S&P Global Ratings

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Research Update:

Russia-Based Petrochemical Producer Sibur Outlook Revised To Negative; Affirmed At 'BBB-'

May 27, 2020

Rating Action Overview

- We believe Sibur's cost position and advanced ramp-up of the group's US$8.9 billon ZapSib project will moderate the earnings weakened by the current global recession and severe decline in commodity prices.
- In our revised base case, we still anticipate 20%-25% lower revenue and 35%-40% lower earnings in 2020 compared with our previous forecast. This pushes the group's S&P Global Ratings-adjusted funds from operations (FFO) to debt close to 45% on average, leaving limited rating headroom.
- We are therefore revising our outlook on Sibur to negative from stable, and affirming our rating at 'BBB-'.
- The negative outlook on Sibur indicates the risk of a delayed recovery in petrochemical pricing in 2021 and further deterioration in the group's average FFO to debt.

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Rating Action Rationale

SIBUR will significantly underperform our previous forecast for 2020 due to weak petrochemical pricing. We revised the outlook on Sibur because we believe the group's free cash flow will be considerably weaker in full-year 2020 than we previously expected. The COVID-19 pandemic and related quarantine measures have resulted in significant disruptions in the global markets and let to demand shocks, alongside a sharp decrease in oil and petrochemical prices, as well as depreciation of the Russian ruble. We assume the group will report 20%-25% lower revenue and 35%-40% lower earnings in 2020 compared to our previous forecast. Sibur developed plans to mitigate the repercussions on its business, including tactical supply chain management and measures to reduce costs and lower its investment program. Nevertheless, we believe the anticipated improvement in Sibur's overall performance will be delayed, potentially leaving its 2020 credit metrics significantly below the levels commensurate for the current rating.

Additional volumes from the ZapSib project and countermeasures will only partly compensate for the COVID-19-related performance constraints. We recognize Sibur's timely ramp-up of its ZapSib project, with highly profitably volumes expected, and the group's measures to offset adverse pricing conditions for its key products. The group will also have materially less capital expenditure now that the ZapSib project is complete. That said, we forecast lower EBITDA in 2020 as compared with 2019 and free cash flow of Russian ruble (RUB) 50 billion-60 billion, roughly half of our previous forecast.

Sibur's high profitability and sound financial flexibility can absorb temporary weakness. Even under the current adverse market conditions, we expect the company to sustain robust profitability, with an EBITDA margin of about 30%, one of the highest in our petrochemicals rating universe. We also note that Sibur has maintained leverage over the past few years in line with is financial policy, despite the implementation of major expansion projects. In our base case, we assume a gradual recovery in global economic conditions and the oil and petrochemical prices in 2021. Sibur's free cash flow should materially increase in 2021 and its financial metrics will likely recover from temporarily subdued levels.

Outlook

The negative outlook reflects the risk of a delayed recovery in petrochemical pricing in 2021. This is based on a potentially prolonged global recession compared with our base-case assumption and a slower recovery in Sibur's adjusted FFO to debt to greater than 45%, above which is in line with a 'BBB-' rating.

Downside scenario

We could lower the rating if we anticipated that a swift recovery of Sibur's FFO to debt in 2021 above the 45% commensurate with our 'BBB-' rating would not materialize. This could occur due to a slower-than-estimated recovery in petrochemical pricing amid prolonged recessionary conditions, or a change in the group's financial policy involving higher dividends or materially higher capex.

Upside scenario

We could revise the outlook to stable if Sibur's strong profitability and free cash generation teamed with a recovery in petrochemical prices enabled the group to restore its adjusted FFO-to-debt ratio above 45%.

Company Description

SIBUR Holding is the largest integrated petrochemical company in Russia and is headquartered in Moscow. Its midstream segment accounts for about 40% of group sales and it operates the largest infrastructure for processing APG in Western Siberia. It owns eight out of the 10 gas processing plants that separate natural gas from raw NGL (a mix of heavier liquid petroleum gas [LPG] and naphtha fractions). The group also sources large volumes of raw NGL, for which it has an extensive 2,700 kilometer pipeline network and three gas-fractioning units that process raw NGL.

In addition, SIBUR holds leading positions in the domestic market in key petrochemical products produced by its petrochemicals segment. These range from intermediates to plastics and organic synthesis products such as glycols, alcohols, and polyethylene terephthalate, through synthetic rubbers to polyolefins such as PE and PP. The commissioning of the world scale ZabSib project in 2019 with capacity of 2 million metric tons per year, the petrochemicals segment gained importance and we estimate its share in the group's sales could exceed 60% in the coming years. In 2019, SIBUR'S adjusted EBITDA was about RUB170 billion (US$2.4 billion) on revenue of about RUB531 billion (US$7.6billion).

Our Base-Case Scenario

Assumptions

- Oil prices of around $30 per barrel (/bbl) in 2020, $50/bbl in 2021 and $50/bbl in 2022
- EBITDA (including our adjustments) to decrease to RUB145 billion-RUB155 billion in 2020 from RUB170 billion in 2019. We anticipate that a material decline in global feedstock prices and petrochemical product prices, mainly as a result lower demand in light of the global recession materializing in 2020, is likely to result in weaker profits from the Midstream segment and from the Plastics, Elastomers and Intermediates segment. This is only partly compensated to higher contribution from the company's Polyolefins and Olefins division due to additional highly profitable volumes from the ZapSib project which is ahead of its ramp-up schedule and starts meaningful contributing to Sibur's cash flow generation in 2020.
- A decrease in adjusted capex in 2020 to around RUB70 billion from RUB149 billion in 2019 due to the ZapSib project's completion. In our base case we factor in continued low capex in 2021 and 2022. This would somewhat increase if group decides to embark on the new Amur GCC project, but we also note the backend-loaded nature of these projects and the potential shared burden in a joint-venture structure.
- Dividends of RUB30 billion-RUB40 billion per year over the forecast period, reflecting the company's increased payout ratio (not less than 35% of adjusted net income).
- Sibur is considering undertaking another multibillion-ruble project with about 30% higher capacity than ZapSib and related to Gazprom's planned gas-processing plant in the Amur region. The final investment decision is subject to two key factors: China Petroleum & Chemical Corp.'s (Sinopec's) corporate approval to enter the joint venture and the Russian government's decision on recoverable excise for ethane and LPG; the latter is still pending. In the meantime, the company has signed final ethane and preliminary LPG supply contracts with Gazprom and term sheets regarding a potential joint venture with Sinopec. Capex requirements could be substantial but would follow a backend-loaded pattern similar to that employed at ZapSib. Therefore, the initial capex we factor into our base case only modestly weighs on credit metrics in 2021 and 2022.

Key metrics

SIBUR Holding Key Metrics*

	--Fiscal year ends Dec. 31--				
(Bil. RUB)	2018a	2019a	2020e	2021f	2022f
Oil price ($/bbl))	70	60	30	50	55
EBITDA	205	170	145-155	180-190	190-210
EBITDA margin (%)	36	32	28-32	33-38	33-38
Capital expenditure	137,091	149,322	65-70	35-45	25-35
Debt/EBITDA (x)	1.6	2.2	2-2.5	1.3-1.7	0.5-1.5
FFO/debt (%)	45.0	32.8	33.0-37.0	55.0-65.0	95.0-100.0
FOCF/debt (%)	1.2	(9.9)	12.0-18.0	40.0-50.0	80.0-90.0

*All figures adjusted by S&P Global Ratings. 2019 year-end debt of RUB369 bn consists of net financial debt of RUB347 billion with key adjustments being RUB 15 billion in leases, RUB4 billion in guarantees and RUB2 billion in pension. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess SIBUR's liquidity as adequate. We estimate that liquidity sources should cover liquidity uses by about 1.69x over the 12 months from March 31, 2020.

Our base-case operating scenario forecasts the following liquidity sources in the next 12 months:

- About RUB46 billion of cash as of March 31, 2020.
- About RUB58 billion undrawn committed lines.
- About RUB136 billion of FFO.

Our base-case scenario incorporates the following liquidity uses over the next 12 months:

- RUB62 billions of capex over the next 12 months.
- RUB37 billion of debt repayment over the next 12 months.
- Working capital requirements of approximately RUB2 billion over the next 12 months.
- Dividends of RUB32 billion over the next 12 months.

Covenant Analysis

The company has ample headroom under the maintenance financial covenants in its loan and bond documentations over the next 12 months.

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Negative/--

Business risk: Fair

- Country risk: High
- Industry risk: Moderately high

- Competitive position: Satisfactory

Financial risk: Modest

- Cash flow/leverage: Modest

Anchor: bbb-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Sibur Holding PJSC		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.