Moody's Investors Service

Credit Opinion: Sibur Holding, PJSC

Global Credit Research - 21 Mar 2016

St. Petersburg, Russia

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Corporate Family Rating	*Ba1
Sibur Securities Limited	
Outlook	Rating(s) Under Review
Bkd Senior Unsecured	*Ba1/LGD4

* Placed under review for possible downgrade on March 10, 2016

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Key Indicators

[1]**Sibur Holding, PJSC**

	6/30/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
Revenues (USD Billion)	$7.8	$9.6	$8.5	$8.7	$7.8
PP&E (net) (USD Billion)	$6.5	$5.8	$9.4	$7.1	$4.9
EBITDA Margin %	22.4%	22.0%	27.7%	31.7%	39.3%
ROA - EBIT / Average Assets	7.1%	8.3%	13.8%	20.1%	26.3%
Debt / EBITDA	3.8x	4.1x	2.0x	1.4x	1.1x
EBITDA / Interest Expense	6.6x	9.4x	12.0x	19.6x	19.2x
Retained Cash Flow / Debt	31.2%	27.8%	36.3%	33.2%	82.6%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Sovereign rating of Russia and its outlook

- Exposures to volatile petrochemical industry and continued weakness of Russia's economy

- Sizeable competitive exports and domestic leadership

- Sustainable profitability above that of its global peers

- Financial profile's ability to withstand pressure from a large investment project

Corporate Profile

Sibur Holding, PJSC (Sibur) is a Russian vertically integrated gas processing and petrochemicals company. On 17 December 2015, China Petroleum and Chemical Corporation (Sinopec; Aa3, under review for downgrade) acquired a 10% stake in Sibur as a strategic investor. Prior to the transaction, Mr. Mikhelson was the major shareholder, with 50.2% of the company's shares, followed by Mr. Shamalov (21.3%) and Mr. Timchenko (15.3%). The company's current and former management held the remaining 13.2%. In the 12 months to June 2015, Sibur generated revenue of $7.8 billion and adjusted EBIT of $1 billion.

SUMMARY RATING RATIONALE

Sibur's Ba1 corporate family rating (CFR) is constrained by (1) the company's exposure to the potential weakening of Russia's credit profile as captured by the review of the Ba1 sovereign rating; (2) Sibur's susceptibility to risks inherent to the petrochemical industry, heightened by Sibur's moderate size compared to that of its global peers; and (3) the risk of decreasing capital expenditure (capex) flexibility at the later stages of the implementation of the ZapSibNeftekhim project. Despite having a high volume of exports, Sibur remains exposed to Russia's macroeconomic environment, given that all of the company's production facilities are located in Russia. As a consequence, the review for downgrade of the sovereign rating prompted the review of Sibur's rating, which is at the same level as that of the sovereign bond rating and the country ceiling for foreign-currency debt.

More positively, Sibur's CFR reflects our view that Sibur will materially deleverage to about 2.0x debt/EBITDA over the next 18-24 months. Our view factors in (1) Sibur's export potential and position as a leading petrochemicals business in Russia; (2) long-term contractual access to attractively priced feedstock, which translates into low costs and secures high margins through the cycle; the weak rouble leverages the low cost; (3) flexibility regarding the implementation of the ZapSibNeftekhim project; and (4) Sibur's commitment to a conservative financial policy.

DETAILED RATING CONSIDERATIONS

EXPOSURE TO THE POTENTIAL WEAKENING OF RUSSIA'S SOVEREIGN

Sibur's rating is under review for downgrade, along with ratings of other private non-financial corporates rated Ba2 and above, and Russian government-related (GRI) corporates rated Ba3 and above, which reflects the decision on Friday 4 March to place Russia's Ba1 government bond ratings on review for downgrade, on the back of a further sharp fall in oil prices and heightened vulnerability of Russia's public finances.

Sibur's rating is constrained by that of the sovereign, due to the company's asset concentration in Russia and also the fact that Sibur generates 50% of its revenue in Russia and is the recipient of sizable investment funding from the Russian National Wealth Fund (NWF). Such exposure makes the company's credit profile sensitive to the potential weakening of Russia's operating environment and sovereign credit profile.

COMPETITIVE EXPORTS MITIGATE EXPOSURES TO VOLATILE PETROCHEMICAL INDUSTRY AND RUSSIA'S WEAK ECONOMY

Sibur is exposed to the inherent risks of the petrochemical industry, price volatility and demand cyclicality. Our outlook for the North American and EMEA chemical industry was changed to negative from stable for the next 12-18 months in March 2016 on the back of low commodity prices and weaker growth in China; declines at commodity businesses in the industry will offset improvements at higher value-added producers. We expect that demand growth will be sluggish in Europe and below historical norms in Asia, which are major exports markets for Sibur, accounting respectively for 61% and 20% of Sibur's export revenue. In this environment, the company's performance will depend on the product mix. We expect that the pricing environment for Sibur's petrochemicals will range from marginally weak to stable in 2016, excluding synthetic rubbers, which have continuously faced weak prices. We consider Sibur's exposure to the weak domestic market to be manageable within the current rating level, given that (1) the company generates half of its total revenue from exports and has a leading position in the domestic market; and (2) domestic sales are essentially linked to international benchmark prices for the majority of products.

Sibur's credit profile is likely to be stronger in this environment than those of some of its domestic and global peers because of its diversification into the feedstock and energy segment and its access to attractively priced feedstock. This access is advantageous even amid low oil and gas prices. The energy and feedstock segment, which is not dependent on the cyclicality of the petrochemical industry, generates about 57% of Sibur's reported unadjusted EBITDA, delivers relatively high margins despite low oil prices, reflecting attractively priced feedstock, and, in turn, ensures a low cost base for the company's petrochemicals business. The weak rouble additionally supports Sibur's export competitiveness, given the company's largely rouble-denominated operating costs, and mitigates the negative impact of lower oil prices on the company's energy business. As a result, we forecast that Sibur's total revenue in roubles will grow steadily in the mid-single digit range annually in 2016-17, driven by an increase of export sales on the back of launch of new capacities under the completed investment programme, supported by the weak rouble.

LEADING PRODUCER OF ENERGY PRODUCTS AND PETROCHEMICALS IN RUSSIA

Sibur is a leading producer of energy products and petrochemicals in Russia, which makes its business more robust to the vulnerability of the Russian operating environment compared with its domestic peers.

In 2014, Sibur accounted for 54% of the associated petroleum gas (APG) processing and 36% of the liquefied petroleum gases (LPG) production in Russia, and was the third-largest domestic supplier of natural gas (in volume terms) after Gazprom (Ba1 under review for downgrade) and Novatek (Ba1 under review for downgrade), according to the Central Dispatching Department of the Fuel Energy Complex. In 2014, Sibur increased its share in the domestic APG following the increase of its stake to 100% from 51% in Yugragazpererabotka (YGPP), a joint venture with Rosneft International Holdings Ltd. (Ba1 under review for downgrade), a subsidiary of Rosneft (Ba1 under review for downgrade), engaged in the APG processing.

According to IHS, in 2014, Sibur's share in the domestic production capacity was 46% for monoethylene glycol, 53% for styrene-butadiene rubber, 35% for low-density polyethylene and 56% for polypropylene (including the production capacity of a joint venture with an affiliate of Gazprom Neft (Ba1 under review for downgrade). Once fully operational, Sibur's ZapSibNeftekhim facility (under construction) will make the company Russia's largest polyethylene producer and extend its domestic market leadership in polypropylene production.

PROFITABILITY SURPASSES ITS PEERS

Sibur's reported margins have remained broadly robust against a background of high volatility in petrochemicals prices and, more importantly, declining oil and gas prices, which weigh on prices for energy products. Sibur's integrated business model combines the energy and feedstock segment with the petrochemical segment. The combination allows the company to balance declines in the energy and feedstock segment by improvements in the petrochemical segment amid low oil and gas prices, and vice versa. Sibur's EBITDA margins, net of one-off developments, have remained at around 30% during the past five years, including in 2014, when the economic environment in Russia significantly weakened. The margins increased in H1 2015 to 35.6% (H1 2014: 32.4% net of naphtha trading) as a weaker rouble boosted the company's competitiveness, since its costs, which are low, are mainly in roubles, while prices for its products (except for natural gas) are indexed to foreign currency. Though the petrochemical segment expectedly outperformed the feedstock and energy segment in terms of margin growth in H1 2015 (31.4% versus H1 2014: 9.1%), the latter segment's margin remained high at 37.4% (H1 2014: 44.4%) and its contribution to EBITDA exceeded 50%.

We consider that the company's sustainable cost competitiveness and integrated business model will support the margins at a high level, above 25% despite increasing commodity price pressure.

Sibur's competitive cost position remains underpinned by its unique access to feedstock, i.e., low-cost APG and competitively priced natural gas liquids (NGL) in West Siberia. Long-term supply contracts with key suppliers and modern pipeline infrastructure reinforce these benefits, as does the weak rouble.

FINANCIAL PROFILE TO WITHSTAND PRESSURE OF LARGE INVESTMENT PROJECT

Sibur's ZapSibNeftekhim investment project aims to establish a new capacity to produce 1.5 million tons per annum of various grades of polyethylene and 500 ktpa of polypropylene, valued at $9.5 billion as of September 2014. The project started in late 2014, and Sibur plans to complete the construction and launch the facility in 2020 and ramp up production through the following year. Once the facility becomes fully operational in 2021, ZapSibNeftekhim will almost triple Sibur's basic polymer production capacity to 3 million tonnes, increase revenue by 25%-30%, extend the company's product mix, and improve profitability. However, until the project starts generating cash flow in 2020, it will continue to exert significant pressure on Sibur's financial profile.

We view Sibur's 4.1x adjusted debt/EBITDA at end-2014 as temporary, owing to some one-off developments, including local currency shocks. However, in view of the recently raised $1.75 billion from Russia's National Wealth Fund (NWF) to finance the ZapSibNeftekhim project, which cannot be drawn gradually, the company's total debt and hence its leverage will increase. As a result, the company's adjusted leverage -- as measured by adjusted debt/EBITDA -- may still slightly exceed 3.0x at end-2015, but should decline towards 2.0x over the next 12-24 months.

At the same time, we expect that the company's net debt coverage by retained cash flow will remain well above 20% in the next 12-24 months (H1 2015: 33.2%) on the back of strong cash flow generation. Sibur's competitive exports, sustainably high EBITDA margins, investment flexibility and conservative financial policy should mitigate both investment pressure and the challenging market environment, including weakening commodity prices and the recession in Russia.

Liquidity

Sibur has an adequate liquidity profile. Over the next 18 months through June 2017, we expect that Sibur will continue to generate strong operating cash flows of $2.7 billion, which together with cash balances of $2.5 billion at end-December 2015 and availabilities under long-term credit facilities for general needs, will be sufficient to meet its basic obligations (including debt maturities, maintenance capex and dividend payments) of $1.6 billion.

Sibur recently raised $1.75 billion (included in cash as of end-2015) of project financing from the NWF, which provides additional support to Sibur's liquidity and practically completes all financing requirements for the ZapSibNeftekhim project. Other debt financing for the project includes previously signed and largely undrawn credit facilities with international banks and the loan from the Russian Direct Investment Fund and its co-investors.

Rating Outlook

Sibur's rating is under review for downgrade. The review will assess the company's resilience to the increased risk arising from the prevailing negative operating conditions in Russia, which is likely to be limited, as reflected by the alignment of the country ceiling for foreign-currency debt with the sovereign rating. We will finalise our review of Sibur's rating following completion of the sovereign review.

What Could Change the Rating - Down

The rating could come under pressure if (1) there is a downgrade of Russia's sovereign rating, and/or a lowering of the sovereign ceiling; (2) Sibur's EBITDA margins decline to materially below 25% and/or the company is unable to deleverage towards around 2.0x debt/EBITDA over the next 18-24 months and maintain RCF/net debt at above 20%; and/or (3) Sibur's liquidity deteriorates.

What Could Change the Rating - Up

Upward pressure on Sibur's rating is currently unlikely, given the review for downgrade. We could confirm the rating if the sovereign rating of Russia were confirmed, and there is no material deterioration in operating conditions or company-specific factors.

Other Considerations

We consider Sibur's rating in the context of the key rating drivers cited in our "Global Chemical Industry" rating methodology, published in December 2013. Based on Sibur's historical metrics, the methodology's grid-indicated rating maps to a level two notches above the current rating. As of December 2015, based on projections for the following 12-18 months, we expected the rating gap to widen by one notch, due to anticipated strengthening of financial metrics on the back of rouble depreciation. Sibur's rating is constrained by the sovereign rating, reflecting the company's exposure to Russia.

Rating Factors

Sibur Holding, PJSC

Chemical Industry Grid [1][2]	**Current LTM**		[3]**Moody's 12-18 Month Forward**	

[illegible]	6/30/2015		ViewAs of 12/28/2015	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenues (USD Billion)	$7.8	Baa	$7 - $7.3	Baa
b) PP&E (net) (USD Billion)	$6.5	Baa	$6.8 - $7	Baa
Factor 2 : Business Profile (20%)				
a) Business Profile	Baa	Baa	Baa	Baa
Factor 3 : Profitability (10%)				
a) EBITDA Margin %	22.4%	Baa	25%	A
b) ROA - EBIT / Average Assets	7.1%	Ba	13%	A
Factor 4 : Leverage & Coverage (30%)				
a) Debt / EBITDA	3.8x	Ba	2.5x	Baa
b) EBITDA / Interest Expense	6.6x	Ba	10x - 12x	Baa
c) Retained Cash Flow / Debt	31.2%	A	33% - 35%	A
Factor 5 : Financial Policy (20%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa1
b) Actual Rating Assigned				Ba1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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