FitchRatings

Fitch Keeps Sibur Watch Negative On MBO Plans And Potential Bond Issues

Ratings Endorsement Policy
24 Apr 2008 5:59 AM (EDT)

Fitch Ratings-London/Frankfurt/Milan-24 April 2008: Fitch Ratings is keeping Russia-based petrochemical producer OJSC Sibur Holding's (Sibur) Long-term Issuer Default rating (IDR) of 'BB' on Rating Watch Negative (RWN), following Tuesday's announcement of a management initiative to buy out a controlling stake. The Short-term IDR is affirmed at 'B'.

On Tuesday Sibur announced that a group of senior managers led by the company's president, Dmitry Konov, has flagged their interest to the Board of Directors in buying Gazprombank's stake (around 70%) in the petrochemical producer. The Board of Directors agreed that this group of managers will temporarily stop acting in their current roles while the proposal for the shareholders is being prepared and negotiations are undertaken. In this early stage of the process no additional guidance is available, regarding the possible impact on Sibur's financial profile resulting from a potential management buyout (MBO). However, in line with normal MBO practice Fitch anticipates that, should the takeover be successful, this might result in pressure on Sibur's cash flow to upstream dividends, resulting in a deterioration of the financial profile. This could result in a multi-notch downgrade of the Long-term IDR.

The Long-term IDR was placed on RWN on 4 March 2008 following the company's announcement of potential private offerings of several bond issues for a sizeable amount. Sibur had announced that it would consider the necessity of the bond issues depending on financial requirements for the implementation of its investment programme, and possible acquisition and merger transactions. The RWN reflected Fitch's concerns that the potential sizable bond issues signalled a deviation from Sibur's strategy of growth while maintaining a conservative financial profile, thus putting pressure on the rating. In particular, the financial leverage of Sibur could increase substantially as opposed to the previously announced conservative financial policy to keep leverage on a more moderate level.

Fitch plans to resolve the Rating Watch following further clarity on the intended MBO and its impact on the company's financial profile, and the issuer's possible acquisition strategy.

Sibur has achieved a significant operational and financial turnaround since 2002, with the support of its ultimate shareholder, Gazprom group ('BBB'/Stable). Fitch acknowledges Gazprom's historical support for, and its current business ties with, Sibur, which range from supplying some of Sibur's feedstock to managing the company's export business. At present, Fitch views Sibur as a largely independent credit, given Gazprom's uncertain strategy regarding the subsidiary and Sibur's lack of integration into, and its limited strategic importance to, the Gazprom group.

Based on the company's audited FY07 accounts, revenue increased 17% to RUB142bn with an EBITDA margin of around 23.2%. Sibur's FY07 leverage increased to 0.7x from net debt/EBITDAR of 0.2x in FY06. Sibur's credit ratios at FYE07 were comfortable for the rating level.

Contact: Oliver Kroemker, Frankfurt, Tel: +49 69 768 076 253; Matthias Volkmer, London, +44 207 862 4025, Elisabetta Zorzi, Milan, +39 02 87 90 87 213.

Media Relations: Peter Fitzpatrick, London, Tel: + 44 (0)20 7417 4364; Christian Giesen, Frankfurt, Tel: + 49 (0) 69 7680 762 32.