

FITCH AFFIRMS OMV AT 'A-'; OUTLOOK STABLE

Fitch Ratings-London/Warsaw-07 June 2018: Fitch Ratings has affirmed Austrian energy company OMV AG's Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'A-', as well as OMV's EUR1.5 billion perpetual subordinated fixed-to-floating-rate notes at 'BBB'. The Rating Outlook is Stable. A full list of rating actions is provided at the end of this commentary.

The rating affirmation reflects OMV's strong balance sheet, prudent financial policy, increased oil and gas output in 2017 and favourable prospects for production growth following acquisitions made in 2017 and 2018. OMV plans to focus its upstream business in CEE, the North Sea, Russia, Middle East and North Africa and Australasia. We believe that the increase in production in countries with weaker systemic governance will be largely offset by an increase in total production as well as reductions achieved in the breakeven oil price through those portfolio changes.

KEY RATING DRIVERS

Acquisitions Support Rating: We believe that along with its consistently conservative credit profile, the transformational plan implemented by OMV over the past two years supports its rating. In 1H18 the company announced the planned acquisition of upstream assets in New Zealand and bought a 20% stake in two fields in the United Arab Emirates for the total amount of USD2.1 billion. In 2017, OMV bought a stake in the Yuzhno-Russkoye natural gas field in Russia for USD1.9 billion and sold its upstream assets in the UK and the Turkish subsidiary OMV Petrol Ofisi. These transactions have diversified the upstream asset base of OMV, increased its output and reserves and lowered its breakeven oil price.

Upstream Portfolio Composition Neutral: OMV's upstream portfolio is now more exposed to countries with weaker systemic governance and the asset swap deal being considered with Gazprom, although not part of our base case, would further increase the group's exposure to Russia. This is in our view offset by the high quality and low-cost position of the acquired assets, which increase OMV's resilience to oil price fluctuations, the group's higher output and reserves and diversification both vertically (upstream and downstream) and geographically.

Further Acquisitions Likely: OMV plans to spend up to EUR10 billion on acquisitions in 2018-2025 both on downstream and upstream assets. Oil and gas output is expected to increase to 600,000 barrels of oil equivalent per day (mboepd) in 2025, up 72% on 2017. We understand from management that they plan to maintain strong credit metrics despite the ambitious M&A targets, and believe, based on the company's track record, that spending will be adjusted to reflect market conditions and to maintain a conservative credit profile. Our base case does not factor in acquisitions beyond 2018 but offers headroom under the 2.0x funds from operations (FFO) adjusted net leverage sensitivity. We view the expected growth through acquisitions as positive for OMV's business profile after taking into account the execution risk present in M&A transactions.

Conservative Leverage, FCF: OMV has maintained a conservative financial policy through the industry cycle and reported free cash flow (FCF) in both 2016 and 2017. Its leverage has been in line with the median value for the 'A' rating category and within our rating guidance during the period of lower oil prices. This was especially evident at end-2016, when a number of similarly-rated oil & gas peers reported significantly higher leverage, above the median values for their rating categories and above our rating guidance. We expect OMV to maintain conservative leverage, supporting the rating.

Strong Performance in 2017: OMV decreased its FCF breakeven oil price (after dividends) to USD25/bbl in 2017 from USD70/bbl in 2015, primarily on the back of the changes in its upstream portfolio, and delivered EUR330 million cost savings compared with 2015. Total hydrocarbon output increased 12% yoy to 348mboepd. FFO adjusted net leverage totalled 1.2x in 2017, leaving significant headroom for inorganic growth under our leverage guidance for 'A-' rating.

Equity Credit Unaffected by Hybrid Repayment: In April 2018 OMV redeemed a EUR750 million hybrid bond issued in 2011 and also informed investors about its intention to issue a new perpetual, subordinated bond. Based on our discussions with management, we understand that OMV views hybrid capital as a permanent feature of its capital structure. Therefore, the repayment of 2011 hybrid does not affect the 50% equity credit for perpetual notes issued by OMV in December 2015.

Rating on a Standalone Basis: The Austrian state (AA+/Stable) is the largest single shareholder holding 31.5% shares in OMV. In line with Fitch's methodology for rating government-related (GRE) entities, we assess the status, ownership and control factors as moderate and support track record and expectations as weak. Socio-political impact of default is assessed as moderate while financial implications of a GRE default are regarded as weak. This maps to a score of 7.5 under our GRE criteria and we accordingly rate the company on a standalone basis. We continue to believe that OMV's stable ownership supports the group's conservative credit profile and rating.

DERIVATION SUMMARY

OMV is smaller than its 'A' category EMEA peers such as BP plc (A/Stable) and Eni SpA (A-/Stable) by upstream production volume and level of reserves, and is comparable in size with Repsol, S.A.(BBB/Stable). OMV's 'A-' rating is driven by a conservative financial profile with FFO adjusted net leverage below 2x even at the lowest point of the cycle in 2015-16; stable cash flows from operations through the cycle, as well as strong retail and marketing operations.

KEY ASSUMPTIONS

Fitch's Key Assumptions within our Rating Case for the Issuer

- Fitch's latest Brent price deck of USD57.5/bbl in 2018-2020
- Upstream production growing to around 440mboepd in 2020 including the Yuzhno-Russkoye natural gas field. The impact on overall production coming from the contemplated asset swap with Gazprom PJSC (BBB-/Positive) has not yet been reflected in our forecasts pending closing of the transaction.
- Capex in line with management guidance

RATING SENSITIVITIES

Positive rating action is unlikely given OMV's size relative to larger and more diversified 'A' category EMEA peers.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- FFO adjusted net leverage above 2x (2017: 1.2x) and FFO fixed charge cover below 8x (2017: 9.0x) on a sustained basis.
- Failure to meet oil and gas production targets, higher-than-expected capex or delays in delivering upstream projects in Russia and the MENA region or significant adverse changes in taxation, licensing and regulatory regimes in OMV's main markets.

LIQUIDITY

Strong Liquidity: OMV's cash of EUR4.3billion and undrawn committed credit lines of EUR3.4 billion comfortably covered short term debt of EUR0.1 billion at end-March 2018.

FULL LIST OF RATING ACTIONS

OMV AG

Long-Term IDR: affirmed at 'A-', Outlook Stable

Senior unsecured rating: affirmed at 'A-'

EUR1.5 billion subordinated fixed-to-reset rate euro-denominated notes: affirmed at 'BBB'

OMV Finance Limited

Senior unsecured debt 'A-' rating affirmed and withdrawn as OMV Finance Limited's outstanding liabilities have been repaid and the entity no longer exists.

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Summary of Financial Statement Adjustments

- Debt is increased by EUR1.1 billion at end-2017 to account for the 50% equity credit assigned by Fitch to the hybrids issued by OMV in 2011 and 2015

- We use an 8x multiple to capitalise annual rental costs on operating leases.

-Receivable factoring and securitisation and supplier financing of EUR0.5billion is treated as debt

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria

Corporate Hybrids Treatment and Notching Criteria (pub. 27 Mar 2018)

<https://www.fitchratings.com/site/re/10024296>

Corporate Rating Criteria (pub. 23 Mar 2018)

<https://www.fitchratings.com/site/re/10023785>

Sector Navigators (pub. 23 Mar 2018)

<https://www.fitchratings.com/site/re/10023790>

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