Rating Action: Moody's upgrades OMV's senior unsecured rating to A3; stable outlook

21 May 2018

London, 21 May 2018 -- Moody's Investors Service ("Moody's") has today upgraded OMV AG (OMV)'s issuer and senior long-term debt ratings to A3 from Baa1, the company's baseline credit assessment (BCA) to baa1 from baa2, and the medium term note program rating to (P)A3 from (P)Baa1. At the same time, Moody's upgraded OMV's junior subordinated hybrid securities to Baa2 from Baa3. The outlook is stable.

RATINGS RATIONALE

OMV is 31.5% owned by the government of Austria (Aa1 stable) and is rated according to Moody's methodology for government related issuers (GRI), which considers the company's fundamental credit quality as indicated by its BCA, and then factors in a level of government support and ratings uplift in the event of financial distress. Since March 2016, OMV's ratings are based on the BCA and a one rating notch uplift reflecting classification of a government related issuer. While the BCA was upgraded today, the one notch rating uplift remains unchanged.

The rating upgrade reflects predominately OMV's improved business profile following the transformation process over the last two years. OMV disposed of high production cost assets such as its UK upstream operations and matured oil fields in Romania as well as non-core operations like the Turkish fuel supply and distribution business OMV Petrol Ofisi. These divestments increased the company's financial flexibility and created financial headroom for the acquisition of upstream assets. OMV started last year to acquire lower cost upstream assets. In 2017, OMV acquired a 24.99% minority stake in Gazprom's YuzhnoRusskoye gas field for €1.7 billion. In recent months, OMV has announced two more sizeable acquisitions, upstream assets in New Zealand, which it acquired from Royal Dutch Shell plc (Aa2 stable) Shell for $578 million and a 20% interest in the concession for the offshore oil fields Satah Al Razboot and Umm Lulu in Abu Dhabi for $1.5 billion. While somewhat increasing exposure to geopolitical risk, the recent acquisitions materially strengthen OMV's business profile as they add sizeable and low cost upstream production and reserves to the company while at the same time lowering OMV's exposure to mature assets in Austria and Romania.

Despite these sizeable acquisitions and Moody's expectation that the company will continue to invest in a growing upstream production base over the next few years, the rating agency expects that OMV's financial profile will remain strong. OMV's operating performance outperformed most of its integrated peers during the time of low oil prices in 2015 and 2016 benefitting from its large and less cyclical downstream operations with Moody's adjusted net debt / EBITDA peaking at 2.1x in 2016. In 2017 and Q1 2018, OMV generated materially higher EBITDA and operating cash flow generation predominately owing to the recovery of oil prices but also supported by rising upstream production and the company's cost saving program. In 2017, OMV's Moody's adjusted EBITDA increased by 31% to €4.9 billion compared to €3.7 billion in 2016 and the company's retained cash flow (RCF) rose by 21% to €3.3 billion compared to €2.7 billion in 2016. OMV's RCF/net debt credit metric improved further from an already solid level of 49% in 2016 to 73% in 2017. The RCF/net debt metric compares favourably with Moody's previous rating guidance for an upgrade to A3, which was set in the 40% area.

Based on an oil price of $55/bbl, the rating agency expects OMV's Moody's adjusted EBITDA to continue to rise to around €5.5 billion and the company to generate free cash flow of more than €1 billion annually in 2018 and 2019. Moody's expects that rising EBITDA and operating cash flow generation will largely offset higher, acquisition driven net debt thereby keeping Moody's net adjusted debt/EBITDA ratio at around the current level of 1.0x underpinned by a conservative financial policy. The retained cash flow (RCF)/net adjusted debt coverage will only fall slightly to around 60% over the next 12 -- 18 months compared to 73% in 2017.

OMV's rating reflects its solid position as a mid-sized integrated oil and gas company with a sizable and growing upstream oil and gas production portfolio and a strong refining and marketing presence in Austria and central Europe. The downstream refining and marketing operations in particular will continue to support the company's cash flow and enable OMV to generate more stable cash flows than most of its integrated peers during volatile crude oil prices. OMV also operates the gas pipelines and parts of the storage infrastructure that are critical to Austria's energy supplies.

RATING OUTLOOK

The stable outlook on OMV's ratings reflects Moody's view that the growing production alongside improving profitability and cash flow generation will largely offset rising net debt levels thereby positioning the company solidly in the A3 rating category.

WHAT COULD CHANGE THE RATING UP/DOWN

While there is limited potential for positive rating action in the mid-term, further growth of OMV's upstream production beyond its 2020 target alongside sustainable reserve replacement and a continued strong financial profile measured by a sustainable RCF/Net Debt metric of at least 50% could lead to a higher BCA and prompt a ratings upgrade.

Failure to grow upstream production materially above 400kboe/d or weaker cash flows with RCF/Net Debt falling to the mid-30s or less could lead to a re-assessment of the BCA and a downgrade of the rating. Reduced ownership by the Austrian government or changes in Moody's support assumptions could result in a removal of the one notch rating uplift.

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Global Integrated Oil & Gas Industry published in October 2016, and Government-Related Issuers published in August 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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