Fitch Upgrades SIBUR to 'BB+' from 'BB'; Outlook Stable

Ratings Endorsement Policy

17 Aug 2012 10:38 AM (EDT)

Fitch Ratings-London/Moscow-17 August 2012: Fitch Ratings has upgraded OJSC SIBUR Holding's (Sibur) Long-term foreign currency Issuer Default Rating (IDR) to 'BB+' from 'BB'. Fitch has also affirmed the Short-term foreign currency IDR at 'B'. The Outlook on the Long-term IDR is Stable.

The rating action reflects the fundamental improvements in the group's operational profile, profitability and cash flow generation capacity following the investments realised over the past few years. The upgrade also reflects the group's strong credit metrics and financial flexibility post takeover, and Fitch's opinion that the new shareholders have endorsed and will support Sibur's strategy and conservative financial policies.

Sibur's underlying credit profile over the rating horizon maps to an IDR in the 'BBB' category but the ratings are constrained by the higher-than-average systemic risks associated with the Russian business and jurisdictional environment.

Sibur's operating margins are above peers' average and have demonstrated resilience through the cycle. This is underpinned by its competitive cost position. The group is uniquely positioned to access liquid hydrocarbon feedstock and low-cost associated petroleum gas in Western Siberia. Long-term supply contracts with key suppliers and ongoing investments towards the pipeline infrastructure are expected to further enhance these benefits.

With the launch of the 500ktpa polypropylene (PP) complex, Tobolsk-Polymer, in Q113, Sibur will more than double its polymer production and improve its vertical integration, underlying profitability and cash flow generation. The new production is intended to partly substitute PP imports in the domestic market. The project spanned over four years and will have had an estimated cost of USD2bn. Once completed, it will establish a positive track record for Sibur's future expansion plans.

Fitch forecasts low double digit revenue growth in 2012 reflecting softening demand and lower chemical prices. Sibur's portfolio of energy products will continue to offer some diversification away from the petrochemicals cycle and its inherent volatility. The disposal of the lower margin tyre and fertiliser businesses in late 2011, coupled with the improving vertical integration should help offset the rising cost inflation in Russia and support EBITDA margins above 25% through the cycle.

Fitch's base rating case assumes peak capex spending in 2012 with funds earmarked for the completion of the Tobolsk complex, the transhipment facility at Ust-Luga, feedstock infrastructure projects and the group's contribution towards various joint ventures. Other cash requirements in 2012 include dividend distributions of RUR22bn for FYE11 and RUR7bn assumed for H112, in line with the group's policy (25% of net income). Free cash flow (FCF) is expected to be strongly negative in 2012 due to the high investment levels. The ratings assume that Sibur will continue to access long-term funding to refinance upcoming maturity and finance its expansion plans.

Liquidity was robust at end-2011 with cash balances of RUB15bn against maturing long-term debt of RUB7.7bn. The group also counted on undrawn committed long-term facilities with a total of RUB52.5bn. Gross debt increased 41% to RUB82.9bn at end-2011 as long-term borrowings were raised to refinance transactions resulting from the change in the shareholder structure. Sibur's debt reduction capacity was boosted by RUB56.5bn total cash proceeds from the disposal of the non-core fertiliser and tyre business, including RUR7.6bn dividends. Fitch forecasts peak funds from operations (FFO) net leverage of around 1.5x in 2012 with a gradual deleveraging from 2013 onwards.

WHAT COULD TRIGGER A RATING ACTION?

Positive: Future developments that may, individually or collectively, 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
- established corporate governance track record from the new shareholders

Negative: Future developments that may, individually or collectively, 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 strategy resulting in an increased financial burden and FFO adjusted net leverage sustained above 2.0x

For all of Fitch's Eurozone Crisis commentary go to http://www.fitchratings.com/web_content/pages/grs/eurozone

Contact:

Primary Analyst
Myriam Affri
Director
+44 20 3530 1195
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Dmitri Kazakov
Analyst
+7 (495) 956 7075

Committee Chairperson
Peter Archbold, CFA
Senior Director
+44 20 3530 1172

Media Relations: Julia Belskaya von Tell, Moscow, Tel: +7 495 956 99 08, Email: julia.belskayavontell@fitchratings.com; Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Corporate Rating Methodology', dated 8 August 2012, are available on www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

Copyright © 2013 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries.