

Global Credit Research - 21 Jan 2016

*Cyprus*

### Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	B2
ST Issuer Rating	NP

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### Opinion

#### SUMMARY RATING RATIONALE

The B2 long-term issuer rating, with a stable outlook, we assign to Omega Funds Investment (Omega) is largely constrained by its business model, which is characterised by concentrated business and revenue streams. This renders the company highly exposed to the operations of a few large clients, making its income highly volatile.

However, the rating is supported by (1) Omega's robust balance sheet, with zero debt, an ample capital cushion and a strong liquidity position; and (2) the company's high profitability amid low operating costs.

#### Rating Drivers

- Small and undiversified franchise, with high concentration of business and revenue streams on a few large customers
- Strong but highly volatile earnings
- Ample capital cushion with no debt
- Robust liquidity

#### Rating Outlook

The B2 rating carries a stable outlook.

#### What Could Change the Rating - Up

An upgrade is unlikely within the next 12 months. However, upward pressure could be exerted on the ratings if the company materially grows its franchise and decreases its single-name concentration.

#### What Could Change the Rating - Down

A downgrade is also unlikely in the next 12 months. However, downward pressure could be exerted on the ratings in the event of (1) any significant increase in leverage; (2) a weakening of the institution's liquidity profile; or (3) a loss of key customers, resulting in a significant scaling down of the company's activities and risking the continuity of its business.

## DETAILED RATING CONSIDERATIONS

### SMALL AND UNDIVERSIFIED FRANCHISE, WITH HIGH CONCENTRATION OF BUSINESS AND REVENUE STREAMS ON A FEW LARGE CUSTOMERS

Omega is a small brokerage firm with own assets of EUR11.9 million (\$14.4 million) as of 31 December 2014. The company's revenue amounted to EUR8.4 million (\$11.2 million) and its net income totalled EUR6.6 million (\$8.8 million) in 2014. Despite being domiciled in Limassol, Cyprus, Omega has strong links with Russia via (1) its shareholder Mr Pavel Vashchenko; (2) its customers, many of which have Russian beneficial owners, and trade Russian securities and currency via Omega; and (3) its other counterparties (e.g. brokers and banks).

Omega's principal activity is providing brokerage services to institutional investors. These include foreign exchange (FX) transactions (primarily involving the Russian rouble and US dollar), as well as operations with securities. Brokerage commissions accounted for 95% of Omega's revenue in 2014 (according to IFRS), and FX transactions contributed 89% of all commissions in 2015 (according to management accounts). As of 31 December 2014, Omega held EUR460 million (\$560 million) on behalf of its clients in securities and cash. The company recognises these amounts off-balance sheet, because 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.

On average in 2014 and 2015, 90% of Omega's commission income was attributable to the company's three largest customers, which represents the very high single-name concentration of the revenue stream. Moreover, Omega's boutique franchise strongly depends on connections of a personal rather than institutional nature, rendering the company potentially vulnerable in the event of 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.

### STRONG BUT HIGHLY VOLATILE EARNINGS

High concentration on a few large clients' operations makes Omega's income highly volatile: 50% of the company's revenue was attributed to non-recurring items in both 2014 and 2015. Omega has historically demonstrated low appetite for market risk, with proprietary investments representing only 10% of the company assets and little proprietary trading; Omega only received a licence for proprietary trading in 2014. However, we expect that going forward Omega will trade more actively on its own account, which is likely to further increase the volatility of its revenue stream.

These challenges are partially mitigated by Omega's compact size (it has only nine employees) and low operating costs. As a result, the company benefits from high profitability: its pre-tax margin was 77% in 2014 (by our calculation, excluding one-off revenue items).

### AMPLE CAPITAL CUSHION WITH NO DEBT

Omega is operating at very low leverage and has its risky assets more than fully covered with its ample capital cushion. According to management accounts, at mid-2015 equity accounted for 98% of total assets and was more than 6x higher than total assets minus cash equivalents (a proxy for the company's risky assets). The company has no debt, the majority of its liabilities are in the form of trade and tax payables, and these account for less than 20% of the company's recurring annual EBITDA.

We note that despite historical evidence of low appetite for leverage, there are no effective tools to prevent the company from increasing the leverage. In our view, Omega's credit profile could be exposed to key downside risks in case there was a management decision to increase leverage, which would also result in the erosion of the company's liquidity profile.

### ROBUST LIQUIDITY

Omega has a robust liquidity cushion, supported by its high proportion of liquid assets. Highly liquid assets (cash at hand, at banks and at brokers) represented 85% of Omega's asset base at mid-2015 (according to management accounts), with the majority of remaining assets in the form of promissory notes of two Russian investment companies (maturing in 2016).

Going forward, we expect Omega to invest a higher proportion of its assets in securities, which will make its currently very robust liquidity profile more vulnerable to market risk.

### NOTE ON DATA

Unless noted otherwise, data in this report is sourced from the company's reports and Moody's Banking Financial Metrics.

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