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Research Update:

Spanish Strategic Oil Reserves Manager CORES 'A-/A-2' Ratings Affirmed; Outlook Remains Positive

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Overview

- Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), the oil stockholding entity in Spain, benefits from a strong legal status that ensures its operating revenues cover its expenditures.
- We equalize our issuer credit ratings on CORES with our sovereign credit ratings on Spain because, in our opinion, there is an almost certain likelihood that CORES would receive timely and sufficient extraordinary support from the Spanish government if needed.
- We are affirming our 'A-/A-2' ratings on CORES.
- The positive outlook on CORES mirrors that on Spain.

Rating Action

On July 19, 2018, S&P Global Ratings affirmed its 'A-/A-2' long- and short-term issuer credit ratings on Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), the non-profit public corporation that manages Spain's strategic oil reserves. The outlook is positive.

Rationale

We equalize the ratings on CORES with those on Spain (unsolicited A-/Positive/A-2). We consider CORES to be a government-related entity (GRE), and that there is an almost certain likelihood that the Spanish government would provide timely and sufficient extraordinary support to CORES in the event of financial distress.

CORES operates under the supervision of the Spanish central government through the Ministry for the Ecological Transition, but with a distinct legal status and under private law. We therefore consider CORES to be a GRE, and our opinion of an almost certain likelihood of extraordinary government support reflects our view of CORES':

- Integral link with the Spanish government. CORES is a public-law entity, tightly controlled and supervised by the Spanish Ministry of Ecologic Transition. The ministry appoints the chairman, as well as four of the 11 members of its board of directors. While the board makes agreements by simple majority, the ministry may exercise veto power through CORES' chairman on any decision that it deems contrary to public interest.

- Critical role as an entity specifically formed to provide a strategic public service on behalf of the Spanish government. CORES has an explicit mandate to monitor the level of Spain's oil reserves--virtually all of which are imported--and ensure that they are sufficient to cover the country's oil consumption needs for a legally determined period of time. Following the reform of Spain's hydrocarbon law in May 2015, CORES' role now also includes management of strategic reserves of gas, although this activity has yet to start. In our view, only the government itself would be able to take on CORES' mandate.

CORES does not receive funds from the government, nor does it benefit from any explicit guarantee of its liabilities. However, the government provides CORES with what we see as strong ongoing support through a regulatory framework under which oil and gas operators must pay the necessary fees to fully cover all of CORES' costs, including debt service. Moreover, the current legal framework allows the government to demand extraordinary fees from operators if necessary. Ultimately, we think that if CORES were to be dissolved, the central government would take over its obligations. CORES borrows from local and international financial markets to finance its purchase of oil stocks. Its debt totaled €2.09 billion on Dec. 31, 2017.

Because we equalize our long-term rating on CORES with that on the sovereign, our assessment of the company's stand-alone credit profile is not a rating driver. In our view, the likelihood of extraordinary government support is almost certain and we do not believe this is subject to transition risk. Furthermore, CORES executes strategic government policies.

Liquidity

We view CORES' liquidity as adequate, given that the entity factors in all of its expenses, including debt service, when determining the annual fees applicable to its members (oil operators authorized to distribute oil products and LPG and all natural gas operators). CORES collects fees monthly, ensuring regular access to liquidity inflows, and typically sets its fees based on very conservative assumptions of expenditures. As a result, it normally generates excess fees. When it becomes clear that fees charged are likely to surpass costs, CORES lowers fees to ease the pressure on its members. However, CORES could choose to retain excess fees as reserves if necessary.

CORES' 2018 debt maturities of €500 million has already been covered with a €400 million bond issued in November 2017, three bilateral loans amounting to €70 million, and the proceeds from excess reserves sold in 2017. CORES' financial debt at end-2017 is higher than the previous years', because the pre-funding of 2018 debt maturities is included, which generated a corresponding temporary liquidity position. CORES faces debt maturities of €125 million in 2019 and currently has €200 million in liquidity backup facilities expiring in 2019 and 2020.

CORES could sell excess oil reserves, for which there is an active market, to meet all or part of its financing needs. CORES holds reserves exceeding the legally established limits, which are set in days of consumption. As of May 31, 2018, CORES' reserves were about 6% higher than legally required. The market value of such reserves is about €185 million, although we note that the value of excess reserves is subject to fluctuations arising from changes in consumption and global prices for petroleum products.

CORES is legally required to have a detailed plan for sales of excess reserves, and it has designed this plan such that these sales would coincide with the expiration of storage contracts, thereby avoiding inefficiencies in operating costs. Nevertheless, CORES' board retains full discretion on when to sell reserves. In 2017, CORES sold part of its reserves for €30.3 million, generating a net gain of €17.7 million. It used the proceeds to reduce its debt, as it is legally obliged to do.

Furthermore, CORES may request that the ministry levy extraordinary fees to its members to cover all or part of its long-term debt maturities. However, we consider it unlikely that CORES would have to resort to this option.

Outlook

The positive outlook on CORES reflects than on Spain. If we upgraded Spain, we would raise our ratings on CORES, assuming its role for and link with the sovereign remained unchanged.

We could revise the outlook on CORES to stable over the next 18-24 months if we took the same action on Spain.

We could lower our ratings on CORES over the next 18-24 months if we assessed that its role for and link with the Spanish government had weakened, indicating a lower likelihood of extraordinary government support. However, we see this scenario as unlikely.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Bulletin: The Appointment Of The New Government In Spain Has No Immediate Effect On The Sovereign Rating, June 4, 2018
- Research Update: Strategic Oil Reserves Manager CORES Rating Raised To 'A-' On Similar Rating Action On Spain; Outlook Positive, March 27, 2018
- Research Update: Spain Long-Term Ratings Raised To 'A-' On Economic Growth And Budgetary Consolidation; Outlook Positive, March 23, 2018

Ratings List

Ratings Affirmed

Corporacion de Reservas Estrategicas de Productos Petroliferos	
Issuer Credit Rating	A-/Positive/A-2
Senior Unsecured	A-

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 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.