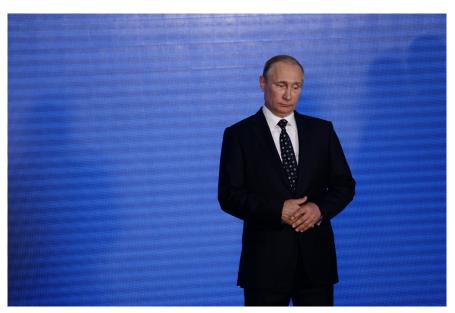
Article | 10 August 2018

Credit | Russia

# Russia: Proposed tax hike for mining, chemical and fertilizer companies

The proposed USD 7.5bn tax by president Putin's advisor implies additional risks for Russian corporates that will put pressure on credit profiles and ratings. Although the letter was distributed unofficially, we think the probability of its implementation is very high



Source: Shutterstock

Russian president Vladimir Putin's aide, Andrey Belousov has proposed a USD 7.5bn tax hike for Russian mining, chemical and fertilizer companies as <u>Bloomberg reported on 9 August</u>, quoting a letter from the economist addressed to the president.

According to the letter, the president should order the government to raise further revenues for the budget from the mining and chemicals sectors as they are paying lower taxes than the oil and gas sector. Additional tax revenues could bring RUB500bn (US\$7.5bn) to the budget annually.

Belousov argues that natural resources companies received a significant gain from the positive pricing environment, as a result of which their effective tax rate was 7.0% while the oil & gas sector pays on average 28% of its revenues to the budget in the form of MET, value-added tax, export duties and other taxes. Belousov calculates the additional budget revenues by equalising the

Article | 10 August 2018

EBITDA margin of natural resources companies to the average EBITDA margin for the oil & gas sector at 22.0%.

A Russian telegram channel (i.e. The Bell) unveiled the leaked letter written by Mr Belousov last night. The following corporates are listed for additional taxes: EVRAZ (RUB5.49bn), NLMK (RUB20.89bn), Norilsk Nickel (RUB114.2bn), Severstal (RUB43.31bn), MMK (RUB17.3bn), Metalloinvest (38.51bn), SUEK (RUB12.06bn), Mechel (RUB11.49bn), ALROSA (RUB67.28bn), Polyus (RUB58.19bn), SIBUR (RUB65.23bn), PhosAgro (RUB10.58bn), Uralkali (RUB40.78bn), ACRON (RUB8.34bn).

# Read the updated Bloomberg article here

# A few key highlights

- We are not certain that the list of the companies is final and won't be changed. A couple of names don't appear in the list, and we don't believe this means these name will avoid the special taxes.
- According to the leaked document, Putin has "approved" Belousov's letter.
- A Russian telegram channel 'Fun & Profit' (which is made by a journalist from Vedomosti) reported an unconfirmed rumour that Belousov's letter was inspired by Mr Sechin (Rosneft's CEO) who has lobbied for a decrease in the fiscal burden of the oil & gas sector. For us, it's no secret that Mr Sechin has always compared Rosneft to Gazprom by the total amount of taxes paid to the budget. So, this rumour might not be unreasonable. As a result, we see the probability of issuing of new government order is quite high.
- The tax burden increase on chemical and fertilizer companies has been proposed in the past but was postponed because of difficulties in implementing taxation across industrial sectors with many players, each with differing efficiency and at a different investment stage and profitability.
- Belousov's approach breaks the fundamental market-oriented approach of the Russian state and is seen to be unfair especially to those corporates that have conducted large investment programmes and increased the efficiency of the business to maximise value for its shareholders.
- Action, if it comes into effect, would be credit negative for the companies that remain in the intensive investment stage (i.e., SIBUR). For companies paying large dividends, such as Norilsk Nickel, ALROSA, Severstal and NLMK (with its new dividend policy), it would impact the amount of dividends paid out.
- Action will not help the current poor investment climate in Russia, also hit by proposed sanctions from the US. Regulation risks will add pressure to the ratings of Russian corporates as it will increase the cost of borrowing for them.

Article | 10 August 2018

## **Author**

**Egor Fedorov** Senior Credit Analyst <u>egor.fedorov@ing.com</u>

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.

Article | 10 August 2018