

RATING ACTION COMMENTARY

Fitch Affirms CORES at 'A-'; Outlook Stable

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Fitch Ratings - Barcelona - 26 Apr 2024: 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. A full list of rating actions is below.

Fitch views CORES as a government-related entity (GRE) of Spain (A-/Stable) and equalises its ratings with the sovereign's. This reflects a support score of 45 points out of a maximum 60 under our GRE Rating Criteria.

KEY RATING DRIVERS

Support Score Assessment 'Virtually certain'

We see extraordinary support from the Spanish government to CORES as 'Virtually Certain', reflecting a support score of 45 under Fitch GRE Criteria. This reflects a combination of responsibility-to-support and incentive-to-support factors assessment as below.

Responsibility to Support

Decision Making and Oversight 'Very Strong'

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

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

Precedents of Support 'Strong'

By law, the state is required to provide strong financial support to CORES through MITECO, which can, at any time, approve an extraordinary increase in the fees charged to operators to guarantee CORES's financial solvency. Operators are obliged by law 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.

Incentives to Support

Preservation of Government Policy Role 'Very Strong'

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 for private operators of assuming CORES's obligation and the non-transferability of the task of controlling and inspecting reserves held by operators. Further, 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.

A CORES default would lead to a self-sufficiency issue as oil is a key energy for Spain. Its 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.

Contagion Risk 'Strong'

CORES is a high-profile entity for the Spanish government and its default would have a significant impact on Spain's international credit reputation in failing to meet the EU target of 90 days, affecting the availability and cost of borrowing. CORES is active in capital markets (56% of outstanding debt in 2023), and with another 27% coming from the Instituto de Crédito Oficial, which is the Spanish public bank that supports the public sector. However, its total debt stands at EUR1.2 billion, or 0.1% of the national debt. Consequently, the assessment is capped at 'Strong'.

Operating Performance

CORES is a non-profit corporate, which by law, has stable fee revenue that must cover its operating spending. It sets fees charged to operators with the aim that fees they should at least cover operating spending.

In 2023, despite a 17% rise in operating expenses, EBIT rose to EUR69 million, from EUR28 million in 2022. This was driven by a 39% rise in operating revenue, due to the sale of excess stock over the year. CORES generates almost all its revenue from fees collected from operators (72% of operating revenue in 2023) with the rest from reserves sale (28% in 2023). The primary contributors to operating expenses are costs associated with storing and maintaining oil reserves, which rose 6.0% in 2023 due to the constrained availability of infrastructure within the country.

Derivation Summary

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.

Short-Term Ratings

Under our GRE Rating Criteria, when an issuer's Long-Term IDRs are equalised with the government's, 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.

Issuer Profile

CORES was established in 1994 as the central stockholding entity for the maintenance of oil stocks in Spain. CORES's main responsibilities include acquiring petroleum, and maintaining, managing and selling petroleum reserves.

RATING SENSITIVITIES

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.

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.

ESG Considerations

Fitch no longer provides ESG relevance score for CORES as its ratings and ESG profile are derived from its parent, the Spanish sovereign. ESG relevance scores and commentary for the parent entity- Spain- can be found here <https://www.fitchratings.com/entity/spain-80442206#ratings>

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

CORES's IDRs are directly linked to Spain's ratings.

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.

RATING ACTIONS

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

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 12 Jan 2024\)](#)

[Public Policy Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

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Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

EU Issued, UK Endo

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