



Fitch Revises Novatek's Outlooks to Negative on Acquisitions [Ratings](#)

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Fitch Ratings-London/Moscow-10 November 2010: Fitch Ratings has revised OAO Novatek's (Novatek) Long-term rating Outlooks to Negative from Stable. This follows news that the company's Board has approved plans to raise additional debt of up to USD1.5bn to acquire a 25.5% stake in SeverEnergia from Gazprom ('BBB'/Stable) via its 50/50 joint venture called Yamal Development, and a 51% stake in Sibneftegas from Gazprombank. Novatek's ratings have been affirmed at Long-term foreign and local currency Issuer Default (IDR) 'BBB-' and National Long-term 'AA+(rus)'.

Fitch views the additional borrowings required to complete the two transactions as increasing the company's financial risk profile beyond that previously envisaged by the agency. Fitch notes that the acquired assets improve Novatek's business profile by enhancing the company's strategic position in the Yamal region. In addition, the acquired assets fit into the company's existing business operations in the region and Fitch anticipates that Novatek should be able to immediately generate incremental cash flow from producing assets.

When Fitch affirmed Novatek's ratings on 5 October 2010, the agency stated that it anticipated Novatek's debt level to remain broadly unchanged into 2011 if the company does not fund acquisitions with additional borrowing. At the time, Fitch also stated that it views Novatek as having some additional headroom for debt-funded acquisitions at the current rating level, but the company would need to maintain a mid-cycle funds from operations (FFO) interest coverage ratio above 10x and FFO gross leverage of less than 2x to retain investment grade ratings. That headroom will be reduced as a result of planned additional borrowings, which contributes to the Negative Outlooks.

Increased uncertainty in the company's financial profile overall, combined with a more aggressive financial policy, means the company's credit ratings could be downgraded if Novatek is not able to demonstrate an ability to maintain mid-cycle FFO leverage and coverage ratios commensurate with the current rating level over the next 12-18 months.

Fitch also notes that Novatek's incremental free cash flow intended to reduce its higher financial leverage largely depends on a combination of external factors such as sustained positive domestic economic conditions, and a continued upward movement of domestic natural gas prices by approximately 15% per year. Novatek would also need to deliver on its incremental natural gas production targets.

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Corporate Ratings Criteria', dated 16 August 2010, and 'Rating Oil and Gas Exploration and Production Companies - Sector Credit Factors', dated 6 April 2010, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

[Rating Oil and Gas Exploration and Production Companies: Sector Credit Factors](#)

[Corporate Rating Methodology](#)

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