser extent, foreign-exchange transactions, primarily involving the Russian rouble and the US dollar.

Exhibit 2

Omega's revenue is dominated by fee and commission income



Sources: Omega Funds Investment's financials

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

High concentration in a few large clients operations makes Omega's income highly volatile. We expect the volatility in Omega's revenue stream to increase further because the company will trade more actively on its own account. As of 30 September 2017, proprietary investments represented 40% of the company's assets, up from 8% as of year-end 2015, an increase following balance sheet shrinkage as a result of dividend payout.

The challenges associated with the high volatility in earnings are partially mitigated by Omega's compact size and low operating costs. As a consequence, the company benefits from high profitability. Between January 2017 and September 2017, the company generated a pre-tax margin of 68%, slightly below the 74% average for 2013-16 (by our calculation, excluding one-off revenue items).

In 2017, we expect the company to report lower revenue and bottom-line profitability than in 2016, owing to (1) a downward business trend; (2) a reduced volume of transactions; and (3) a concurrent increase in operating expenses related to IT, compliance and consulting services as a result of new EU regulations for securities companies coming into force in 2018. We adjust Omega's Pre-Tax Margin Volatility score upwards to Ba2 from Caa3 because we give partial credit to our estimate of this metric which is based on quarterly management accounts, while the initial score penalizes Omega based on annual reporting.

Leverage and coverage: Ample capital buffer, with no debt

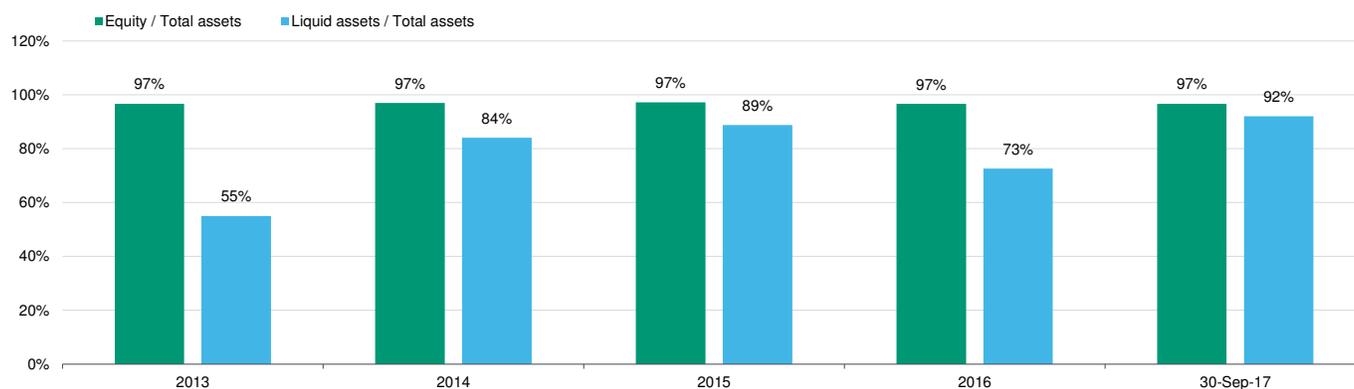
Omega is operating at close to zero leverage and has its risky assets more than fully covered by its ample capital buffer. As of 30 September 2017, equity accounted for 97% of the company's total assets (the same as of year-end 2016) and was 2.0x its total assets minus cash equivalents (a proxy for the company's risky assets). In the first half of 2017, Omega paid out €10 billion in dividends to shareholders, which accounted for 53% of accumulated retained earnings and resulted in balance sheet contraction (by half.)

The company has no debt, and the majority of its liabilities are in the form of trade and tax payables. As of 30 September 2017, these liabilities accounted for 17% of Omega's pretax income for the first three quarters of 2017. Despite historical evidence of a low appetite for leverage, there are no effective tools to prevent the company from increasing its leverage. In our view, Omega's credit profile could be exposed to key downside risks in the event that management decides to increase leverage, which would also result in the erosion of the company's liquidity profile.

Currently, Omega has a robust liquidity buffer, supported by its high proportion of liquid assets. Highly liquid assets (cash on hand, at banks and at brokers) represented 52% of Omega's asset base as of 30 September 2017 (year-end 2016: 32%), with another 40% of total assets in the form of liquid fixed income and equity securities (year-end 2016: 42%). We expect Omega to maintain a significant proportion of its assets invested in securities, which makes its currently very robust liquidity profile potentially vulnerable to market risk.

Exhibit 3

Omega has robust liquidity and an ample capital buffer



Sources: Omega Funds Investment, Moody's calculations

Business profile and financial policy

We adjust downwards by three notches the Ba2 adjusted Financial Profile score to incorporate qualitative assessments pertaining to business diversification and corporate behavior.

In the first three quarters of 2017, as well as in each of the preceding three financial years, more than 90% of Omega's commission income was attributable to the company's three largest customers. This situation represents the very high single-name concentration of the company's revenue stream. Moreover, Omega's boutique franchise strongly depends on connections of a personal, rather than institutional, nature, rendering the company potentially vulnerable to any change of ownership or management. We do not anticipate any such changes in the near future, but they cannot be ruled out in the long term.

Operating environment

We assign a B2 score to Omega's operating environment, based predominantly (with a 70% weight) on the competitive dynamics and industry fundamentals of Russian brokerage companies.

Omega is domiciled in Cyprus. Therefore, we take into account the fact that the company benefits from being subject to EU standards of regulation and supervision, as executed by the Cyprus Securities & Exchange Commission. However, we believe that the Russian operating environment is more relevant for Omega than that in Cyprus, given the company's strong links with Russia via its (1) shareholder Pavel Vashchenko; (2) customers, many of which have Russian beneficiaries; (3) trade of Russian securities and currency; (4) other counterparties (for example, brokers and banks), many of which are domiciled in Russia; and (5) recently opened representative office in Moscow.

The operating environment adversely affects Omega's financial profile and results in a Ba2 adjusted Financial Profile score, compared with an A2 score prior to the consideration of the operating environment.

Macro-Level Indicator

Russia's Ba3 Macro-Level Indicator score reflects the country's moderate economic strength and low institutional strength, with high susceptibility to event risk. Cyprus' Ba1 Macro-Level Indicator score reflects the country's low economic strength, balanced by high institutional strength, with very high susceptibility to event risk.

That said, neither of the indicators has any weighting in the scorecard because these scores are higher than the Competitive Dynamics and Industry Fundamentals score.

Competitive dynamics and industry fundamentals

We assign a B score to the competitive dynamics and industry fundamentals of both Russian and Cyprus-based securities industry service providers. Entry barriers are low in both countries, resulting in (1) a large number of small market participants, operating in niche market segments; and (2) relatively low industry concentration. In recent years, the exit of large foreign banks from the Russian market has benefited domestic companies, yet at the same time, state-owned banks and their subsidiaries have increased their presence significantly, keeping the competitive pressure on the smaller firms strong.

In addition, Russian brokers, as well as Cyprus-based brokers servicing Russian clients, remain subject to the heightened risk of adverse secular changes, given, in particular, the vulnerability of Russia's capital markets to the uncertainty around international sanctions.

About Moody's Security Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Overall, the scorecard-calculated standalone assessment range for Omega is B3-B1. The company's assigned B2 standalone assessment is in the middle of the range, indicating that there is no strong upward or downward pressure on Omega's ratings, consistent with its stable outlook.

Notching considerations

Omega is not a systemic entity either in Cyprus or in Russia, and therefore, we estimate a low probability of government support, resulting in no additional uplift to the firm's rating.

Rating methodology and scorecard factors

Exhibit 4

Omega Funds Investment Ltd

Financial Profile	Historical		Assigned		
	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1
Scale					
Pre-Tax Earnings	20%	--	--	Caa2	
Profitability					
Pre-Tax Margin	10%	--	--	Aaa	
Pre-Tax Margin Volatility	10%	--	--	Ba2	Group reporting
Leverage and Coverage					
Debt/EBITDA	20%	--	--	Aaa	
(Retained Cash Flow-CapEx)/Debt	20%	--	--	Aaa	
EBITDA/Interest Expense	20%	--	--	Aaa	
Financial Profile Score	30%		A2	A2	
Operating Environment					
Russia					
	Factor Weights	Qualitative Scale	Score		
Macro Level Indicator	0%		Ba3		
Economic Strength	25%	Moderate +			
Institutional Strength	50%	Low			
Susceptibility to Event Risk	25%	High			
Competitive Dynamics and Industry Fundamentals	100%		B		
Home Country Operating Environment Score			B2		
	Factor Weights		Score	Comment	
Operating Environment Score	70%		B2		
ADJUSTED FINANCIAL PROFILE					
			Score		
Adjusted Financial Profile Score			Ba2		
Financial Profile Weight	30%				
Operating Environment Weight	70%				
Business Profile and Financial Policy					
			Adjustment	Comment	
Business Diversification			-2	Very high concentration on a few large customers	
Opacity and Complexity			0		
Liquidity Management			0		
Corporate Behavior			-1	Key person risk	
Total Business Profile and Financial Policy Adjustments			-3		
				Comment	
Sovereign or parent constraint			Ba1		
Standalone Assessment Range			B1 - B3		
Assigned Standalone Assessment					

Source: Moody's Financial Metrics

Ratings

Exhibit 5

Category	Moody's Rating
OMEGA FUNDS INVESTMENT LTD	
Outlook	Stable
Issuer Rating	B2
ST Issuer Rating	NP

Source: Moody's Investors Service

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