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## Key rating assessment factors

# ACRA affirms PJSC “GAZPROM” at AAA(RU), outlook Stable, and bond issues at AAA(RU)

The credit rating of [PJSC “GAZPROM”](#) (hereinafter, Gazprom, the Company) is based on the very high systemic importance of the Company for the Russian economy and the high level of state influence on the Company, according to the ACRA methodology. The standalone creditworthiness of the Company is determined by its very strong business profile, low industry risk and strong financial profile. The medium coverage and substantial capital expenditures and dividend payouts have a restraining effect on the standalone creditworthiness assessment (SCA).

Gazprom is one of the largest integrated energy companies globally. Gazprom’s share in the global gas production is 12%, and 68% in the total domestic output. The Group is the third largest producer of liquid hydrocarbons in Russia (through [Gazprom Neft PJSC \(ACRA rating: AAA\(RU\), outlook Stable\)](#) and thanks to own gas condensate production). Gazprom owns impressive power generation assets (through Gazprom Energoholding). The Company also owns a gas pipeline network with the total length of 172.1 thousand km.

**Gazprom is an integral part of the national economy.** The Company has a monopolistic right to export pipeline gas in the Russian Federation; it is one of the largest taxpayers and revenue sources for the federal budget. Gazprom also pays an important social role by acting as a large employer and implementing the gasification program and other socially focused projects in the Russian regions, and it is critically important for the national energy security. These factors determine the systemic importance of Gazprom and the state influence as very high.

**Growing margins and declining leverage.** According to ACRA's estimates, driven by higher gas export prices for gas, oil and oil products, as well as higher volume of gas exported to Europe and weaker ruble, the Company's revenues grew substantially in 2018, following which the FFO margin before interest payments went up from 22% in 2017 to 30% in 2018 and the adjusted debt to FFO before net interest payments fell from 2.65x in 2017 to 1.56x in 2018. The above changes have resulted in an increase of the Company's SCA up to aa+. ACRA expects that by 2021, the FFO margin before interest payments will go down to 25%, and the adjusted ratio of debt to FFO before net interest payments will go down to 1.52x. According to ACRA's projections for 2016–2021, the weighted average margin will be at 26.8% and the weighted average adjusted ratio of debt to FFO before net interest payments will be around 1.9x.

To assess liquidity, ACRA takes into account the Company's ample capabilities in raising financing in the Russian and international markets.

**Negative free cash flow.** ACRA estimates show that in the period from 2016 to 2021, the expected weighted average FCF margin after dividend will amount to -2.2%, which is determined by substantial capital investments and dividend payouts expected by ACRA to reach RUB 10.4 per share in 2019, with subsequent increase of the dividend share in IFRS profits up to 50% by 2021. Since 2018, we have observed a substantial growth in the Company's free cash flow. According to ACRA estimates based on the above conditions, the FCF margin after dividend will be positive (ranging above 0 up to 2%) in 2019–2021.

## Key assumptions

- The Company will remain the sole exporter of pipeline gas in the Russian Federation;
- The average annual USD/RUB exchange rate will be 63.95 in 2019, 65.23 in 2020, and 66.54 in 2021;
- The average annual Brent crude oil price will go down to USD 59-64 per barrel in 2019–2021;

- Conservative scenario: the average annual gas export price in the European market will decline to USD 207–224 per thousand cubic meters in 2019–2021;
- Domestic prices for natural gas will increase by 3.1% in 2019, and 3% in 2020;
- 4% inflation, and 2% annual indexation of gas transportation rates for independent producers in 2019-2021.

## Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

### A negative rating action may be prompted by:

- A significant decline of the Company's systemic importance for the Russian economy;
- Loss of the state's control or a substantial change of the industry legislation.

**The rating of PJSC "GAZPROM" is at the highest possible level under the national scale, and therefore, no factors prompting a positive rating action are determined.**

**Standalone creditworthiness assessment (SCA):** aa+.

**Support:** on par with the Russian Federation.

## Rating components

## Issue ratings

[PJSC "GAZPROM," BO-01 series \(RU000A0ZYUV5\)](#), actual issuer: Gazprom capital LLC, maturity date: February 15, 2028, issue volume: RUB 5 bln – **AAA(RU)**.

[PJSC "GAZPROM," BO-02 series \(RU000A0ZYUW3\)](#), actual issuer: Gazprom capital LLC, maturity date: February 15, 2028, issue volume: RUB 5 bln – **AAA(RU)**.

[PJSC "GAZPROM," BO-03 series \(RU000A0ZYUY9\)](#), actual issuer: Gazprom capital LLC, maturity date: February 15, 2028, issue volume: RUB 10 bln – **AAA(RU)**.

[PJSC "GAZPROM," BO-04 series \(RU000A0ZYV04\)](#), actual issuer: Gazprom capital LLC, maturity date: February 15, 2028, issue volume: RUB 10 bln – **AAA(RU)**.

[PJSC "GAZPROM," BO-07 series \(RU000A0ZZER4\)](#), maturity date: July 12, 2033, issue volume: RUB 10 bln – **AAA(RU)**.

[PJSC "GAZPROM," BO-22 series \(RU000A0ZZES2\)](#), maturity date: June 23, 2048, issue volume: RUB 15 bln – **AAA(RU)**.

[PJSC "GAZPROM," BO-23 series \(RU000A0ZZET0\)](#), maturity date: June 23, 2048, issue volume: RUB 15 bln – **AAA(RU)**.

**Credit rating rationale.** The above issues represent senior unsecured debt of PJSC "GAZPROM." Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as equal to other existing and future unsecured and unsubordinated debt obligations of the Company in terms of priority. In accordance with the ACRA methodology, and taking into account the high creditworthiness of the Company as well as the absence of any substantial secured debt obligations, the above bond issues are rated AAA(RU), on par with the credit rating assigned to PJSC "GAZPROM."

## Regulatory disclosure

The credit ratings were assigned to PJSC "GAZPROM" and the bonds (ISIN RU000A0ZYUV5, RU000A0ZYUW3, RU000A0ZYUY9, RU000A0ZYV04, RU000A0ZZER4, RU000A0ZZES2, RU000A0ZZET0) issued by PJSC "GAZPROM" under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations under the National Scale for the Russian Federation](#), [Methodology for Analyzing Relationships Between Rated Entities and the State](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments Under the National Scale of the Russian Federation was also applied to assign the credit rating to the above bond issues.

The credit rating of PJSC "GAZPROM" was first published by ACRA on February 02, 2018, the credit ratings of the bonds (ISIN RU000A0ZYUV5, RU000A0ZYUW3, RU000A0ZYUY9, RU000A0Zyv04) issued by PJSC "GAZPROM" were first published by ACRA on February 19, 2018, and the credit ratings of the bonds (ISIN RU000A0ZZER4, RU000A0ZZES2, RU000A0ZZET0) issued by PJSC "GAZPROM" were first published by ACRA on August 01, 2018. The credit rating of PJSC "GAZPROM" and its outlook as well as the credit ratings of the above bonds are expected to be revised within one year following the rating action date (January 29, 2019).

The assigned credit ratings are based on the data provided by PJSC "GAZPROM", information from publicly available sources, as well as ACRA's own databases. The credit ratings are solicited, and PJSC "GAZPROM" participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by PJSC "GAZPROM" in its financial statements have been discovered.

ACRA provided no additional services to PJSC "GAZPROM" and Gazprom capital LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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