FitchRatings

Fitch Revises JSC SIBUR Holding's Outlook to Stable; Affirms at 'BB' Ratings Endorsement Policy

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Fitch Ratings-London/Moscow-31 August 2011: Fitch Ratings has revised JSC SIBUR Holding's (Sibur) rating Outlook to Stable from Positive and affirmed its Long-term foreign currency Issuer Default Rating (IDR) at 'BB'. Fitch has also affirmed Sibur's Short-term foreign currency IDR at 'B'.

The revision of the Outlook to Stable reflects Fitch's view that an upgrade is unlikely until full clarity is gained about the potential impact and timing of possible shareholder-related transactions on Sibur's financial profile. The agency's assessment particularly focused on the debt raised by the shareholder to finance Mr. Mikhelson's acquisition of a 50% stake in Sibur, as well as any additional funding that could be required for the intended full takeover of the company by him. Mr. Mikhelson is the minority shareholder and the Chairman of the Management Board of OAO Novatek ('BBB-'/Negative), the largest private gas producer in Russia.

The rating is supported by Sibur's position as the largest vertically integrated petrochemicals producer in Russia and its strong operational profile and cash flow generation capacity through the cycle. Sibur benefits from leading associated petroleum gas (APG) processing capacities in Russia and from a low cost positioning relative to most of its international peers. As a result, the company has historically generated operating margins well above peers' average and demonstrated resilience during the downturn.

The ratings also reflect the group's solid financial profile, moderate leverage and adequate liquidity position. Sibur intends to dispose of its non-core tyre and fertiliser operations and Fitch's 2012 base case assumes that the proceeds from these divestments will support the service of the shareholder's acquisition debt.

Fitch forecasts mid-single digit revenue CAGR in 2011-2012 and mid-teens growth in 2013 and 2014. This assumes new polymer production capacities, partially offset by the disposal of the non-core businesses in 2012. The divestment of the lower margin tyre and fertiliser businesses, coupled with the group's improving vertical integration should offset rising cost inflation in Russia and support EBITDAR margins above 25% through the cycle. The large-scale Tobolsk-Polymer and RusVinyl capex projects are progressing in line with the Sibur's expected timeline. Completion of the Tobolsk project is planned for late 2012.

Rating constraints include Sibur's exposure to the inherent pricing volatility and demand cyclicality of the petrochemicals sector, and the higher than average legal, business and regulatory risks associated with Russia ('BBB'/Positive/'F3') where Sibur's key operating assets are located.

A positive rating action could be driven by timely execution of the capex programme, neutral to positive expected free cash flow generation across the cycle and FFO adjusted leverage below 1.5x on average through the cycle. However, it would also require full clarity on the potential impact of the shareholder's acquisition debt on Sibur's financial structure and credit profile.

The pursuit of a more aggressive financial strategy with an increased financial burden, resulting in FFO adjusted leverage sustained above 2.5x would put pressure on the rating. A deterioration in the company's cost position or access to low-cost APG could also lead to a negative rating action.

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Additional information is available on www.fitchratings.com.

Applicable criteria, 'Corporate Rating Methodology', dated 12 August 2011, are available on www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology