Fitch: SIBUR Affirmed at 'BB'; Removed From Rating Watch Negative

Ratings Endorsement Policy
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Fitch Ratings-London/Frankfurt/Moscow-09 December 2008: Fitch Ratings has today affirmed Russia-based petrochemical producer OJSC SIBUR Holding's (SIBUR) Long-term Issuer Default rating (IDR) at 'BB'. The Long-term IDR has simultaneously been removed from Rating Watch Negative (RWN), which was applied on 4 March 2008, and the Outlook on SIBUR's Long-term IDR is now Stable. The Short-term IDR is affirmed at 'B'.

The rating action reflects Fitch's view that SIBUR is well-positioned to face the challenges of an expected cyclical chemicals downturn, which is being exacerbated by the global economic downturn's impact on Russia, while maintaining a conservative financial profile, including adequate liquidity, moderate financial leverage and preservation of its business model. While the company is undertaking s cost control and optimization measures, management is adjusting modernisation and expanding capex to available funding following reasonable selection criteria and a selective approach regarding potential downstream acquisition targets.

The 'BB' rating reflects SIBUR's position as the largest vertically integrated petrochemicals producer in Russia in terms of revenues (RUB142.6bn (USD5.6bn)), and its leading domestic market positions in most of its products. The ratings benefit from SIBUR's strong and competitive cost position in an industry-wide comparison based on its access to competitively priced feedstock, which has resulted in strong profitability and generated positive free cash flow since FY05. The ratings are also underpinned by SIBUR's solid financial profile after significant de-leveraging since 2003.

However, the ratings are constrained by SIBUR's ambitious, mainly debt financed capex programme, amounting to a cumulative RUB74bn (USD2.7bn) between 2008 and 2012, resulting in a projected increase in leverage (net debt/EBITDA) to 1.7x and related execution risk. SIBUR is exposed to the volatility of feedstock, energy, and petrochemicals product pricing, while operating mainly in the Russian market and business environment. The ratings incorporate the expected supply-driven downturn in the chemicals cycle, characterised by significant capacity coming on stream in the Middle East and Asia, which is expected to depress global operating rates and petrochemicals product pricing. Additionally, Fitch expects a marked slowdown in global demand (see the agency's 4 November 2008 special report, entitled "Global Economic Outlook", available on Fitch's public website, www.fitchratings.com), which will likely prolong the period needed to absorb excess petrochemicals capacity.

Total debt at end-Q3FY08 due to capital expenditures increased to RUB26.6bn from RUB20.2bn, resulting in a slight increase to 16.9% of total capitalisation from 16.1% at FYE07. SIBUR has been operating with a relatively low financial leverage, with reported net debt to EBITDA of 0.4x at end-Q3FY08, down from 0.6x at FYE07. SIBUR's liquidity position is adequate with RUB7.0bn in cash on SIBUR's balance sheet at end-Q3FY08 versus RUB3.9bn at FYE07. At end-Q3FY08, SIBUR had funds available in committed credit facilities of around USD570m (RUB15.4bn). Fitch is confident that debt maturing in FY09 of around USD542m (RUB14.6bn) can be repaid by SIBUR out of either available liquidity or from cash flows from operations generated by the company. Fitch expects SIBUR to follow a conservative financial policy as expressed in a long-term target leverage ratio of net debt to EBITDA below 2.0x, despite its capex program between 2008 and 2012.

Contact: Oliver Kroemker, Frankfurt, Tel: +49 69 768 076 253; Matthias Volkmer, London, +44 (0) 207 862 4025.

Media Relations: Peter Fitzpatrick, London, Tel: + 44 (0)20 7417 4364, Email: peter.fitzpatrick@fitchratings.com; Alla Izmailova, Moscow, Tel: +7 495 956 9903, Email: alla.izmailova@fitchratings.com.