FitchRatings

Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

Fitch Ratings views Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES) as a government-related entity (GRE) of Spain (A-/Stable) and equalises its ratings with those of the sovereign. This reflects a support score of 45 points out of a maximum 60 under Fitch's *Government-Related Entities (GRE) Rating Criteria*.

Key Rating Drivers

Support Score Assessment 'Virtually Certain'

We consider that extraordinary support from the sovereign to CORES would be 'Virtually Certain' in case of need, reflecting a score of 45 out of 60 points under our GRE criteria. As such, two GRE factors are assessed at 'Very Strong' and another two at 'Strong', reflecting both the responsibility and incentives of the government to support CORES.

Responsibility to Support: CORES is controlled by the Spanish government, via the Ministry for Ecological Transition and Demographic Challenge (MITECO), which can influence its operations and fee structures. The entity can raise fees to maintain financial solvency, as it did during the Covid-19 crisis. CORES has strong governmental support, but operates without direct subsidies or government guarantees. Were CORES to be dissolved, the government would not assume its liabilities.

Incentive to Support: There is no immediate replacement for CORES, which plays a crucial role in Spain's compliance with EU oil reserve requirements. A financial default would have severe implications for Spain's energy self-sufficiency and international credit reputation, as CORES is responsible for a strategic government function without any effective substitutes. Although its debt is a small portion of the national debt, CORES' default would affect the availability and cost of borrowing of Spain, in our view.

Operating Performance: CORES relies on fee revenue from operators to cover operating costs and has successfully managed to significantly increase its EBIT in 2023 (+150%) despite rising operating expenses (+40%), largely due to the sale of excess stock. CORES' major expenses rose as they are tied to the storage and maintenance of oil reserves, which increased by 6% in 2023 due to the constrained availability of storage infrastructure within the country.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F1
Local Currency	
Long-Term IDR	A-
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
Debt Ratings	
Senior Unsecured Debt - Long-Term Rating	A-

Issuer Profile Summary

CORES was established in 1994 as the central stock-holding entity for the maintenance of oil stocks in Spain. CORES's main responsibilities include maintaining and managing petroleum reserves.

Financial Data Summary

(EURm)	2022	2023*
Net adjusted debt/EBITDA (x)	41.3	17.0
EBITDA/gross interest coverage (x)	1.6	2.2
Operating revenue	167	233
EBITDA	31	72
Net adjusted debt	1,264	1,217
Total assets	1,718	1,680

*provisional

Source: Fitch Ratings, Fitch Solutions, Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

Applicable Criteria

Government-Related Entities Rating Criteria (January 2024)

Related Research

Fitch Affirms CORES at 'A-'; Outlook Stable (April 2024)

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Rating Synopsis

CORES Rating Derivation

Summary	
Government LT IDR	A-
GRE Standalone Credit Profile (SCP)	No SCP
Support category	Virtually certain
Notching expression	Equalised
Single equalisation factor	No
GRE LT IDR	A-

GRE Key Risk Factors and Support Score	
Responsibility to support	15
Decision making and oversight	Very Strong
Precedents of support	Strong
Incentives to support	30
Preservation of government policy role	Very Strong
Contagion risk	Strong
Support score	45 (max 60)

Standalone Credit Profile	
Risk profile	-
Revenue risk	-
Expenditure risk	-
Liabilities and liquidity risk	-
Financial profile	-
Qualitative factors adjustments	-
GRE SCP	No SCP

Distance \ Support score	>=45	35-42.5	30-32.5	20-25	15	12.5	<=10
-5	0	-1	-2	+2	+1	S-A	S-A
-6	0	-1	-2	+3	+2	+1	S-A
-7	0	-1	-2	+4	+2	+1	S-A
-8	0	-1	-2	+4	+3	+1	S-A
-9	0	-1	-2	+5	+3	+1	S-A
-10	0	-2	-3	+5	+3	+1	S-A
-11	-1	-2	-4	+5	+3	+1	S-A
-12	-1	-3	-4	+5	+3	+1	S-A
-13	-2	-3	-5	+5	+3	+1	S-A
-14	-2	-3	-5	+5	+3	+1	S-A
-15	-2	-3	-5	+5	+3	+1	S-A
No SCP	0	-1	-2	-3	n.a.	n.a.	n.a.

Stylized Notching Guideline Table: refer to GRE criteria for details

Government LT IDR	GRE SCP	GRE LT IDR
AAA	aaa	AAA
AA+	aa+	AA+
AA	aa	AA
AA-	aa-	AA-
A+	a+	A+
A	a	A
A-	a-	A-
BBB+	bbb+	BBB+
BBB	bbb	BBB
BBB-	bbb-	BBB-
BB+	bb+	BB+
BB	bb	BB
BB-	bb-	BB-
B+	b+	B+
B	b	B
B-	b-	B-
CCC+	ccc+	CCC+
CCC	ccc	CCC
CCC-	ccc-	CCC-
CC	cc	CC
C	c	C
RD	rd	RD
D	d	D

Analytical Outcome Guidance Table

Risk profile	Financial profile					
Stronger	aaa or aa	a	bbb	bb	b	
High Midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low Midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome	aaa	aa	a	bbb	bb	b

LT IDR – Long-Term Issuer Default Rating; GRE – Government-related entity
Source: Fitch Ratings

Fitch views CORES as a Spanish GRE and assigns it a score of 45 under its GRE rating criteria, leading to equalisation of its ratings with the sovereign's. Support from the Spanish government is assessed as 'Virtually Certain'.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

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

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade could follow a similar rating action on the sovereign. It could also result from a weaker assessment of the responsibility-to-support or incentive-to-support factors, leading to a GRE score of less than 45 points.

Issuer Profile

Established in 1994, CORES is the only entity responsible for controlling stocks of oil reserves in Spain. As a non-profit public corporation devoid of equity, it adheres to public and private legal frameworks, specifically Law 34/1998 and Royal Decree 1716/2004. Much like its counterparts in other EU nations, CORES' primary duties encompass the acquisition, upkeep, management, and sales of petroleum reserves.

Beyond these central tasks, CORES engages in critical strategic activities. These include the monthly monitoring and inspection of Spain's security reserves of petroleum and gas held by operators and gas marketers, ensuring compliance with mandatory minimum-security stock levels and preventing fraud. It also ensures the diversification of natural gas supply sources to Spain and compiles statistical data for the oil and gas industry.

CORES operates under the oversight and regulation of MITECO and maintains an independent structure without any subsidiary companies.

Support Rating Factors

Summary

Responsibility to support		Incentives to support			
Decision making and oversight	Precedents of support	Preservation of government policy role	Contagion risk	Support score	Support category
Very Strong	Strong	Very Strong	Strong	45 (max 60)	Virtually Certain

Source: Fitch Ratings

Decision Making and Oversight

CORES has the legal status of a public-law non-profit corporation and does not have any shareholders, only members (oil and gas operators). The central government's strong influence over and control of CORES's operations is underlined by the entity's supervision by the Spanish government, through the Environment Ministry for Ecological Transition and Demographic Challenge (MITECO), which has a veto over any CORES agreements that it deems may breach the law or harm the public interest.

The government imposes oil reserve requirements on CORES for strategic purposes, included in regular reporting, and also approves major operational decisions.

CORES's board of directors controls its activities and sets its annual budget and business plans. The government has a presence on the board, with four of its 11 members appointed by MITECO, which also appoints the president, who has a five-year mandate, which can be renewed for another five years. The president is CORES's legal representative in all activities and contracts, and manages oversight.

CORES's governing body includes the general assembly, which comprises all operators and marketers of petroleum and natural gas in Spain. The general assembly's main role is to approve accounts and propose the annual fees that operators pay in that year.

CORES' debt and accounts have been consolidated in Spain's national accounts since 2013. This is because CORES is authorised, on behalf of the central government, to provide a strategic public service and because it receives mandatory fees from operators. The board approves its budget and borrowing, while MITECO approves the fees charged to operators.

Precedent of Support

The state is required, by law, to provide strong financial support to CORES through MITECO, which can approve at any time an extraordinary increase in operator fees to guarantee CORES's financial solvency. Operators are legally obliged to honour any such increase. However, CORES does not receive subsidies or capital injections from the central government and does not benefit from an explicit government guarantee. The state holds no shares in CORES and, in case of the entity's dissolution would not be involved and there would be no transfer of liability.

CORES funds repayments of principal through contracted debt operations in the market. If access to the market is difficult, CORES can approve one-off fees to pay for any financial commitments. Royal Decree 1716/2004 allows CORES to sell any excess reserves above the mandatory level. CORES estimates it had excess reserves valued at EUR21.6 million at end-2023, representing about 1% of total reserves in cubic meters and 0.7 days in consumption.

CORES did not approve extraordinary fees for 2023 because oil consumption was not affected by petroleum prices and its revenue is above-budget.

Preservation of Government Policy Role

The assessment reflects the lack of an immediate substitute to maintain CORES's obligation of 42 days of reserves, given complicated necessary legal changes, the economic and financial difficulty that private operators would face if they had to assume CORES's obligations, and the non-transferability of controlling and inspecting reserves held by operators.

A CORES default would materially endanger the continued provision of its activity, which would affect its borrowing capacity, as CORES funds its purchase of reserves through debt. It would also cause a self-sufficiency issue as oil is a primary energy source for Spain. Default would also result in Spain failing its EU-imposed obligation to maintain a minimum of 90 days of net imports of crude oil and petroleum (the Spanish government has increased this to 92 days of sales or consumption).

CORES is the designated central stockholding entity to maintain Spanish oil stocks, and it has to maintain at least 42 days of reserves. Therefore, the industry maintains 50 days, to meet the government's 92-day requirement. The splitting of obligations between CORES and operators has several advantages in terms of greater security and compliance with the EU requirements, lower costs and risks associated with the maintenance of reserves, and the transfer of debt from operators to CORES. A default by CORES in case of an oil-supply crisis would have serious repercussions for the national economy due to Spain's energy dependence.

Contagion Risk

A CORES default would affect Spain's international credit reputation were it to fail to meet the EU's 90-day target, and this would hit the availability and cost of borrowing. CORES is active in capital markets (56% of outstanding debt in 2023), and with another 27% from the Instituto de Crédito Oficial, which is Spain's public-sector bank. However, its debt totalled EUR1.2 billion, or 0.1% of the national debt. Consequently, the assessment is capped at 'Strong'.

Operating Performance

CORES fee revenue must cover operating spending and sets the fees it charges operators accordingly.

In 2023, EBIT rose to EUR69 million, from EUR28 million in 2022, and despite a 17% rise in operating expenses. This was increase was due to a 39% rise in operating revenue following the sale of excess stocks in the year. CORES generates nearly three-quarters of its revenue from operator fees (72% of operating revenue in 2023) with the rest from sales of reserves (28% in 2023). The largest operating expenses are storing and maintaining oil reserves, the costs of which rose 6% in 2023 due to the constrained storage infrastructure capacity in Spain.

Revenue

CORES generates most revenue from monthly fees, particularly from Repsol, S.A. (BBB+/Stable) and Compañía Española de Petroleos, S.A. (Cepsa; BBB-/Stable), which together accounted just over half (55%) of all fees in 2023. Were one of the operators to leave the market, we would expect another to replace it in CORES' revenue. The fees are calculated annually to cover interest payments, operating and administrative costs.

When CORES wants to sell excess oil, the sale price must equal the average book value cost, or the market value if higher (in the latter case, the sale must be authorised by the board); if the price is below, the sale must be authorised by MITECO; proceeds have to be used for debt servicing. CORES tends to reduce operator fees in the final quarter of the year, depending on their sales and its own opex.

In 2023, fees rose to cover increased financing costs due to higher interest rates, and because of greater maintenance costs caused by inflation.

Fees for Gasoline (Automobile and Aviation)	(euros/m^3/days held)
For 2024 (approved in December 2023)	0.0884
For 2023 (approved in December 2022)	0.0807
For 2022 (approved in December 2021)	0.0642
For 2021 (approved in December 2020)	0.0643
For 2020* (approved in December 2019)	0.0643
*Application Date	Extraordinary Fees
Jun 2020	0.1839
Jul 2020	0.0958
Aug 2020	0.064
Sep 2020	0.0563

Source: Fitch Ratings, Official Newsletter of the State (BOE)

In 2023, CORES sold EUR66.5 million of reserves, about a quarter of the EUR264 million in 2021. However, these fluctuations are the result of CORES adjusting its reserves to meet its obligations.

Excess Reserves: Total Products

	Volume (000m^3)			
	Required	Excess	(%)	Days
2023	5,506	82	1	0.7
2022	5,413	126	2	1
2021	5,494	86	2	0.8
2020	5,998	90	2	0.7
2019	6,028	66	1	0,5
2018	5,880	302	5	2,3
2017	5,599	618	11	4.8
2016	5,496	802	15	6.3
2015	5,507	1,263	23	10.3
2014	5,351	1,438	27	12.1
2013	5,473	1,326	24	11.1

Source: Fitch Ratings, CORES

Expenditure

Opex has been fairly stable in recent years. Storage is the largest cost, as 95% of reserves are held by storage companies or refineries. All of CORES's reserves are stored in Spanish territory. Storage costs totalled EUR123.2 million in 2023, compared with EUR115.4 million in 2022.

In 2023, CORES had long-term storage contracts with eight companies. Exolum is the largest storage, transportation and distribution company of petroleum products in Spain, accounting for about half of CORES's reserves (47% at end-2023).

A lack of storage facilities in Spain is a risk. CORES mitigates this through strong control of its storage contracts, and ultimately the central government could step in to compel operators and logistics companies to store reserves, or enlarge facilities (as in 2013 and 2014).

Reserves are distributed by Repsol, Cepsa and BP plc (A+/Stable) refineries through an extensive logistics network that consists of more than 4,000km of pipelines and 43 logistics companies.

Energy Consumption in Spain

Overall energy consumption in Spain increased by 0.3% yoy in 2022. Consumption of petroleum gas products in Spain grew by 8.1% yoy due post-Covid-19 economic recovery. However, it did not reach 2019 pre-pandemic levels. (Specifically, kerosene grew by 75.7%, LPG by 10.5%; gasoline by 9.7% and fuel oil by 22.3%.)

Spain's crude oil imports fell by 3.3% yoy in 2023 to 61.6 million tonnes, and came mainly from North America (30.3%) and Africa (30.1%). The US was the largest supplier, accounting for 14.1% of imports, which was 31.2% higher than in 2022. EU sanctions prevented imports from Russia.

Energy Consumption in Spain

(000 tonnes of oil equivalent)	2018	2019	2020	2021	2022[a]
Carbon	1,443	1,268	1,108	1,291	1,284
Oil products	49,028	49,223	39,473	43,604	46,572
Gas	14,793	14,922	14,264	15,329	12,311
Electricity	20,504	20,166	18,887	19,594	19,159
Renewable	5,803	5,895	5,511	5,570	5,583
Non-renewable	226	217	193	213	213
Total consumption	91,797	91,692	79,436	85,602	85,122

[a] provisional
Source: Fitch Ratings, CORES, Ministerio para la Transición Ecológica y el Reto Demográfica

Debt and Liquidity Analysis

Debt

CORES's debt profile is low-risk, as 100% was in euros and 63% of outstanding debt was at fixed interest rates at end-2023. High interest rates are not a large risk as CORES could approve extraordinary fees to cover all interest servicing. At end-2023 about a quarter (23%) of total outstanding debt was set to mature by end-2024, with all of it from outstanding bullet bonds and a small portion of short-term debt.

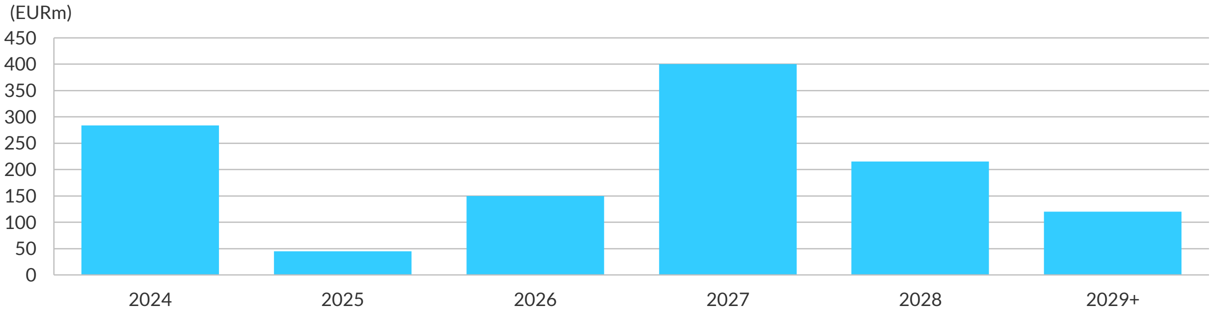
Among outstanding long-term debt, 70% was contracted with Instituto de Credito Oficial (A-/Stable) and the rest was with Banco de Sabadell S.A. (BBB-/Positive; 24%) and Unicaja Banco, S.A. (BBB-/Positive; 6%).

At end-2023, CORES debt decreased by 5% compared to 2022 to total EUR1,217 million.

Liquidity

CORES had ample liquidity at end-2023, with EUR166 million including cash and liquidity for debt service and an EUR165 million available credit line with four financial entities rated in the 'BBB' category.

Debt Repayment Profile (as of end-2023)



Source: Fitch Ratings, Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

Debt Analysis

	End-2023
Direct debt (EURm)	1,217
Fixed rate (% of direct debt)	63
Issued debt (% of direct debt)	53.4
Apparent cost of debt (%)	2.5

Source: Fitch Ratings, Fitch Solutions, CORES

Short-Term Rating Derivation

Under our GRE Rating Criteria, when an issuer's Long-Term Issuer Default Ratings (IDRs) are equalised with those of the government, the Short-Term IDRs are also equalised.

Debt Ratings

The ratings on the senior unsecured outstanding debt are in line with CORES's Long-Term IDR.

Peer Analysis

Peers

	Sponsor	GRE score	IDR	Rating Approach
Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)	Spain	45	A-	Equalised
Administrador de Infraestructuras Ferroviarias (ADIF)	Spain	50[a]	A-	Equalised
ADIF – Alta Velocidad	Spain	50[a]	A-	Equalised
Hydro-Quebec	Province of Quebec	35[a]	AA-	Equalised
SNCF Reseau	France	50	AA-	Equalised
Pequenos y Medianos Astilleros Sociedad de Reconversion, S.A. (PYMAR)	Spain	40[a]	BBB+	Top-down minus-1

[a] GRE score under previous criteria
Source: Fitch Ratings

CORES's rating approach is similar to that of large Spanish GREs, especially ADIF and ADIF-AV, whose ratings are also equalised with those of the sovereign. CORES is rated one notch above PYMAR, as we consider the incentive from the Spanish government to avoid a default is slightly higher for CORES.

CORES's rating approach is also similar to other large GREs in other sectors, such as Hydro-Quebec in Canada, whose ratings are equalised with those of the Province of Quebec, or SNCF Reseau in France (railway infrastructure manager), whose ratings are equalised with France.

ESG Considerations

Fitch no longer provides an ESG relevance score for CORES as its ratings and ESG profile are derived from its parent. ESG relevance scores and commentary for the parent entity – Spain – can be found here.

Appendix A: Financial Data

Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

(EURm)	2019	2020	2021	2022	2023
Income statement					
Operating revenue	184	152	412	167	233
Operating expenditure	-144	-135	-285	-140	-164
Interest revenue	0	0	0	0	0
Interest expenditure	-17	-18	-17	-19	-33
Other non-operating items	0	0	0	0	0
Taxation	0	0	0	0	0
Profit (loss) after tax	23	0	110	8	36
Memo: Transfers and grants from public sector					
Balance sheet summary					
Long-term assets	34	32	23	11	8
Stakes (equity investment)					
Stock	1,852	1,851	1,696	1,684	1,671
Trade debtors	1	0	0	0	1
Other current assets	0	0	0	0	0
Total cash, liquid investments, sinking funds	23	37	14	22	1
Total assets	1,910	1,920	1,732	1,718	1,680
Long-term liabilities	1,605	1,356	951	1,293	929
Trade creditors	13	13	25	15	21
Other short-term liabilities	7	266	357	6	290
Charter capital	0	0	0	0	0
Reserves and retained earnings	262	284	288	395	405
Minority interests					
Liabilities and equity	1,910	1,920	1,732	1,718	1,680
Net equity	284	285	398	403	441
Debt statement					
Short-term debt	2	252	354	4	289
Long-term debt	1,605	1,356	951	1,283	929
Total debt	1,607	1,608	1,306	1,286	1,217
Other Fitch-classified debt					
Adjusted debt	1,607	1,608	1,306	1,286	1,217
Unrestricted cash, liquid investments, sinking funds	23	37	14	22	1
Net adjusted debt	1,584	1,571	1,292	1,264	1,217
EBITDA reconciliation					
Operating balance	40	18	128	28	69
+ Depreciation	3	3	3	3	3
+ Provision and impairments	0	0	0	0	0
+/- Other non-cash operating expenditures/revenues	0	0	0	0	0
= EBITDA	43	21	131	31	72

Source: Fitch Ratings, Fitch Solutions, Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

Appendix B: Financial Ratios

Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

	2019	2020	2021	2022	2023
Income statement ratios					
Operating revenue annual growth (%)	13.9	-17.1	170.6	-59.4	39.1
Operating expenditure annual growth (%)	4.0	-6.4	111.5	-50.9	17.3
EBITDA/operating revenue (%)	23.4	13.6	31.7	18.3	30.9
Personnel costs/operating expenditure (%)	3.5	3.8	1.6	3.2	2.9
Total transfers from public sector/operating revenue and ad-hoc transfers (%)					
Balance sheet ratios					
Current assets/adjusted debt (%)	116.7	117.4	131.0	132.7	137.4
Current assets/total assets (%)	98.2	98.4	98.7	99.4	99.5
Total assets/adjusted debt (%)	118.9	119.4	132.7	133.5	138.0
Return on equity (%)	8.1	0.0	27.7	2.1	8.2
Return on assets (%)	1.2	0.0	6.4	0.5	2.1
Debt and liquidity ratios					
Net adjusted debt/EBITDA (x)	36.9	76.1	9.9	41.3	17.0
EBITDA/debt service coverage (x)	0.3	1.1	0.5	0.1	2.1
EBITDA/gross interest coverage (x)	2.6	1.2	7.9	1.5	2.3
Liquidity coverage ratio (x)	1.5	8.4	0.6	0.3	2.2
Net adjusted debt/operating revenue (%)	861.8	1031.7	313.4	755.9	523.4
Net adjusted debt/equity (%)	556.8	552.3	324.2	313.3	275.7
Debt in foreign currency/total debt (%)	0.0	0.0	0.0	0.0	0.0
Debt at floating interest rates/total debt (%)	40.0	40.0	25.0	0.0	28.3
Short-term debt/total debt (%)	0.1	15.7	27.1	0.3	23.7
Issued debt/total debt (%)	62.8	62.9	77.0	49.6	32.8
Government-related debt/total debt (%)					

Source: Fitch Ratings, Fitch Solutions, Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.