Fitch Revises OMV's Outlook to Negative; Affirms 'A-' Rating

Fitch Ratings-Warsaw-13 March 2020:

Fitch Ratings has revised OMV's Outlook to Negative from Stable and affirmed the integrated oil and gas group's Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'A-'.

The revision of the Outlook reflects an increase in OMV's funds from operations-(FFO) adjusted net leverage above our 2.0x sensitivity for a negative rating action in the medium-term, driven by the sizeable debt-funded acquisition of a stake in Borealis AG (Borealis) amid lower commodity prices, worsening hydrocarbons demand and OPEC+'s failure to agree production cuts.

OMV plans to acquire an additional 39% in the Vienna-based petrochemical producer Borealis from Mubadala, increasing its ownership to 75%. This transaction will considerably increase OMV's indebtedness, including around USD4.68 billion of purchase price alongside Borealis net debt once the transaction completes in 2H20 and Borealis completes a 50% stake increase in Novealis Holdings. Borealis will be fully consolidated in OMV's financial statements.

In consideration of Borealis' acquisition, OMV has announced measures to protect its financial profile, including capex deferrals and divestments. However, in light of the recent plunge in oil prices, we believe that OMV as well as other oil and gas companies are yet to announce additional measures to protect their credit profiles.

We view OMV's financial policies as conservative, underpinned by relatively low leverage metrics being maintained through the cycle. We believe it has the flexibility to cut dividends and defer outer year non-committed capex if the challenging price environment persists. As a result, Fitch decided to revise the Outlook to Negative, rather than immediately downgrading the IDR.

Key Rating Drivers

Acquisition-Fuelled Growth: OMV is continuing its acquisition-led strategy in 2020 with the USD4.68 billion purchase of the 39% stake in Borealis. This followed a USD2.4 billion 15% stake in the refining and petrochemical assets of ADNOC as well as a USD0.5 billion 50% stake in SEB Upstream Sdn Bhd in 2019. In 2018 it acquired a USD1.5 billion 20% stake in the Umm Lulu and the SARB fields in Abu Dhabi, and the New Zealand assets of Royal Dutch Shell plc (AA-/Stable) for USD0.6
billion. The aforementioned acquisitions are part of OMV's 2025 strategy to spend EUR10 billion on inorganic growth between 2018 and 2025.

Challenging Market Conditions: We view the prospects for oil and gas demand growth in 2020 as significantly diminished, following the coronavirus outbreak, which coupled with OPEC+'s failure to agree production cuts, is likely to result in oversupply and pressure on hydrocarbon prices. This will add pressure to OMV's E&P operations. However, we expect this effect to be somehow mitigated by its downstream operations as refining margins usually have a negative correlation with oil prices. However, demand softness may reduce the aforementioned effect. In addition, prolonged trade wars have weighed on demand for chemical products and the coronavirus outbreak is likely to hit demand and margins further in 2020.

Medium-Scale Chemical Producer: Borealis is a medium-scale producer of polyolefins (second-largest in Europe), base chemicals and fertilisers with a strong footprint mainly in Europe but also in the Middle East, Asia Pacific and the US. In 2019, Borealis recorded net sales of EUR8.1 billion, EBITDA of EUR1 billion and net debt/EBITDA of 1.4x. Significant contributor to its cash flows is the Borouge JV, a 40%/60% JV between Borealis and Abu Dhabi National Oil Company (AA/Stable, ADNOC), which has up-streamed increasingly larger dividends to the amount of EUR0.5 billion-EUR0.7 billion annually in recent years.

More Diversified Business Profile: The Borealis transaction will strengthen OMV's business profile and diversification as the group expands into polymers, enhancing its natural hedge against the oil & gas sector's cyclicality. It will double OMV's petrochemicals EBIT to around EUR1.2 billion (according to 2019 results), while sizeable Borouge JV dividends will increase OMV's cash flows from the chemical unit. The acquisition will better-position OMV in a low-carbon environment as prospects for oil and gas demand become more challenging in the long term. The combined assets will provide synergies to OMV in the medium term, which we have conservatively excluded from our rating case.

Additional Measures Cushion Leverage Impact: OMV plans divestments of around EUR2 billion in 2020-2021, postponement of EUR200 million capex and acquisition of the Achimov IV and V phase developments to 2022 from 2020 to alleviate the impact of M&A on its financial profile. It plans to make two divestments in the downstream business - its 51% stake in Gas Connect Austria and its fuel retail network in Germany - along with its upstream business in Kazakhstan. These measures are well defined and we fully include their impact in our forecasts as we view their execution risk as low.

Upside from Potential Hybrid Issue: Additional measures may be needed to protect OMV's financial profile in the current low oil price environment, which underpins the Negative Outlook.
Due to the current market volatility, we have conservatively excluded a potential hybrid debt issuance, which remains an upside to our forecasts.

Derivation Summary

OMV is smaller (by upstream production volumes) than its 'A' category EMEA peers, such as BP plc (A/Stable) and Eni SpA (A-/Stable). We believe OMV's size is compensated by an upstream focus on the lower-risk OECD and EU countries (constituting 62% of production in 2018); a through-the-cycle leverage that is commensurate with the median 'A' category rating; and stable long-term shareholders. OMV's FFO-adjusted net leverage in 2020 is expected to be above the median leverage for western oil & gas companies rated by Fitch at 'A-' and above. However, we expect leverage normalise back to median levels as hydrocarbon prices re-converge to mid-cycle levels in the medium-term.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Refining margins of USD4.4/bbl in 2020, increasing to USD5.1/bbl up to 2024
- USD/EUR exchange rate of 0.9 for the next four years
- Hydrocarbons production growing to around 500,000 boe a day in 2020
- Consolidation of Borealis from 4Q20
- Dividend from ADNOC's oil refining business, ADNOC Refining, to start in 2020
- Capex in line with management guidance
- Flat dividend pay-outs, in-line with 2019, over the next four years

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to the Outlook being revised to Stable

- Successful implementation of management's actions to preserve cash flows to offset weaker market and increased indebtedness from the acquisition of Borealis, which will facilitate FFO-adjusted net leverage falling below 2.0x on a sustained basis (2019E: 1.5x)
Developments That May, Individually or Collectively, Lead to Negative Rating Action

- FFO-adjusted net leverage above 2.0x on a sustained basis

Liquidity and Debt Structure

Robust Liquidity: At end-2019, OMV had around EUR6.6 billion of debt on its balance sheet (excluding lease liabilities, Fitch adjustments for structured working capital measures and hybrid financing) and approximately EUR6.1 billion of liquidity. This liquidity included readily available cash of around EUR2.9 billion and unused committee revolving credit lines of EUR3.2 billion, which comfortably covered short-term debt of EUR0.7 billion.

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.

Structured working capital measures (eg. receivable factoring, securitisation) of EUR772 million at end-2018 is treated as debt.

ESG Considerations

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

OMV AG; Long Term Issuer Default Rating; Affirmed; A-; RO:Neg
-----senior unsecured; Long Term Rating; Affirmed; A-
-----subordinated; Long Term Rating; Affirmed; BBB

Contacts:
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
Angelina Valavina,
Senior Director
+44 20 3530 1314

Media Relations: Adrian Simpson, London, Tel: +44 20 3530 1010, Email: adrian.simpson@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria
Corporate Hybrids Treatment and Notching Criteria (pub. 11 Nov 2019)
Corporate Rating Criteria (pub. 19 Feb 2019)
Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019)
Government-Related Entities Rating Criteria (pub. 13 Nov 2019)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:
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 © 2020 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 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.
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.