FitchRatings

Tagging Info

Fitch Affirms Sibur at 'BB+' on Acquisition of JV Stake

Ratings Endorsement Policy

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Fitch Ratings-London-24 February 2014: Fitch Ratings has affirmed Russia-based petrochemical group JSC SIBUR Holding's (SIBUR) Long-term Issuer Default Rating (IDR) at 'BB+' with Stable Outlook. The senior unsecured rating on SIBUR Securities Limited's five-year USD1bn notes, guaranteed by SIBUR and due 2018, has also been affirmed at 'BB+'. The Short-term IDR has been affirmed at 'B'.

The rating actions follow SIBUR's announcement that it intends to buy OJSC OC Rosneft's (Rosneft, not rated) 49% stake in their Yugragazpererabotka joint venture (JV), thus increasing its interest to 100%. At the same time, Rosneft has agreed to increase its guaranteed supplies of associated petroleum gas (APG) to the JV by up to 10bcm per annum. Fitch views this transaction as credit neutral, with the marginal increase in the base case funds from operations (FFO) leverage mitigated by the long-term operational benefits of the acquisition. Sibur's access to competitively priced APG, along with its diversified portfolio, underpins its strong operational cash flow generation over the cycle.

However, we note that the deal and associated cash outflows will translate into higher debt levels than previously forecast from 2015 onwards, thus reducing the headroom for any large debt-financed project.

SIBUR's ratings are constrained by higher-than-average systemic risks associated with the Russian business and jurisdictional environment. Excluding these risks, Fitch assesses SIBUR's credit profile in the 'BBB' category.

KEY RATING DRIVERS

ZapSib-2 Project Decision Critical

SIBUR continues its evaluation of the ZapSib-2 multi-billion dollar project, which would entail the construction of an integrated production complex in Tobolsk, with 1.5mtpa ethylene, 1.5mtpa polyethylene (PE) and 0.5mtpa polypropylene (PP) capacity. The final investment decision was recently postponed to no earlier than end-1H14. The project's characteristics, including its size, implementation schedule and financing structure, could have a significant impact on the company's leverage and coverage metrics, and thus remains one of our key rating issues.

Diversification Mitigates Synthetic Rubber Downturn

9M13 sales were down 0.7% yoy at RUB197.6bn and the reported EBITDA margin fell to 28.8% from 30.3% a year earlier. This is 8%-10% below Fitch's previous base rating case for 2013, and largely reflects a 20% drop in synthetic rubber sales due to weak global demand and pricing pressure. To a lesser extent, the results were also affected by lower prices for energy products. These trends were partly offset by neutral-to-positive volume growth across other segments. While visibility on a potential upturn in the synthetic rubber market remains poor, the group's competitive cost base and diversified product portfolio should support its ability to compete and maintain volumes and capacity utilisations in 2014.

Tobolsk-Polymer Polypropylene Plant Launched

SIBUR successfully launched its 500ktpa PP capacity in Tobolsk (Western Siberia) in October 2013. The USD2bn project is part of the group's efforts to build up a value chain from its competitive petrochemical feedstock, and is expected to result in a modest surplus in the Russian PP market in 2014 as it continues its ramp-up. Our base case assumes some pricing pressure in 2014 as a result. According to SIBUR, the plant is in the bottom decile of the global PP cash cost curve, which underpins its competitiveness in the domestic and export markets.

Adequate Liquidity

Liquidity had tightened at end-9M13 with cash balances of RUR5.8bn and undrawn committed general corporate purpose facilities of RUR21bn against maturing short-term debt of RUB38bn. Debt remained roughly flat at RUB94bn at end-9M13 (FYE12: RUB96bn), as cash flow from operations boosted by working capital relief covered dividends and higher capex. Under our base rating case, the free cash flow (FCF) margin will remain in negative single digits and net FFO-adjusted leverage is expected to be around 2.0x at end-2014. The ratings assume that SIBUR will continue to access long-term funding to refinance upcoming maturities and finance its expansion plans.

Capex Moderated, ZapSib-2 Contingency

With the completion of large-scale projects such as Tobolsk-Polymer PP plant and the Ust-Luga LPG and light oils transhipment facility (2013), second gas fractionation unit in Tobolsk (2014), and Pyt-Yakh-Tobolsk 1,100km raw NGL pipeline (2014-2015), Fitch's base rating case assumes capex to moderate from 2013 onwards. The new capex level allows for new medium-sized expansionary investments but excludes the ZapSib-2 project. The base case also assumes that 25% of IFRS net income will be paid out to shareholders (dividend policy). FCF is expected to remain negative in 2013 due to high capex and weaker operational cash flows.

Industry and Country Risks
SIBUR is exposed to the inherent risks of the petrochemical industry - price volatility and demand cyclicality. The ratings are also constrained by the legal and regulatory risks associated with Russia, where its key assets are located.

RATING SENSITIVITIES
Positive: Future developments that could lead to positive rating action include:
- Further operational improvements and capacity expansion resulting in enhanced scale and product diversification and/or portfolio mix.
- FFO net adjusted leverage at, or below 1.5x through the cycle.
- Sustained positive FCF generation.

Negative: Future developments that could lead to negative rating action include:
- Material deterioration in the company's cost position or access to low-cost associated petroleum gas
- Sustained negative FCF generation.
- Aggressive financial or investment strategy, including aggressive debt financing of the prospective ZapSib-2 project, that result in an increased financial burden and FFO adjusted net leverage above 2.0x on a sustained basis.

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable criteria, 'Corporate Rating Methodology', dated 5 August 2013, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology - Effective from 8 August 2012 - 5 August 2013

Additional Disclosure
Solicitation Status