MOODY'S
INVESTORS SERVICE

Credit Opinion: Sibur Holding, OJSC

Global Credit Research - 20 Jan 2014

St. Petersburg, Russia

Ratings

Category	**Moody's Rating**
Outlook	Stable
Corporate Family Rating	Ba1
Sibur Securities Limited	
Outlook	Stable
Bkd Senior Unsecured	Ba1/LGD4

Contacts

Analyst	**Phone**
Sergei Grishunin/Moscow	7.495.228.6060
Denis Perevezentsev/Moscow	
Victoria Maisuradze/Moscow	

Key Indicators

[1]**Sibur Holding, OJSC**

	9/30/2013(L)	12/31/2012	12/31/2011	12/31/2010	12/31/2009
Revenues (USD Billion)	$8.6	$8.7	$7.8	$5.7	$5.1
PP&E (net) (USD Billion)	$9.3	$7.6	$5.1	$4.5	$3.7
EBITDA Margin %	30.2%	33.5%	39.3%	36.2%	22.3%
ROA - EBIT / Average Assets	16.8%	21.0%	25.8%	22.2%	12.9%
Debt / EBITDA	1.7x	1.5x	1.2x	1.2x	2.1x
EBITDA / Interest Expense	11.8x	17.4x	17.8x	12.8x	4.4x
Retained Cash Flow / Debt	33.9%	29.4%	76.3%	61.2%	25.4%

[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

- Exposure to volatile petrochemical industry

- Leading producer of energy products and petrochemicals in Russia

- Profitability above that of global peers, though might be challenged in the next 3-5 years

- Conservative financial profile, albeit the impact on the company's financial profile of the potential further expansion of polymer capacities in Tobolsk is uncertain

Corporate Profile

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.

SIBUR's ownership changed at the end of 2011 when a group of shareholders led by Leonid Mikhelson purchased 100% of SIBUR's share capital. As of end-2013 Mr. Mikhelson and Gennady Timchenko own 82.5% of the company. The remaining 17.5% is held by the company's current and former management with no individual manager owning in excess of 5% equity interest in the company.

SUMMARY RATING RATIONALE

SIBUR's Ba1 corporate family rating (CFR) remains constrained by the company's (1) exposure to the risks inherent in the petrochemical industry, i.e., price volatility and cyclicality of demand; (2) moderate size relative to that of its global peers; (3) limited track record of operations following the change of ownership that took place at the end of 2011; and (4) geographical concentration of operations in the Russian Federation, where the political, business, legal and regulatory risks exceed the global average.

However, more positively the rating reflects SIBUR's (1) position as the largest petrochemical company in Russia by volume of sales and market share; (2) high profitability through the cycle (with a five-year average adjusted EBITDA margin of more than 30%), which is above that of its European peers; (3) historically conservative financial profile (with a five-year average adjusted debt/EBITDA ratio of 1.5x), which we expect to remain strong in the next 12-18 months on the back of (a) a stabilisation of global economic conditions and; (b) an expected increase in revenue and EBITDA following increased capacity of basic polymers, plastics, organic synthesis products and synthetic rubbers, the recent launch of the Ust-Luga LPG and light oils sea terminal, and a new gas fractionation unit (GFU) in Tobolsk, which is expected to be launched in 2014 and; (4) an adequate liquidity position, which, coupled with high profitability, provides the company with a degree of resilience to down cycles.

DETAILED RATING 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. The assigned CFR deviates from the rating methodology grid outcome of Baa1, mainly as a result of SIBUR's exposure to the Russian market environment, which is characterised by a less developed regulatory, political and legal framework, and also uncertainty related to further evolution of the company's leverage profile in conjunction with its expansion plans.

EXPOSURE TO VOLATILE PETROCHEMICAL INDUSTRY

SIBUR is exposed to the inherent risks of the petrochemical industry (i.e., price volatility and demand cyclicality). Since the second quarter of 2012, demand and average selling prices for petrochemical products have decreased compared with 2011 due to the weakening of the global economic environment. However, in September 2013 we changed our outlook for the North American and EMEA chemical industry, which includes Russia, to stable from negative, reflecting our expectation that the euro area economy will not suffer a further decline and China's demand for chemicals will improve. We expect a gradual recovery of prices and volumes for basic polymers and plastics over the 12-18 months from the beginning of 2014. However, prices and volumes for synthetic rubbers will remain under pressure over the same period as a result of weak demand from tyre producers.

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 access to competitively priced feedstock, diversification into the energy segment and lower exposure to synthetic rubbers (in the first nine months of 2013, synthetic rubbers represented around 13% of the company's total revenue).

We forecast that SIBUR's revenue in 2013 will remain similar to the level recorded in 2012, given our assumption that an increase of the company's revenue from energy products will be offset by a decrease in revenue in its petrochemical segment as a result of the soft pricing environment and weak demand for synthetic rubbers.

LEADING PRODUCER OF ENERGY PRODUCTS AND PETROCHEMICALS IN RUSSIA

SIBUR is a leading producer of energy products and petrochemicals in Russia. With regard to the energy products segment, according to the Central Dispatch Department of the Fuel and Energy Complex (CDU-TEK), in 2012 the company accounted for 56% of all APG processed in Russia, 32% of Russian LPG production and was the third-largest supplier of natural gas in Russia (in volume terms) after OJSC Gazprom (Baa1 stable) and OAO Novatek (Baa3 stable).

In the petrochemical segment, according to IHS (a US-based provider of diverse global market and economic information including for the chemical and energy sectors), in 2012 SIBUR accounted for a 66% share of Russian monoethylene glycol production capacity, a 45% share of Russian butadiene production capacity, a 40% share of Russian low density polyethylene production capacity and a 37% share of Russian polypropylene production (including 100% of the production capacity of OOO NPP Neftekhimia (not rated), the company's joint venture with an affiliate of JSC Gazprom Neft (Baa2 stable)).

PROFITABILITY ABOVE THAT OF PEERS, ALTHOUGH MIGHT BE CHALLENGED IN THE NEXT 3-5 YEARS

Historically, SIBUR has demonstrated high profitability through the cycle (with a five-year average adjusted EBITDA margin of more than 30%, and above 20% during the 2008-09 global financial crisis), exceeding that of its major European peers. This is underpinned by the company's competitive cost position, which in turn is driven by its unique access to feedstock (i.e., low-cost APG and competitively priced NGL in West Siberia). Long-term supply contracts with key suppliers (representing more than 70% of the feedstock supply) and ongoing investments in pipeline infrastructure (scheduled for completion in 2015) are reinforcing these benefits.

SIBUR's profitability is further enhanced by sales of its energy products resulting from feedstock processing (such as natural gas, LPG, naphtha, raw NGL and others), as the company internally consumed only 33% in 2012 and 30% in the first nine months of 2013 of NGL volumes available for sale. In the first nine months of 2013, SIBUR's sales of energy products comprised around 50% of its total reported revenue, and its reported EBITDA margin from sales of energy products was around 44%.

Strong margins derived from the nature of the product mix provide SIBUR with greater resilience to the economic downturn than its less profitable peers. In addition, we note that its sales and profitability of energy products are less volatile than those of petrochemical products, which provides an additional degree of resilience to the downturn. Overall, in the third quarter of 2013, despite the down cycle in the global chemical industry, SIBUR's reported EBITDA margin of almost 30% remained very strong and above many of its European peers.

We note that SIBUR's strong profitability may be challenged in the next 3-5 years on the back of the gradual decrease of profitability of company's feedstock and energy division. This is because the share of the most profitable APG in SIBUR's feedstock composition will gradually decrease and will be replaced by less profitable NGL. It is due to the limited growth potential of APG production in West Siberia given the maturity of oil fields in the region while NGL output will increase twofold by 2015 on the back of the growth of gas production in the region. However, this reduction in profitability of SIBUR's feedstock and energy division will be partly compensated for by rising profitability of the company's petrochemical division driven by ongoing expansion of SIBUR's polymer capacities which are expected to have a higher margin than other SIBUR's petrochemical output.

CONSERVATIVE FINANCIAL PROFILE

In the past five years, SIBUR has maintained a conservative financial profile, with a five-year average adjusted debt/EBITDA ratio of 1.5x and adjusted retained cash flow (RCF)/debt of above 50%. This is underpinned by SIBUR's low cost position, strong cash flow generation and the conservative financial policy adopted by the company's management, which includes net debt/EBITDA through the cycle of below 2.5x and EBITDA/interest expense of above 7.0x. This conservative financial profile provides the company with a degree of resilience to down cycles. We understand that this financial policy was supported by the new shareholders following a change in SIBUR's ownership in 2011 and expect that SIBUR will continue to demonstrate strong financial metrics in the next 12-18 months, in line with its stated financial policy, on the back of (1) a stabilisation of global economic conditions; and (2) an expected increase in the company's revenue and EBITDA in 2014 (see the section entitled Exposure to the Volatile Petrochemical Industry above).

However, there is still uncertainty regarding the impact on SIBUR's financial profile of the investment project in Tobolsk, which the company is currently considering. The project envisages the construction of an integrated light feed cracker and basic polymers production complex (ZapSib-2). The final decision on this project, including the contract structure and financing scheme, is expected no earlier than the first half of 2014, and so it is difficult to estimate the effect of such an expansion on SIBUR's financial metrics at this stage. We will assess the structure of the project and its funding (including project cost and timing as well as the sources and terms of financing) to estimate its impact on the company's business profile, financial metrics and liquidity position over the medium term.

Liquidity

Overall, SIBUR's liquidity profile is adequate. Over the 18 months starting from the fourth quarter of 2013, we expect that the company will continue to generate operating cash flows of around $3.3 billion that will be sufficient to meet its basic obligations (including debt maturities, dividend payment and maintenance capex) of approximately $2.3 billion, and partially cover the company's investment needs of approximately $1.3 billion. As of September 30th 2013, SIBUR had approximately $180 million in cash.

Rating Outlook

The stable outlook reflects our expectation that SIBUR will continue to adhere to its strategy of organic growth whilst maintaining solid financial metrics in line with its stated financial policy, and maintain a strong liquidity position. Our assumption does not take into account ZapSib-2 project, as SIBUR has not yet made a decision in this regard.

What Could Change the Rating - Up

Positive rating pressure could develop if SIBUR were to build a track record of operating under the new shareholding structure whilst adhering to its stated financial policies, capital structure and capital usage. A rating upgrade would also require the company to undertake further operational improvements and capacity expansion, resulting in enhanced scale and product diversification and/or a portfolio mix that is weighted towards higher value-added output.

What Could Change the Rating - Down

Downward pressure on the ratings would be likely to develop if (1) weaker-than-anticipated conditions in SIBUR's key markets were to result in its leverage (measured by adjusted debt/EBITDA) increasing to, and remaining, above 2.0x; its adjusted EBITDA margins declining to, and remaining below, the mid-20s in percentage terms; and its cash flow generation deteriorating, with RCF/net debt falling below 20%; or (2) material debt-financed expansion projects and/or acquisitions, or debt-financed dividend payouts to shareholders or other shareholder initiatives, were to lead to the company materially deviating from its stated financial policies or above-mentioned financial thresholds.

Rating Factors

Sibur Holding, OJSC

Chemical Industry Grid [1][2]	**Current LTM 9/30/2013**	
Factor 1 : Scale (20%)	**Measure**	**Score**
a) Revenues (USD Billion)	$8.6	Baa
b) PP&E (net) (USD Billion)	$9.3	A
Factor 2 : Business Profile (20%)		
a) Business Profile	Baa	Baa
Factor 3 : Profitability (10%)		
a) EBITDA Margin %	30.2%	A
b) ROA - EBIT / Average Assets	16.8%	A
Factor 4 : Leverage & Coverage (30%)		
a) Debt / EBITDA	1.7x	A
b) EBITDA / Interest Expense	11.8x	Baa
c) Retained Cash Flow / Debt	33.9%	A
Factor 5 : Financial Policy (20%)		
a) Financial Policy	Baa	Baa
Rating:		

a) Indicated Rating from Grid		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 9/30/2013(L); Source: Moody's Financial Metrics

MOODY'S
INVESTORS SERVICE