Fitch Affirms OMV at 'A-'; Outlook Stable

Fitch Ratings - Warsaw - 19 December 2019:

Fitch Ratings has affirmed OMV AG's Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'A-'. The Rating Outlook is Stable. A full list of rating actions is below.

The rating affirmation reflects OMV's strong balance sheet, prudent financial policy, increased oil and gas output and favourable prospects for production growth following acquisitions made in 2017-2019. Despite inorganic growth in recent years, we forecast OMV will maintain funds from operations (FFO)-adjusted net leverage of 1.2x on average in 2019-2022, significantly below our negative rating sensitivity of 2.0x.

Key Rating Drivers

Acquisition Fuelled Growth: OMV made a number of acquisitions in 2018 and 2019 as part of its broader strategy to spend EUR10 billion on inorganic growth between 2018 and 2025. In 2018, OMV acquired a 20% stake in Unm Lulu and SARB fields in Abu Dhabi for USD1.5 billion and Shell's assets in New Zealand for USD0.6 billion. In 2019, it acquired a 15% stake in refining and petrochemical assets from Abu Dhabi National Oil Company (AA/Stable) for USD2.4 billion and a 50% stake in SEB Upstream Sdn Bhd, a joint venture with Malaysian Sapura Energy Berhad, for USD0.5 billion. We also assume that OMV will complete its acquisition of a 24.98% stake in Achimov IV/V stake in Russia for EUR0.9 billion in 2020.

Larger Scale in Upstream: In 9M19 OMV reported total oil and gas output of 481 kb/d, up 14% yoy (59% more than in 2015), due mainly to acquisitions as well as the production start-up of Aasta Hansteen in Norway in 4Q18. The increased operating scale places OMV's business profile comfortably in the 'A' rating category, but an upgrade is unlikely until it sees a significant further increase in scale closer to that of such European oil majors as Eni SpA (A-/Stable) and BP plc (A/Stable).

Strong Leverage Metrics: Despite its acquisitions in the last two years, OMV has maintained solid leverage metrics. We expect FFO-adjusted net leverage of 1.4x in 2019 and 2020 and 1.0x in 2022, leaving ample headroom for additional inorganic growth in line with OMV's 2025 strategy.

Low Production Costs: OMV's upstream production costs in 2018 amounted to USD6.8/boe, according to our calculation, and compared well with that of peers such as Total S.A. (USD5.8/boe), BP (USD6.8/boe), Eni (USD6.9/boe) and Royal Dutch Shell plc (USD9.7/boe). OMV maintains stringent cost discipline and is expecting in its 2025 strategy to maintain costs at below USD8/boe, which will aid solid financial performance at a time of volatile oil prices.

Exposure to Gas: Around 60% of upstream output is gas. In the long-term, we view a higher share of gas in total production as positive for the credit profile due to more favourable forecasts for gas demand growth compared with that for oil. Yet, European spot gas prices are 40% lower yoy in 2019 due to high LNG imports and almost full storage levels across Europe. OMV's low production costs, vertical integration and the fact that only 40% of the gas sales portfolio is directly linked to European spot gas prices should help offset the negative impact of lower gas prices, the latter of which we expect to increase gradually to USD6/mcf in 2021, from USD4.75/mcf in 2019, according to our oil and gas price deck.

Positive Downstream Prospects in 2020: We expect the upcoming IMO 2020 fuel sulphur regulation, which aims to reduce the maximum allowed sulphur content in fuel oil used for marine transportation to 0.5% from...
3.5\%, starting from 1 January 2020, to increase margins on middle distillates and deepen losses on sales of heavy sulphur fuel oil. The overall impact on more complex refiners such as OMV is positive. We also expect refining margins in 2020 will reflect the positive effects of higher demand for middle distillates. Growing global net refining capacity, coupled with expected lower refining capacity maintenance, may, however, partially reduce the positive impact on crack spreads.

Potential Sanctions an Event Risk: OMV is part of a funding consortium for the construction of Nord Stream 2, the second line of the Baltic gas pipeline connecting Germany and Russia, together with Engie S.A. (A/Stable), Royal Dutch Shell plc (AA-/Stable), Uniper and Wintershall Dea GmbH (BBB/Stable). The US House and Senate agreed recently a defence bill that may force US authorities to impose sanctions on companies involved in the gas pipeline construction. We treat the risk of US sanctions against companies engaged in Nord Stream 2 as an event risk.

Derivation Summary

OMV is smaller than its A-category EMEA peers such as BP (A/Stable) and Eni (A-/Stable) by upstream production volumes. The smaller size is compensated, in our view, by OMV’s upstream focus on countries in OECD and the EU (62% of production in 2018), through-the-cycle leverage that is commensurate with the median 'A' category rating, and strong long-term shareholders. At end-2018, OMV's FFO-adjusted net leverage was 1.1x lower than the median leverage for western oil & gas companies rated by Fitch at 'A-' and above.

Key Assumptions

Fitch’s key assumptions within our rating case for the issuer include:

- Brent crude oil price of USD65/bbl in 2019, USD62.5/bbl in 2020, USD60/bbl in 2021, and USD57.5/bbl in 2022
- Refining margins of USD4.6/bbl in 2019, increasing to USD5.3/bbl to 2022
- USD/EUR exchange rate of 0.9 over the next four years
- Hydrocarbons production growing to around 530kboe/d in 2020, including the Yuzhno-Russkoye natural gas field. The impact on overall production coming from the Achimov deposit has not yet been reflected in our forecast pending closing of the transaction
- Dividend from the ADNOC Refining to start in 2020
- Capex in line with management guidance
- Gradual increase in dividends over the next four years

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action
Positive rating action is unlikely given OMV’s limited upstream profile and smaller size relative to larger and more diversified ‘A’ category rated EMEA peers.

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

FFO-adjusted net leverage above 2.0x (2018: 1.1x) on a sustained basis.

Liquidity and Debt Structure

Robust Liquidity: At 30 September 2019, OMV had about EUR8 billion of balance-sheet debt (including lease liabilities of EUR1 billion and excluding Fitch adjustments for receivable factoring, supplier financing and hybrid). At the same date OMV had approximately EUR6.4 billion of liquidity, including readily available cash of about EUR3.2 billion and unused committee revolving credit lines of EUR3.2 billion, which comfortably covered short-term debt of EUR 1.4 billion. Near-term liquidity is also supported by FCF generation, which Fitch forecasts to be around EUR800 million p.a. over the next four years.

Summary of Financial Adjustments

Debt is increased by EUR993.5 million at end-2018 to account for the 50% equity credit assigned by Fitch to the hybrids issued by OMV in 2015 and 2018.

Receivable factoring and securitisation and supplier financing of EUR772 million at end-2018 is treated as debt.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

<table>
<thead>
<tr>
<th>ENTITY/DEBT</th>
<th>RATING</th>
<th>PRIOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>OMV AG</td>
<td>LT IDR</td>
<td>A-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Affirmed</td>
</tr>
<tr>
<td>senior unsecured</td>
<td>LT</td>
<td>A-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Affirmed</td>
</tr>
<tr>
<td>subordinated</td>
<td>LT</td>
<td>BBB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Affirmed</td>
</tr>
</tbody>
</table>

Additional information is available on www.fitchratings.com
FITCH RATINGS ANALYSTS

Primary Rating Analyst
Jakub Zasada
Director
+48 22 338 6295
Fitch Polska SA
Krolewska 16, 00-103
Warsaw

Secondary Rating Analyst
Nikos Kousiantzas
Associate Director
+34 93 323 8417

Committee Chairperson
Oliver Schuh, CFA, CAIA, FRM
Senior Director
+44 20 3530 1263

MEDIA CONTACTS

Adrian Simpson
London
+44 20 3530 1010
adrian.simpson@thefitchgroup.com

Applicable Criteria

Corporate Rating Criteria (pub. 19 Feb 2019)
Parent and Subsidiary Rating Linkage (pub. 27 Sep 2019)
Government-Related Entities Rating Criteria (pub. 13 Nov 2019)
Corporate Hybrids Treatment and Notching Criteria (pub. 11 Nov 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:
HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY’S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH’S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT
SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

COPYRIGHT

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch’s factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues

https://www.fitchratings.com/site/pr/10105566
issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

**SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

**Endorsement Policy**

Fitch’s approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

**Fitch Updates Terms of Use & Privacy Policy**

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group’s websites. Learn more.