FitchRatings

Fitch Changes SIBUR's Outlook to Positive; Affirms IDR at 'BB'

Ratings Endorsement Policy
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Fitch Ratings-London/Frankfurt-02 September 2010: Fitch Ratings has changed OJSC SIBUR Holding's (SIBUR) Outlook to Positive from Stable. Its Long- and Short-term Issuer Default ratings (IDR) have been affirmed at 'BB' and 'B', respectively.

The Outlook change partly reflects SIBUR's better-than-expected operating performance during 2009 and H110, which underlines the resilience of its business model in combination with timely measures by management to reduce costs and safeguard liquidity. The Positive Outlook also reflects Fitch's improved expectations for the current year. In particular it reflects Fitch's expectation that further expanding SIBUR's APG processing capacity (towards 22bn cubic metres) and tripling polymer production capacity by end-2012 will result in stronger underlying profitability and cash generation for SIBUR in the medium-term. Successful execution of the capex programme over the next 18-24 months while maintaining moderate financial leverage and an adequate liquidity position could result in a rating upgrade. The 'BB' rating reflects SIBUR's position as the largest vertically integrated petrochemicals producer in Russia by revenues (RUB161.4bn (USD5.2bn)), and its leading domestic market positions in most of its products. The ratings benefit from SIBUR's strong and competitive cost position, underpinned by its access to low-cost APG feedstock which has resulted in strong operating profitability and cash-generation. The ratings also reflect SIBUR's solid financial profile, its long-term debt maturity profile, moderate financial leverage and adequate liquidity position.

However, the ratings remain constrained by SIBUR's exposure to the pricing volatility of its feedstock and energy inputs, and of its petrochemicals products. In addition, all of Sibur's key operating assets and its country of incorporation are in Russia ('BBB'/'F3'/Stable), which entails higher-than-average political, business and regulatory risks, The ratings also incorporate the supply-driven downturn in the chemicals cycle, characterised by significant capacity coming on stream in the Middle East and Asia, depressing global capacity utilization rates and weak petrochemicals product pricing. While SIBUR business mix incorporates a degree of diversification and downstream integration into fertilisers and tires, it is overall less diversified in terms of products compared with some of its international peers. While the company has built a track record in the completion of small-to-mid-sized projects, Fitch notes the size of its current capex programme nonetheless gives rise to material execution risks.

Total debt at end-Q110 fell to RUB56.8bn from RUB59.3bn at FYE09. SIBUR has been operating with a relatively low financial leverage, with reported net debt to EBITDA of 0.8x at end-Q110, down from 1.4x at FYE09, as a result of strong operating performance in the first six months of 2010. SIBUR's liquidity position is adequate with RUB15.3bn in cash on balance sheet at end-Q110 versus RUB15.9bn at FYE09. By end-Q110, SIBUR had further increased its funds available in committed credit facilities to around USD793m (RUB23.4bn). So far in 2010, SIBUR has raised about USD1.4bn in secured project-finance debt with Vnesheconombank (VEB, 'BBB'/'F3'/Stable) and a syndicate of international banks to fund its expansion programme. It has comfortable headroom under leverage and gearing covenants contained in several of its credit facilities. Fitch expects that debt maturing in FY10 and FY11 of around USD440m (RUB13.6bn) can be repaid by SIBUR out of either available liquidity or from operating cash flows. Fitch expects SIBUR to follow a conservative financial policy as expressed in a maximum leverage ratio of debt to EBITDA below 2.5x, despite its sizeable capex programme between 2010 and 2014.

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Applicable criteria, 'Corporate Rating Methodology', dated 13 August 2010, 'Rating Chemical Companies - Sector Credit Factors', date 13 May 2010 and 'Operating Leases: updated Implications for Lessee's Credit', dated 13 August 2009, are available at www.fitchratings.com.

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