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Nine Russian Corporate Entities Upgraded After Sovereign Upgrade; Outlooks Stable

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OVERVIEW

- On Feb. 23, 2018, we raised our sovereign ratings on Russia by one notch and assigned a stable outlook.
- As a result, we have reviewed our ratings on Russia-based corporations in the commodity production and exports, infrastructure, and utility sectors.
- We are therefore raising our ratings on nine Russian companies and affirming our ratings on three entities.
- Our outlooks on the nine upgraded companies are stable and those on the other three remain positive.

MOSCOW (S&P Global Ratings) Feb. 27, 2018--S&P Global Ratings said today that it has raised its ratings on nine Russian corporations and affirmed its ratings on three companies (see the ratings list below for details). These rating actions following the upgrade of the sovereign on Feb. 23, 2018 (see " Russia Ratings Raised To 'BBB-/A-3' On Prudent Policy And Improved Monetary Transmission; Outlook Stable," published on RatingsDirect).

COMMODITY PRODUCERS (EXPORTERS)

- We raised our ratings by one notch on Gazprom PJSC and Gazprom Neft PJSC.

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The outlooks are stable.

- We affirmed our rating on Oil Company Rosneft OJSC. The outlook is positive (see "Russian Oil Company Rosneft Affirmed At 'BB+' After Sovereign Upgrade; Outlook Remains Positive," published Feb. 27, 2018).

INFRASTRUCTURE AND UTILITY COMPANIES

- We raised, by one notch, our ratings on oil transporters Public Joint Stock Company Transneft, Rosseti PJSC, Federal Grid Co. of the Unified Energy System, Russian Railways JSC, Federal Passenger Co. JSC, Atomic Energy Power Corp. JSC, and PJSC RusHydro. Our outlooks on all seven companies are stable.
- At the same time, we affirmed our ratings on Mosenergo PJSC and our ratings on TGC-1 PJSC. Our outlooks on both companies remain positive.

OUTLOOKS: COMMODITY PRODUCERS (EXPORTERS)

- Gazprom PJSC

The stable outlook on Gazprom mirrors that on Russia. It also incorporates our expectation that our 'bbb-' assessment of Gazprom's stand-alone credit profile (SACP) is unlikely to change and that the likelihood of state support to Gazprom will remain extremely high. On a stand-alone basis, we expect Gazprom's funds from operations (FFO) to debt will weaken to 40%-50% and debt to EBITDA to 1.6x-2.0x in 2017-2019, due to large capital expenditure (capex) on several large projects. Furthermore, we take into account that Gazprom continues to have access to the international capital markets, which should support its liquidity.

We would likely raise our foreign currency rating on Gazprom to 'BBB' if we upgraded the sovereign. An upgrade of the local currency rating would require both a sovereign upgrade and a stronger SACP, which we currently do not expect given Gazprom's sizable capex program.

We would downgrade Gazprom in the event of a sovereign downgrade. If Gazprom's SACP were to deteriorate by one notch to 'bb+', we would lower our local currency rating to 'BBB-' and affirm the 'BBB-' foreign currency rating. This could happen if FFO to debt declines to about 30% due to materially lower gas prices, larger-than-expected investments and contingent liabilities, or weakening liquidity. Neither of these scenarios is part of our base case, however.

- Gazprom Neft PJSC (GPN)

In our view, GPN is a strategically important subsidiary of Gazprom that is unlikely to be sold and important to the group's long-term strategy. We also consider that it has a long-term commitment from senior group managers, who are on Gazprom Neft's board. We continue to assess GPN's SACP at 'bbb-'.

The stable outlook on GPN mirrors our outlook on Gazprom and on Russia, Gazprom's controlling shareholder. We expect that our ratings on GPN will not exceed those on Gazprom, given GPN's importance to the group and close link to Gazprom's operating and funding prospects. In our base case, we generally expect that GPN's FFO to debt will exceed 45% on average over the next two years.

On a stand-alone basis, we expect that GPN will continue to benefit from its solid market position, underpinned by large reserves with a comfortable reserve life, significant production volumes, and a natural hedge, thanks to the local tax system. If the sovereign ratings, the rating on Gazprom, and our assessment of GPN's group status remain unchanged, we would likely downgrade GPN only if the company's SACP weakens to 'bb+'. However, we see a limited likelihood of this scenario, since the company's credit metrics are set to improve on the back of increasing production and lower capex.

- Oil Company Rosneft OJSC

The positive outlook on Rosneft reflects the likelihood of an upgrade if the government demonstrates its commitment to supporting Rosneft, directly or indirectly, helping the company manage liquidity and improve its capital structure. Operating under financial sanctions, the company has accumulated very sizable short-term debt of more than $40 billion. The government has not yet stepped in to support refinancing, which calls into question the link between the company and the government. We could upgrade Rosneft if we see evidence of such support (see "Russian Oil Company Rosneft Affirmed At 'BB+' After Sovereign Upgrade; Outlook Remains Positive," published today).

OUTLOOKS: INFRASTRUCTURE AND UTILITY COMPANIES

- Public Joint Stock Company Transneft

The stable outlook on oil pipeline operator Transneft mirrors the stable outlook on the sovereign rating. We continue to assess Transneft's SACP at 'bbb' and, in our base-case scenario, we expect FFO to debt will exceed 60% on average for the next three years, capex will decline after major projects have been completed, potentially increasing dividends, and adequate liquidity.

We will raise our ratings on Transneft if we raise our ratings on Russia and Transneft's SACP remains unchanged. We do not expect to rate Transneft above the sovereign because of the very strong links between the company and the government, which could leave room for potential negative government intervention. Also, we view Transneft as a domestically focused company exposed to country risks in Russia.

Rating downside could stem from a sovereign downgrade. In addition, we could lower the local currency rating on Transneft to 'BBB-' if the likelihood of extraordinary state support to the company reduced, for instance due to changes in government policy. If the company's role for and link to the government remain unchanged, our expectation of an extremely high likelihood of extraordinary government support creates a cushion for our rating on the company. If Transneft's FFO to debt fell below 45%, or is in the 45%-60% range but discretionary cash flow after capex and dividends is substantially negative, we may revise the SACP assessment to 'bbb-'. However, this won't affect the rating. We would lower the local currency rating only if the SACP deteriorates to 'bb+', which could happen after a very large debt increase or unexpected liquidity pressures. These are not our base-case scenarios, however.

- Rosseti PJSC

The stable outlook on the Russian government-controlled electricity transmission and distribution holding company Rosseti reflects the stable outlook on the sovereign and our view of a high likelihood of extraordinary government support for Rosseti if needed. In addition, it reflects Rosseti's healthy stand-alone performance, with an EBITDA margin of about 30%, FFO to debt of 30%-35%, debt to EBITDA of 2.0x-2.3x, negative discretionary cash flow due to high capex and potentially increasing dividends, and a manageable debt maturity profile. In our base-case scenario, we include no material changes to the group's consolidated perimeter, and have therefore not changed our assessment of the likelihood of extraordinary government support.

We may upgrade Rosseti if we upgraded Russia and the group's SACP strengthened to 'bb+'. Still, we see such an improvement of the SACP as unlikely, given our expectations of still materially negative discretionary cash flow, alongside risks of potential dividend pressures and the group's complex structure. The shareholder agreement with the Russian government constrains Rosseti's access to cash flows from Federal Grid Co. of the Unified Energy System (FGC), its largest transmission subsidiary. Any upside to the SACP would also require no major changes in the group's consolidated perimeter or to the government's policy regarding Rosseti.

Rating downside could stem from a sovereign downgrade. We don't expect to rate Rosseti above the sovereign because its SACP is weaker than the sovereign foreign currency rating, its business is domestically focused, and the link with the government is very strong, implying risks of negative government intervention in a sovereign stress scenario.

We could also lower the rating if Rosetti's SACP were to deteriorate to 'bb-' or lower, owing to weaker financial performance, with FFO to debt lower than 20% (for example, if capex, dividends, or working capital outlays are significantly larger than our current expectations), or if liquidity becomes less than adequate. A downgrade could also stem from a material weakening of ongoing or extraordinary government support or loss of control over key assets, such as FGC. However, these scenarios are not part of our base case.

- Federal Grid Co. of the Unified Energy System (FGC)

The stable outlook on FGC reflects that on Russia. Our base-case scenario implies FFO to debt of 25%-35%, negative discretionary cash flow on large capex projects, and dividends at 50% of adjusted net income.

We would likely raise our ratings on FGC in case of a sovereign upgrade.

Even if we were to revise our SACP assessment upward, we would not expect to rate FGC above the long-term foreign currency rating on Russia, given the full exposure of FGC's operations to country risk in Russia, its very strong links with the government, and the consequent risks of negative sovereign intervention. We may revise our assessment of the company's SACP to 'bbb-' if FFO to debt exceeds 40%, which we see as unlikely over 2017-2019 because of the sizable capex and dividends. This would also depend on developments regarding the company's strategic capex, including more details regarding execution, the scope of works, funding, and compensation for that investment.

Rating downside could stem from a sovereign downgrade. We don't expect to rate FGC above the sovereign because its SACP is weaker than the foreign currency sovereign rating, its business is domestically focused, and the link with the government is very strong, implying risks of government interference in a sovereign stress scenario.

Our expectation of a high likelihood of government support for FGC creates a cushion against a downgrade of the company. We could lower the ratings if the SACP deteriorated to 'bb-' or lower, for example due to materially higher leverage caused by significantly higher-than-expected capex or dividends, or less than adequate liquidity, which are not part of our base-case scenario.

- Russian Railways JSC (RZD)

The stable outlook on RZD reflects that on Russia and our expectation of an extremely high likelihood of state support for RZD if needed.

We expect RZD will maintain a 'bb+' SACP, with FFO to debt at 20%-30%, debt to EBITDA at about 2.5x-3.0x, and negative free operating cash flow (FOCF) due to high capex. We expect that the negative FOCF will be partly mitigated by increased equity funding of capex from the state, and by the company retaining some flexibility in capex projects in case of delays in state funding.

We would upgrade RZD in case of a sovereign upgrade. In addition, upside for the local currency rating could arise if RZD's SACP strengthened to 'bbb-'. This could happen if FFO to debt rose sustainably above 30%, thanks to higher profitability or lower capex.

We could consider a downgrade if we lowered the sovereign ratings. Given RZD's very strong links with the sovereign, its primarily domestic focus, and its weaker SACP than the sovereign rating, we do not expect to rate RZD above Russia.

Our view of an extremely high likelihood of extraordinary state support creates a significant cushion against potential rating downside. We could consider a downgrade if RZD's SACP weakened to 'b+'. Nevertheless, we would not lower the rating if RZD's SACP deteriorated to 'bb', which could stem from FFO to debt declining below 20% on weaker-than-anticipated profitability, significant traffic declines, higher investments that are not covered by equity injections from the government, or more rapid debt accumulation than we expect, for instance, due to weakening of the Russian ruble. These scenarios are not part of our base case, however.

- Federal Passenger Co. JSC (FPC)

The stable outlook on FPC reflects our view of a high likelihood that the Russian government would provide timely and sufficient extraordinary support to FPC if needed. On a stand-alone basis, we expect FPC will deliver FFO to debt of 55%-75% and FFO cash interest coverage of 7x-9x in 2017-2018, and that the group will manage its liquidity proactively.

We could lower the ratings on FPC if we were to lower the ratings on Russia and on FPC's parent, Russian Railways. At the same time, a downgrade could be triggered by a deterioration of FPC's stand-alone credit quality to 'bb-'. In particular, we could lower the ratings if FPC's FFO-to-debt ratio were to fall to below 30% and FFO cash interest coverage to below 4x. This could happen as a result of weaker operating performance, significantly increased capex, or a deterioration of liquidity, with limited covenant headroom in particular, which could also lead to a negative rating action.

We could raise the ratings on FPC if we were to upgrade Russian Railways and Russia, and if FPC's credit quality doesn't deteriorate.

- Atomic Energy Power Corp. JSC (AEPC)

The stable outlook on AEPC reflects that on the sovereign. Under our base-case scenario, we expect AEPC will maintain solid credit metrics, with FFO to debt above 60%, but negative FOCF due to high capex.

We would raise our ratings on AEPC in case of a sovereign upgrade. Even if our assessment of AEPC's SACP were to strengthen from 'bb+', we do not expect to rate AEPC above our foreign currency rating on the sovereign, given the company's very strong links with the government. At this stage, the main factor limiting an upward revision of the SACP is the company's ambitious growth strategy, with a large portfolio of highly complex projects.

We would downgrade AEPC in case of a sovereign downgrade. Our expectation of a very high likelihood of government support creates a substantial cushion against ratings downside. To trigger a downgrade, AEPC's SACP would need to weaken to 'b+', which is not part of our base-case scenario.

- PJSC RusHydro

Our stable outlook on electricity provider RusHydro mirrors that on the sovereign. On a stand-alone level, we expect RusHydro's FFO to debt to be in the 30%-40% range, but FOCF to be strongly negative in 2018 due to large capex.

We may upgrade RusHydro if we upgrade Russia and the group's SACP strengthens to 'bb+'. We could revise our assessment to 'bb+' if FFO to debt stays above 30% and FOCF turns at least neutral, which could happen after the group completes its key investment projects in 2018. Still, a stronger SACP would not lead to an upgrade, absent an upgrade of the sovereign.

Rating downside could stem from a sovereign downgrade. We don't expect to rate RusHydro above the sovereign because its SACP is below the sovereign foreign currency rating, the business is domestically focused and the link with the government is very strong, implying risks of government interference in a sovereign stress scenario.

We would also lower the rating if RusHydro's SACP were to deteriorate to 'bb-' or below, owing to weaker financial performance, with FFO to debt below 20% or a material reduction in liquidity. This is not part of our base-case scenario, however.

- Mosenergo PJSC

The positive outlook indicates that we could raise our ratings on Mosenergo if we are satisfied that the government is likely to support the company via its ultimate parent, Gazprom, or if the company's SACP strengthens to 'bbb-'. A stronger SACP assessment would take into account the company's performance relative to peers' and require continuously solid financial metrics, with FFO to debt sustainably above 60%, prudent liquidity management, and more clarity on the company's future financial policy, notably regarding potential capex projects. An upgrade of Mosenergo would also be contingent on there being no deterioration of Gazprom's credit quality. We currently assess Mosenergo's SACP at 'bb+' and view the company as a moderately strategic subsidiary of Gazprom group.

We would revise the outlook to stable if we saw a significant deterioration of Mosenergo's SACP, for example due to substantial acquisitions, with debt to EBITDA exceeding 3x and FFO to debt falling below 30%, which is not part of our base-case scenario. We would also revise the outlook to stable if we believe that Mosenergo is unlikely to benefit from state support via its parent and, at the same time, we no longer foresee potential strengthening of Mosenergo's SACP.

- TGC-1 PJSC

The positive outlook indicates that we could raise the rating on TGC-1 if we are satisfied that the government is likely to support the company via its controlling shareholder, Gazprom. We could also raise the rating if the company's SACP strengthened to 'bbb-', which would depend on the company's performance relative to peers', solid financial metrics, with FFO to debt sustainably above 60%, prudent liquidity management, and more clarity on the company's future financial policy, notably regarding potential capex projects. An upgrade of TGC-1 would be contingent on there being no deterioration of credit quality at Gazprom, and no weakening of shareholder support. We currently assess TGC-1's SACP at 'bb+' and view the company as a moderately strategic subsidiary of Gazprom group.

We would revise the outlook to stable if we believe that TGC-1 is unlikely to benefit from state support via its controlling shareholder and, at the same time, we no longer foresee potential strengthening of TGC-1's stand-alone credit quality. We would also revise the outlook to stable if we saw a significant deterioration of TGC-1's SACP, for example following sizable acquisitions or an enlarged investment program, resulting in substantially worse credit metrics. If such actions caused debt to EBITDA to exceed 1.5x and FFO to debt to fall below 60%, we would likely reassess the company's financial risk profile and our view on its financial policy.

RELATED CRITERIA

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- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
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- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
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RELATED RESEARCH

- Russian Oil Company Rosneft Affirmed At 'BB+' After Sovereign Upgrade; Outlook Remains Positive, Feb. 27, 2018
- Russia Ratings Raised To 'BBB-/A-3' On Prudent Policy And Improved Monetary Transmission; Outlook Stable, Feb. 23, 2018

Ratings List

* * * * * * * * * * * Atomic Energy Power Corp. JSC * * * * * * * * * * *

Upgraded

	To	From
Atomic Energy Power Corp. JSC		
Issuer Credit Rating	BBB-/Stable/A-3	BB+/Positive/B

* * * * * * * Federal Grid Co. of the Unified Energy System * * * * * * *

Upgraded

	To	From
Federal Grid Co. of the Unified Energy System		
Issuer Credit Rating	BBB-/Stable/--	BB+/Positive/--
Senior Unsecured	BBB-	BB+

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Upgraded

	To	From
Gazprom PJSC		
Issuer Credit Rating		
Foreign Currency	BBB-/Stable/A-3	BB+/Positive/B
Local Currency	BBB/Stable/A-2	BBB-/Positive/A-3
Senior Unsecured	BBB-	BB+
Gazprom Neft PJSC		
Issuer Credit Rating	BBB-/Stable/--	BB+/Positive/--
Senior Unsecured	BBB-	BB+

Rating Affirmed

TGC-1 PJSC

Corporate Credit Rating	BB+/Positive/B	

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Ratings Affirmed

Mosenergo PJSC		
Issuer Credit Rating	BB+/Positive/--	

* * * * * * * * * * * * * Oil Company Rosneft OJSC * * * * * * * * * * * *

Ratings Affirmed

Oil Company Rosneft OJSC		
Issuer Credit Rating	BB+/Positive/--	
Senior Unsecured	BB+	

* * * * * * * * * * * * * * * PJSC RusHydro * * * * * * * * * * * * * * *

Upgraded

	To	From
PJSC RusHydro		
Issuer Credit Rating	BBB-/Stable/A-3	BB+/Positive/B
Senior Unsecured	BBB-	BB+

* * * * * * * * * * Public Joint Stock Company Transneft * * * * * * * * *

Upgraded; Rating Affirmed

	To	From
Public Joint Stock Company Transneft		
Issuer Credit Rating		
Foreign Currency	BBB-/Stable/--	BB+/Positive/--
Local Currency	BBB/Stable/--	BBB-/Positive/--
Senior Unsecured	BBB-	BBB-

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Upgraded

	To	From
Rosseti PJSC		
Issuer Credit Rating	BBB-/Stable/A-3	BB+/Positive/B

* * * * * * * * * * * * * * Russian Railways JSC * * * * * * * * * * * * *

Ratings Affirmed

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Russian Railways JSC
 Issuer Credit Rating
  Local Currency                    BBB-/Stable/--

Upgraded
                                    To                 From
Russian Railways JSC
 Issuer Credit Rating
  Foreign Currency                  BBB-/Stable/--     BB+/Positive/--
 Senior Unsecured                   BBB-               BB+

Federal Passenger Co. JSC
 Issuer Credit Rating               BBB-/Stable/A-3    BB+/Positive/B

NB: This list does not include all the ratings affected.
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.