MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Uralkali's ratings to Ba2; outlook stable

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London, 09 October 2015 -- Moody's Investors Service has downgraded Uralkali PJSC's corporate family rating to Ba2 from Ba1, its probability of default rating to Ba2-PD from Ba1-PD and the senior unsecured rating of its subsidiary Uralkali Finance Limited to Ba2 from Ba1.

The downgrades reflect the increased risks in Uralkali's corporate governance and financial policies, and Moody's assessment that the company's financial profile is no longer commensurate with the Ba1 rating.

The ratings outlook is stable.

RATINGS RATIONALE

The rating actions reflect Moody's assessment that Uralkali's corporate governance risks have increased following two share buybacks in June and September 2015 (both of which were not anticipated by Moody's), and that the company has shifted towards a more aggressive financial policy. Following the buybacks, Moody's expects the company's deleveraging to slow down to around 3x adjusted debt/EBITDA over the next 1-2 years, which is no longer in line with its previous Ba1 rating.

In addition, the two buybacks, totaling $3.13 billion, transformed Uralkali's diversified shareholder structure into a very concentrated one, dominated by only two major shareholders: URALCHEM (unrated) and ONEXIM Group (unrated). Such a shareholding structure is more common for a privately-held company and is associated with higher corporate governance risks and lower visibility into the company's financial policies in a longer term.

As a result of the buybacks, the company's free-float is now down to around 14% from around 28% before the buybacks, while treasury shares account for more than 40%. A major portfolio investor, Chengdong Investment Corporation (unrated), also sold its 12.5% stake during second buyback in September. Following these changes to its shareholding structure, the company will likely delist from the London Stock Exchange.

Moody's notes that the size and scale of the buybacks were also not in line with Uralkali's previously stated conservative financial policy.

Under its previously policy, Uralkali had targeted to lower its leverage -- as measured by net debt/EBITDA -- to 2.0x, against the backdrop of uncertain conditions in the global potash market and accelerated capex to restore production capacity following the Solikamsk-2 mine accident in November 2014. However, the buybacks -- funded by a combination of debt and cash reserves -- have increased Uralkali's leverage to above this target and reduced its cash reserves, signaling the company's shift towards a more aggressive financial policy and its tolerance for higher leverage.

Given these increased corporate governance risks and shift in financial policy, Moody's believes the company's shareholder structure and financial policies may be subject to alterations. Further buybacks cannot be ruled out in the medium term, which may cause the company to further revise its tolerance for leverage.

As a result, and subject to the RUB/USD exchange rate, Moody's believes Uralkali's adjusted gross leverage (adjusted total debt/EBITDA) could increase to around 3.7x by end-2015 from about 3.1x as of June 2015, before falling slightly to 3.0x by 2016-17. These levels are above Moody's guidance for the Ba1 rating. Moody's assumption also factors in Uralkali's accelerated capex, a potential decline in potash prices, the economic slowdown in China, and country risks in Russia.

Uralkali's Ba2 ratings continue to reflect its strong position as a global major potash producer with sufficient financial flexibility, underpinned by cost leadership (with adjusted EBITDA margins for the 12 months to June 2015 at 58.5%) and strong cash flow generation leveraged by the weak rouble.

Moody's particularly notes that following the buybacks, the company's liquidity remains good. Uralkali has sufficient cash to cover its debt obligations through the end of 2016. The company's liquidity is supported by its strong cash generation capacity and benefits from confirmed access to Russian and western banks' committed facilities.

RATING OUTLOOK

The stable outlook reflects Moody's expectation that its strong market and very competitive cost positions will help Uralkali maintain sufficient headroom within the parameters of its Ba2 ratings and support its good liquidity.

WHAT COULD CHANGE THE RATING - DOWN

The ratings could be downgraded if (1) the company's liquidity profile deteriorates; (2) adjusted debt/EBITDA exceeds 3.5x on a sustained basis; and (3) its cash flow generation weakens, with retained cash flow (RCF)/net debt falling below 25% on a sustained basis.

WHAT COULD CHANGE THE RATING - UP

Upward ratings pressure could emerge if, in Moody's view, the company is able to deleverage, with adjusted debt/EBITDA below 2.5x and RCF/net debt above 40% on a sustained basis, while maintaining good liquidity.

The current guidance does not factor in the event risk, which will be assessed separately.

The principal methodology used in these ratings was Global Chemical Industry Rating Methodology published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Uralkali PJSC is one of the largest potash producers by capacity globally. In the 12 months to June 2015, Uralkali generated revenue of $3.4 billion and adjusted EBITDA of around $2.0 billion.

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Ekaterina Botvinova
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Limited, Russian Branch
7th floor, Four Winds Plaza
21 1st Tverskaya-Yamskaya St.
Moscow 125047
Russia

Victoria Maisuradze

Associate Managing Director
Corporate Finance Group

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454