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## Fitch Affirms Cores at 'A-'; Outlook Stable

Fitch Ratings - Barcelona - 10 May 2021: Fitch Ratings has affirmed Corporacion de Reservas Estrategicas de Productos Petroliferos' (Cores) Long-Term Local- and Foreign-Currency Issuer Default Ratings (IDRs) at 'A-' with Stable Outlooks and Short-Term Foreign-Currency IDR at 'F1'. The ratings on the senior unsecured outstanding bond issues and EMTN programme have been affirmed at 'A-'.

Fitch views Cores as a government-related entity (GRE) of Spain (A-/Stable) and equalises its ratings with the sovereign's. This reflects a score of 45 points under our GRE Rating Criteria.

Cores was established in 1994 as the central stockholding entity (CSE) for the maintenance of oil stocks in Spain. Cores is a non-profit public corporation without equity and operates under public and private laws (Law 34/1998 and Royal Decree 1716/2004). Like other CSEs across the EU, Cores' main responsibilities include acquiring petroleum, and maintaining, managing and selling petroleum reserves.

### Status, Ownership and Control: 'Strong'

Cores was created in 1994 with the particular status of a non-profit public corporation without equity, tightly controlled by the central government. Cores has the legal status of a public-law corporation. The central government's strong influence over and control of Cores' operations are demonstrated by the company's supervision by the Ministry for the Ecological Transition and the Demographic Challenge (MITECO), through its veto right over any Cores agreement that could breach the law or harm public interest. However, the government has never used this veto as there is usually a strong consensus within Cores' board of directors.

The strong influence and control are also reflected by the presence of the central government on Cores' board of directors, as four of 11 members are appointed by MITECO. MITECO also appoints Cores' president (currently Juana María Lázaro Ruiz). The president has a five-year mandate, which can be renewed for another five years. The president acts as the legal representative of Cores in all the company's actions and contracts, and manages the inspection of its activities.

The central government holds no shares in Cores and in case of the company's dissolution, would not be involved and there would be no transfer of liability. Cores' accounts and debt are consolidated in Spain's national accounts. Cores' budgets and borrowing are approved by its board of directors.

However, MITECO approves the fees charged to operators through Cores' budget elaboration process.

### **Support Track Record: 'Very Strong'**

Fitch believes that regulatory influence is strongly supportive of Cores' financial stability and viability, as the operators are obliged by law (according to item 25.4 of the Royal Decree 1716/2004) to pay at any time an increase of fees to guarantee Cores' creditworthiness. The law also stipulates that Cores can at any time sell reserves storage that exceeds the mandatory level to cover debt servicing (principal debt and interest). Cores estimated its excess reserves at EUR29.9 million at end2020, representing about 1.4% of total reserves at market value.

### **Socio-Political Implications of Default: 'Very Strong'**

Oil is crucial for the domestic energy supply, representing 41.5% of primary energy consumed in Spain. Spain is obliged to maintain 90 days of net imports of crude oil and petroleum according to the EU requirement, which the Spanish government has increased to 92 days of sales or consumption. Cores is the designated CSE for the maintenance of oil stocks in Spain, which obliges the company to maintain at least 42 days of reserves. Therefore, the industry maintains 50 days.

Between April and December 2021 Cores is obliged to maintain a higher number of days of 50 and therefore the industry maintains a lower number of days of 42. Cores' main mission also consists of controlling and inspecting the level of Spain's security reserves held by operators to ensure the minimum stock of obligation.

This factor reflects that Cores' financial default would materially endanger continued provision of its activity, impacting its borrowing capacity, considering that Cores funds its purchase of reserves through debt borrowing. This factor also reflects the lack of any immediate substitute to maintain Cores' obligation of 42 days of reserves, given the complicated necessary legal changes, the economic and financial difficulty for private operators to assume Cores' obligation and the non-transferability of the task of controlling and inspecting reserves held by operators.

Consequently, Cores' default would be of great importance for the Spanish government, as it would fail in its EU-imposed obligation to maintain a minimum of 90 days of net imports of crude oil and petroleum. This would have a significant impact on Spain's international reputation and may result in economic sanctions. In addition, Cores' default in case of an oil supply crisis would have grave repercussions for the national economy due to Spain's energy dependence.

### **Financial Implications of Default: 'Strong'**

This factor reflects that the Spanish government would have a strong incentive to provide extraordinary financial support to prevent a default, as it would have a significant impact on Spain's credit international reputation in failing to meet the EU target, affecting its availability and cost of

borrowing. The assessment also reflects that Cores's debt and accounts are consolidated in Spain's national accounts. Cores' default would also have a significant impact on its availability of borrowing, as it is mostly financed in capital markets (62.8% of outstanding debt at end of 2020), risking failure in meeting the EU target.

## **Operating Performance**

Cores is a non-profit corporate, which by law has stable fee revenue that must cover its operating spending. Typically, Cores reduces fees charged to operators (fees collected from the operators more than covering operating spending), in the last quarter of the year. However, in May 2020, Cores approved an extraordinary fee for operators with effect between June and September 2020, to compensate for the decline of oil consumption and contributions paid by operators, due to the coronavirus crisis.

## **Derivation Summary**

Fitch views Cores as a GRE of Spain and assigns it a score of 45 under the GRE criteria. The rating factors 'Support Track Record and Expectation' and 'Socio-Political Implications of Default' are assessed as 'Very Strong', while the 'Status, Ownership and Control' and 'Financial Implications of Default' are assessed as 'Strong'. The score of 45 leads to the equalisation of Cores' ratings with the sovereign's.

## **Short-Term Ratings**

According to the Short-Term Ratings Criteria for a 'A-' IDR, the corresponding Short-Term rating should be either 'F2' or 'F1'. When an issuer's rating is derived on a top-down notching basis, the higher of the two Short-Term IDR options applies, capped at the supporting government's Short-Term IDR level. Cores' short-term ratings are 'F1'.

## **Debt Ratings**

The senior unsecured outstanding bond issues and EMTN programme are rated 'A-', at the same level as Cores' Long-Term IDR.

## **Factors that could, individually or collectively, lead to negative rating action/ downgrade:**

A downgrade could follow a downgrade of the sovereign, an adverse change in the legal framework, which Fitch views as unlikely at present, or a weakening of expected support from the state.

## **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

Positive rating action on the sovereign's IDRs will be mirrored on Cores' IDRs, assuming that the links between the sovereign and the company remain strong.

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **Liquidity and Debt Structure**

In 2019, Cores renegotiated the debt maturity of EUR125 million from an ICO loan to 2028 rather than 2020. Cores did not contract new debt operations or sold excess reserves in 2020. Therefore, outstanding debt at end-2020 remained the same as 2019.

At end-December 2020, cash reserves were EUR36.7 million, with EUR140 million in eight available credit lines. The outstanding debt at end-2021 is expected to decline, as Cores will use the sale of exceeds of reserves of EUR148 million for debt reduction.

## **References for Substantially Material Source Cited as Key Driver Rating**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG Considerations**

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance SCores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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### Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)	LT IDR	A-	Affirmed	A-
	ST IDR	F1	Affirmed	F1
	LC LT IDR	A-	Affirmed	A-
• senior unsecured	LT	A-	Affirmed	A-

### RATINGS KEY OUTLOOK WATCH

POSITIVE

NEGATIVE

## RATINGS KEY OUTLOOK WATCH

EVOLVING



STABLE



### Applicable Criteria

[Government-Related Entities Rating Criteria \(pub.30 Sep 2020\)](#)

[International Local and Regional Governments Rating Criteria \(pub.27 Oct 2020\) \(including rating assumption sensitivity\)](#)

### Additional Disclosures

[Solicitation Status](#)

### Endorsement Status

Corporacion de Reservas Estrategicas de Productos Petroliferos  
(CORES)

EU Issued, UK  
Endorsed

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