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S&P Upbeat on Rosneft Despite Moody's and Fitch Downgrade Warnings

By The Moscow Times

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Standard & Poor's revised its outlook on oil major Rosneft's BBB long-term rating from negative to positive, in contrast to earlier downgrade warnings by Moody's and Fitch.

The rating decisions followed Rosneft's announcement of a landmark deal to take over TNK-BP.

Standard & Poor's also said it had placed BBB long-term and A-3 short-term ratings on TNK-BP on its CreditWatch, with positive implications.

The agency said the move reflected the possibility of a one-notch upgrade if extraordinary government support, which is increasingly likely, to an enlarged entity offsets the potential negative impact of the transactions on Rosneft's financial profile.

The rating agency said it would decide whether or not to upgrade the company once it knew

whether the transactions would proceed, fully or partially, how they will be funded and what the implications are for the likelihood of extraordinary government support.

Should Rosneft achieve control over TNK-BP, this may increase its chances of gaining state support in case of need because the company will become a clear leader in the Russian oil industry by reserves and production and one of the largest hydrocarbon companies globally.

After the transaction, the government will control about 69 percent in Rosneft, and a reduction of the government's stake below a controlling one will be very unlikely, Standard & Poor's said.

If Rosneft becomes the state's key tool in the strategically important oil industry, this may increase the government's incentive to provide extraordinary support if needed and trigger a one-notch uplift to the rating in line with the agency's methodology for rating government-related entities, Standard & Poor's said.

Nevertheless, if the transaction proceeds, either fully or partially, the increased pressure on Rosneft's leverage and liquidity could weaken its standalone credit quality. To purchase 100 percent of TNK-BP, Rosneft will have to raise about $45 billion of additional debt and assume $6.1 billion of TNK-BP's adjusted debt.

This would result in adjusted debt to EBITDA of about three times and funds from operations to adjusted debt of about 25 percent, based on Standard & Poor's standard scenario of Brent oil at $80 per barrel, Standard & Poor's said.

If Rosneft buys only 50 percent from BP for a mixture of cash and equity, assuming that it will only be able to consolidate half of TNK-BP's dividends, adjusted debt to EBITDA would be about 2.5 times and funds from operations to debt about 35 to 40 percent, the rating agency said.

In both cases, the agency's projected ratios are much weaker than those of BBB-rated Russian oil peers and might only in the latter case remain compatible with an "intermediate" financial risk profile, according to Standard & Poor's.

On Wednesday, Moody's and Fitch put Rosneft on review for a downgrade to reflect the TNK-BP deal's possible negative implications for the state company's financial position.

State-owned Rosneftegaz might revive a plan to buy stakes in state-controlled electric power companies, following reports that it had been canceled, Vedomosti reported Thursday.

The move highlights what some analysts see as the increasing clout of Igor Sechin, chairman of Rosneftegaz's board of directors, amid Rosneft's takeover of TNK-BP. Rosneftegaz controls Rosneft, which is headed by Sechin.

On Tuesday, the government's energy sector commission considered Rosneftegaz's plans to buy a stake in hydropower monopoly RusHydro, Vedomosti reported, citing four sources close to the commission.

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