

Research Update:

Strategic Oil Reserve Manager CORES Outlook Revised To Negative After Similar Action On Spain; 'A/A-1' Ratings Affirmed

September 22, 2020

Overview

- On Sept. 18, 2020, we revised our outlook on Spain to negative from stable and affirmed our 'A/A-1' unsolicited long- and short-term ratings.
- 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 revising our outlook to negative from stable on CORES and affirming our 'A/A-1' long- and short-term issuer credit ratings.

Rating Action

On Sept. 22, 2020, S&P Global Ratings revised its outlook to negative from stable on Spanish strategic oil reserve manager CORES. At the same time, we affirmed our 'A/A-1' long- and short-term issuer credit ratings.

Rationale

The revision of our outlook on CORES to negative from stable reflects our similar action on Spain on Sept. 18, 2020 (see "Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1'"). 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-term issuer credit ratings on CORES with those on Spain.

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

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Ecological Transition and Demographic Challenge (MITECO), 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':

- Critical role for the government of Spain as an entity specifically formed to provide a strategic public services 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. After the reform of Spain's hydrocarbon law in 2015, CORES' role now also includes management of strategic reserves of gas, although this activity has yet to start.
- Integral link with the government of Spain, since CORES is tightly controlled and supervised by MITECO. CORES' chairman is appointed by MITECO, as well as four of the 11 members of its board of directors. Although the board makes agreements by simple majority, MITECO may exercise veto powers through CORES' chairman on any decision that it deems contrary to the public interest.

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, 2019.

During the COVID-19 pandemic, CORES has charged operators an extraordinary fee to ensure full coverage of expenses in 2020. CORES operators sold less than what they had previously budgeted. During the months of lockdown and travel restrictions, consumption of oil- and gas-related products declined significantly, resulting into an about 60% drop of CORES revenue during the month of May. To address this challenge, CORES and MITECO asked members to pay an extraordinary fee, ensuring CORES would have a balanced budget in 2020. This measure was quickly approved by the Spanish government through a ministerial order on May 29, 2020, and approved unanimously by CORES' board of directors. We believe this process proves the strong framework under which CORES operates, and the government's willingness to act in support of CORES in a timely fashion when required.

Environmental, social, and governance (ESG) credit factors for this credit rating change:

- Health and safety
- Strategy, execution, and monitoring

Outlook

The negative outlook reflects that on Spain.

Downside scenario

We could lower our ratings on CORES in the next 24 months if we took a similar action on Spain. We could also lower our ratings on CORES if we believed that the entity's role for and link with the Spanish government had weakened, indicating a lower likelihood of extraordinary government

support.

Upside scenario

We could revise our outlook to stable in the next 24 months if we took same action on Spain.

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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1', Sept. 18, 2020
- Full Analysis: Corporacion de Reservas EStrategicas de Productos Petroliferos, July 29, 2020.

Ratings List

	To	From
Ratings Affirmed; Outlook Action		
Corporacion de Reservas Estrategicas de Productos Petroliferos		
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
Ratings Affirmed		
Corporacion de Reservas Estrategicas de Productos Petroliferos		
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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 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.

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