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## Research Update:

# Russian Atomic Energy Power Corp. 'BBB-/A-3' And 'ruAAA' Ratings Affirmed; Outlook Negative

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## Table Of Contents

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Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

## Research Update:

# Russian Atomic Energy Power Corp. 'BBB-/A-3' And 'ruAAA' Ratings Affirmed; Outlook Negative

## Overview

- In our view, there's a "very high" likelihood that Atomic Energy Power Corp. JSC (AtomEnergoProm) would receive timely and sufficient extraordinary support from its ultimate owner, the Russian government, if necessary.
- We continue to assess AtomEnergoProm's stand-alone credit profile at 'bb', reflecting our view of the company's "fair" business risk profile and "significant" financial risk profile.
- We are affirming our 'BBB-/A-3' issuer credit ratings and our 'ruAAA' Russia national scale rating on AtomEnergoProm.
- The negative outlook on AtomEnergoProm reflects that on Russia.

## Rating Action

On Oct. 23, 2014, Standard & Poor's Ratings Services affirmed its 'BBB-' long-term and 'A-3' short-term issuer credit ratings on Russian state-owned nuclear monopoly Atomic Energy Power Corp. JSC (AtomEnergoProm). The outlook is negative.

At the same time, we affirmed our 'ruAAA' Russia national scale rating on AtomEnergoProm.

## Rationale

The ratings on AtomEnergoProm reflect our view that there's a "very high" likelihood that the Russian government would provide timely and sufficient extraordinary support to AtomEnergoProm in the event of financial distress.

Our ratings also take into account our assessment of AtomEnergoProm's stand-alone credit profile (SACP) at 'bb', based on our assessments of the company's "fair" business risk profile and "significant" financial risk profile.

We think that AtomEnergoProm benefits from its vertically-integrated operations and a secure monopoly over the civil nuclear segment in the Russian Federation (foreign currency BBB-/Negative/A-3; local currency BBB/Negative/A-2; Russia national scale 'ruAAA'). We think the company holds a strong position across Russia's nuclear industry sector, and we project a favorable outlook for Russian nuclear industry growth. Despite these strengths, we anticipate that the company's ambitious capital expenditure

program will lead to heavily negative free operating cash flow at least until 2017. We note, however, that government equity injections will finance a material share of the program.

We consider AtomEnergProm to be a government-related entity (GRE) under our criteria. In accordance with our GRE methodology, we base our view of a "very high" likelihood of extraordinary government support on AtomEnergProm's:

- "Very important" role for the government and the Russian economy, given that it manages the country's civil nuclear industry assets, including nuclear power station construction and operations that provide 17% of all electricity output in Russia. AtomEnergProm also manages uranium extraction, contributing 10%-14% of the global market, according to different estimates; enrichment (about 40%); and fuel production (17% globally) across the full cycle. It also employs about 132,000 people; and
- "Very strong" link with the Russian government. As specified in legislation, the Russian government wholly owns AtomEnergProm through State Atomic Energy Corporation Rosatom (not rated). The privatization of major nuclear assets is not on the agenda, and such a move would require legislative amendments. The government closely monitors the company's activities.

### **Liquidity**

The short-term rating is 'A-3'. We assess the company's liquidity as "adequate" under our criteria and estimate the ratio of sources of liquidity to uses at more than 1.2x for the 12 months started July 1, 2014.

For the 12-month period started July 1, 2014, we calculate the following principal liquidity sources:

- Unrestricted cash and equivalents of Russian ruble (RUB) 137 billion (about \$4.1 billion), although we note that about 38% of this is located at the subsidiary Akkuyu and is targeted for related nuclear power plant construction;
- RUB336 billion in available, committed, long-term credit lines, of which RUB114 billion is available to AtomEnergProm, and the rest to its subsidiaries;
- Our projection of cash flow from operations of about RUB130 billion-RUB150 billion; and
- Our expectation of a total RUB89 billion in capital injections from the government.

For the same period, we calculate the following principal liquidity uses:

- Debt maturities of about RUB103 billion;
- Capital spending of about RUB270 billion, although we believe that actual outlays will depend on availability of financing from the government; and
- Dividends of about RUB2.5 billion.

We expect that AtomEnergProm's capital spending will correlate with the levels of equity injections from the government. Furthermore, we believe that

the company has the necessary flexibility in its investments to defer some construction projects if the government were to reduce financing.

## Outlook

The negative outlook reflects the outlook on Russia. We would lower our ratings on AtomEnergoProm in the event of a sovereign downgrade.

We also might lower the ratings if the company's SACP deteriorates to 'b+' or below from 'bb', or if we consider that the likelihood of government support has reduced to "moderately high" or below. We regard both scenarios as unlikely.

If we revise the outlook on Russia to stable, we would take a similar action on AtomEnergoProm, assuming the company's credit metrics develop in line with our base-case expectations.

## Ratings Score Snapshot

Corporate Credit Rating: BBB-/Negative/A-3

Business risk: Fair

- Country risk: High
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable ratings analysis: Neutral (no impact)

Stand-alone credit profile: bb

- Russia sovereign rating:
- ---Foreign currency BBB-/Negative/A-3
- ---Local currency BBB/Negative/A-2
- Likelihood of government support: Very high

## Related Criteria And Research

### Related Criteria

- Standard & Poor's National and Regional Scale Mapping Tables, Sept. 30, 2014
- National and Regional Scale Ratings, Sept. 22, 2014
- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Key Credit Factors For The Specialty Chemicals Industry, Dec. 31, 2013
- Group Rating Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

### Related Research

- Russia Foreign Currency Ratings Lowered To 'BBB-/A-3' On Risk Of Marked Deterioration In External Financing; Outlook Neg, April 25, 2014

## Ratings List

Ratings Affirmed

Atomic Energy Power Corp. JSC

Issuer Credit Rating	BBB-/Negative/A-3
Russia National Scale	ruAAA/--/--

### Additional Contacts:

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