

Research Update:

Strategic Oil Reserve Manager CORES Upgraded To 'A' Following Similar Action On Spain; Outlook Stable

September 24, 2019

Overview

- On Sept. 20, 2019, we raised to 'A/A-1' from 'A-/A-2' our unsolicited long- and short-term sovereign credit ratings on Spain.
- We equalize our issuer credit ratings on Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) with those on Spain because we think there is an almost certain likelihood that CORES would receive timely and sufficient extraordinary support from the Spanish government, if needed.
- We are therefore raising to 'A/A-1' from 'A-/A-2' our long- and short-term issuer credit ratings on CORES.
- The stable outlook on CORES reflects that on Spain.

Rating Action

On Sept. 24, 2019, S&P Global Ratings raised to 'A/A-1' from 'A-/A-2' its long- and short-term issuer credit ratings on Spanish strategic oil reserve manager CORES. The outlook is stable.

Rationale

The upgrade on CORES reflects our similar rating action on Spain on Sept. 20, 2019 (see "Spain Ratings Raised To 'A/A-1' From 'A-/A-2' On Economic Resilience; Outlook Stable"). In accordance with our criteria for rating government-related entities (GREs), we think that there is an almost certain likelihood that CORES would receive timely and sufficient extraordinary support from the Spanish government in the event of financial distress. We therefore equalize our long- and short-term issuer credit ratings on CORES with those on Spain.

CORES operates under the supervision of the Spanish central government through the Ministry for 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':

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- Integral link with the Spanish government. CORES is a public-law entity, tightly controlled and supervised by the Spanish Ministry for Ecologic Transition. The ministry appoints the chairman of CORES, as well as four of the 11 members of its board of directors. Although the board makes agreements by simple majority, the ministry may exercise veto power via 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--almost 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 €1.6 billion on Dec. 31, 2018.

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 factor. In our view, the likelihood of extraordinary government support is almost certain and we do not think this is subject to transition risk. Furthermore, CORES executes strategic government policies.

Outlook

The stable outlook reflects that on Spain.

We could upgrade CORES if we upgraded Spain, assuming no change to CORES' role for and link with the sovereign.

We could downgrade CORES if we downgraded Spain or if we assessed that CORES' role for and link with the Spanish government had weakened, indicating a lower likelihood of extraordinary government support.

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

- Spain Ratings Raised To 'A/A-1' From 'A-/A-2' On Economic Resilience; Outlook Stable, Sept. 20, 2019

Ratings List

Upgraded; Outlook Action

	To	From
Corporacion de Reservas Estrategicas de Productos Proliferos		
Issuer Credit Rating	A/Stable/A-1	A-/Positive/A-2
Senior Unsecured	A	A-

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