

Announcement: Moody's: SIBUR's agreement with Rosneft on Yugragazpererabotka strengthens its long-term access to feedstock

Global Credit Research - 18 Mar 2014

London, 18 March 2014 -- Moody's Investors Service has today said that it views as credit positive for Sibur Holding, OJSC (Ba1 stable) the announcement that it had agreed with OJSC Oil Company Rosneft (Baa1 stable) on a new volume and pricing arrangements for supplies of associated petroleum gas (APG) from Rosneft's fields to OOO Yugragazpererabotka (YGPP, not rated) and sales of dry gas from Nizhnevartovskiy and Belozerniy GPPs of YGPP to Rosneft. At the same time, SIBUR has bought a 49% stake in YGPP from Rosneft's subsidiary Rosneft International Holdings Limited (RIHL, Baa1 stable), increasing its stake in YGPP to 100%. The deal strengthens SIBUR's long-term access to feedstock and the favourable new terms eliminate potential risks that could have materially and adversely affected SIBUR's credit metrics.

YGPP is the joint venture (JV) between RIHL and SIBUR. YGPP owns and operates three gas processing plants with aggregate nameplate capacity of 13.4 billion cubic metres (bcm) of APG per annum and, when fully consolidated, will account for over 50% of SIBUR's total APG processing capacity. APG, a by-product of oil production, is a key feedstock for SIBUR and a source of its strong EBITDA margin. Operating unique APG processing and transportation infrastructure in West Siberia, SIBUR is well-positioned to source APG at attractive terms.

Following the acquisition of RIHL in March last year, Rosneft initiated a renegotiation of terms for APG supplies to YGPP. This renegotiation posed potential risks for SIBUR that could have materially and adversely affected its credit metrics. The new arrangements eliminate this risk, as the higher costs of APG purchases for SIBUR will be offset by additional revenue from sales of natural gas and a decrease in raw natural gas liquids (NGL) purchases on full consolidation of YGPP. Prior to the transaction, SIBUR accounted for 51% of YGPP's natural gas and raw NGL production, in proportion with its stake in the JV, and purchased RIHL's 49% share of raw NGL. Following the transaction, SIBUR will consolidate 100% of YGPP's natural gas and raw NGL production and will cease purchases of raw NGL at YGPP.

SIBUR's adjusted EBITDA margin in 2014 will stay slightly below 30% and in line with our previous projections of 29% EBITDA margin made in January 2014. Additional benefits to SIBUR include an increase in the weighted average maturity of SIBUR's multi-year APG supply contracts to over 17 years (11.3 years in January 2014). Furthermore, full control over YGPP will also allow SIBUR to realise certain operating and strategic synergies.

The transaction will be financed by a combination of own and borrowed funds and will have only marginal effect on SIBUR's leverage. Moody's estimates SIBUR's adjusted leverage (measured by adjusted debt/EBITDA) to be 1.5x in 2014 (versus 1.7x at 30 September 2013) in comparison to 1.3x as per the rating agency's previous projections. The company's adjusted leverage will continue to remain within Moody's guidance for the current rating of adjusted debt/EBITDA below 2.0x.

OJSC SIBUR Holding (SIBUR) is a gas-processing and petrochemicals company with operations in two core segments: (1) feedstock and energy, which comprises the processing of associated petroleum gas (APG) and natural gas liquids (NGL), as well as the marketing and sales of energy products, such as natural gas, liquefied petroleum gases (LPG), naphtha, raw NGL, methyl tertiary butyl ether (MTBE) and other fuels and fuel additives; and (2) petrochemicals, including the production of basic polymers, synthetic rubbers, plastics and products of organic synthesis, as well as intermediates and other chemicals. As of end-2013, the company operated 26 production sites, had over 1,500 large customers operating in the energy, automotive, construction, fast-moving consumer goods (FMCG), chemical and other industries in approximately 60 countries, and employed more than 28,000 personnel.

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