FitchRatings

Public Finance
Government-Related Entities
Spain

Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

Ratings

Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F1
Long-Term Senior Unsecured	A-

Local Currency

Long-Term IDR	A-

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Key Rating Drivers

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

Status, Ownership and Control - 'Strong': The central government has a strong influence on and control of CORES' operations, shown by the supervision of the Ministry for the Ecological Transition and the Demographic Challenge (MITECO). MITECO can veto any CORES agreement that could breach the law or harm public interest, has members on CORES' board of directors (BoD) and has the right to appoint CORES' president. The central government holds no shares in CORES; in case of dissolution, it would not be involved and there would be no transfer of liability.

Support Track Record and Expectations - 'Very Strong': Fitch believes that regulatory influence is strongly supportive of CORES' financial stability and viability, as the petroleum gas product operators and natural gas shippers are obliged by law to pay increased fees, where necessary, to guarantee that CORES can cover its total spending costs, including debt servicing (principal debt and interest).

Socio-Political Implications of Default - 'Very Strong': A default by CORES would materially endanger the provision of its activity, affecting its borrowing capacity, given that it funds its purchase of reserves with debt borrowing. There is not an immediate substitute that can fulfil CORES' obligation of maintaining 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.

Financial Implications of Default - 'Strong': The government has a strong incentive to provide extraordinary financial support to prevent a default by CORES as such a default would have a significant impact on Spain's credit international reputation and its ability to meet EU targets. CORES' accounts are consolidated in Spain's debt in national public terms. Its default would also have a significant impact on the availability of borrowing, as it is mostly financed in capital markets (62.8% of outstanding debt at end-2019).

ESG Considerations: ESG issues have a minimal impact on CORES' ratings, as reflected in a score of '3'.

Rating Sensitivities

Sovereign Rating: CORES' Issuer Default Ratings (IDRs) could be upgraded if the sovereign IDRs are upgraded, assuming that the links between the sovereign and the company remain strong.

Weaker Support Factors: CORES' IDRs could be downgraded following a similar rating action on the sovereign, an adverse change in the legal framework (which Fitch currently views as unlikely) or a weakening of expected support from the state.

Issuer Profile

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

Financial Data

CORES

(EURbn)	2018	2019
Turnover	161.4	183.8
Total assets	1,947.7	1,909.8
Total debt	1636.5	1,606.8
Total equity	51.7	22.9
Net income	6.3	22.9
Net adjusted debt/EBITDA	60.9	36.9
EBITDA/gross interest coverage	1.5	2.5

Source: Fitch Ratings, CORES

Applicable Criteria

Government-Related Entities Rating Criteria (September 2020)

Related Research

Fitch Affirms CORES at 'A-'; Outlook Stable (May 2020)

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Rating Synopsis

We view CORES as a GRE of Spain, and assign it 45 points under our *GRE Rating Criteria*. We assess the rating factors 'Support Track Record and Expectation' and 'Socio-Political Implications of Default' as 'Very Strong', while we assess 'Status, Ownership and Control' and 'Financial Implications of Default' as 'Strong'.

This assessment led us to align CORES' ratings with the sovereign's, irrespective of the standalone assessment.

Rating History

Date	Long-Term Foreign-Currency IDR	Long-Term Local-Currency IDR
25 Jan 18	A–	A–
2 May 14	BBB+	BBB+
5 Mar 13	BBB	BBB

Source: Fitch Ratings

Notching Guideline Table

SCP of GRE vs. rating of government/overall support score	Equal or more than 45	Between 35 – 42.5	Between 27.5 – 32.5	Between 20 – 25	Between 15 – 17.5	12.5	Equal or less than 10
Same or above	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained
Up to three notches away from government	Equalised	Equalised	Equalised	Top-down -1[a]	Bottom-up +1 capped at government -1	Bottom-up +1 capped at government -1	Standalone
Four notches away	Equalised	Top-down -1	Top-down -1	Top-down -2	Bottom-up +	Bottom-up +1	Standalone
More than four notches away from government or standalone not derived/ not meaningful[c]	**Equalised**	Top-down -1	Top-down -2	Top-down -3	Bottom-up +2 or +3 capped at government -3[b]	Bottom-up + 1[b]	Standalone[b]

[a] If the GRE's Standalone Credit Profile (SCP) is one notch below the government's and the GRE's credit drivers are largely independent from those of the government, a one-notch uplift to the same rating as the government can also be considered.
[b] When the SCP is not assigned or not meaningful, entities for which the notching approach is bottom-up or standalone would not be rated.
[c] The SCP may be 'not meaningful' when the issuer cannot be effectively de-linked from the government - notably when the GRE primarily acts on behalf of the government to perform a policy-driven mission and does not generate its own cash flow or because of very tight operational and financial links with the government.
Source: Fitch Ratings

Issuer Profile

CORES was established in 1994 as the 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. CORES has some other strategic functions, such as:

- Controlling and inspecting, on a monthly basis, the level of Spain's security reserves (petroleum and gas) held by operators and gas marketers to ensure there is a minimum level of security stocks in the country, and to control fraud;
- Guaranteeing that natural gas imports to Spain come from a diverse range of sources;
- Preparing statistical reports on the hydrocarbon sector; and
- Collaborating with public administrations to provide information and assessment.

Assessment of Support – GRE

CORES – Assessment of Support

Status, ownership and control	Support track record and expectations	Socio-political implications of default	Financial implications of default	GRE score
Strong	Very Strong	Very Strong	Strong	45

Source: Fitch Ratings

Status, Ownership and Control: 'Strong'

CORES has the legal status of a public-law corporation. The central government's strong influence over and control of CORES' operations are shown by the company's supervision by 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' BoD.

The government also has a significant presence on CORES' BoD as four out of its 11 members are appointed by MITECO. The BoD's main responsibilities are to control CORES' activities and to set its annual budget and business plans. 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.

CORES' governing body also includes the general assembly, which comprises all the operators and marketers of petroleum and natural gas in Spain. The general assembly's main job is to approve annual accounts and propose annual fees. Agreements are approved by a simple majority.

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 is not part of the Spanish government public sector, as it does not receive government subsidies. However, CORES' debt and accounts are consolidated in Spain's national accounts, having been reclassified in 2013 as national accounts by Eustat. This is because CORES is specifically authorised, on behalf of the central government, to provide a strategic public service and because it receives mandatory fee payments from operators.

CORES' budget and borrowings are approved by its BoD, while the fees charged to operators are approved by MITECO.

Support Track Record and Expectations: 'Very Strong'

CORES does not receive subsidies or capital injections from the central government and does not benefit from an explicit government guarantee. However, by law, the state implicitly gives strong financial support to CORES; MITECO can, at any time, approve an increase in the extraordinary fees charged to operators to guarantee CORES' financial solvency (covering debt servicing). Operators are obliged by law to honour any such increase.

CORES' revenue are mainly from the monthly fees charged to operators, which are calculated annually covering interest payment, operating and administrative costs. Operating expenditure (opex) includes spending on the creation, storage and maintenance of CORES' reserves.

CORES funds its debt maturities through contracted debt operations in the market. If access to the market is difficult, CORES can approve extraordinary fees to pay any financial commitments.

According to Royal Decree 1716/2004, CORES can sell any excess reserves above the mandatory level under the following circumstances:

- 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 BoD.
- If the sale price does not comply with the previous requirement, the sale must be authorised by MITECO.
- Benefits from the sale must finance debt servicing.

Excess Reserves: Total Products

	Volume (000m^3)			
	Required	Excess	(%)	Days
2009	6,546	538	8	3.6
2010	6,662	267	4	1.9
2011	6,850	74	1	0.6
2012	6,030	777	13	6
2013	5,473	1,326	24	11.1
2014	5,351	1,438	27	12.1
2015	5,507	1,263	23	10.3
2016	5,496	802	15	6.3
2017	5,599	618	11	4.8
2018	5,880	302	5	2,3
2019	6,028	66	1	0,5

Source: Fitch Ratings, CORES

Due to Covid-19, CORES charged operators an extraordinary fee to ensure the full coverage of opex in 2020. CORES' operators sold less than what they had previously budgeted due to a sharp decline in oil consumption.

As a result of lockdown and travel restrictions, the consumption of oil- and gas-related products declined significantly, resulting in a drop in revenue by 19%-60% in April-May 2020. To address this, CORES and MITECO asked members to pay, between June and September, 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 29 May 2020, and was unanimously approved by CORES' BoD. In our view, this proves the strong framework under which CORES operates and the government's willingness to act in support of CORES in a timely fashion when needed.

Socio-Political Implications of Default: 'Very Strong'

The EU obliges Spain to maintain 90 days of net imports of crude oil and petroleum – a target that 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.

The splitting of the obligation between CORES and the operators presents several advantages in terms of greater security and compliance with the EU obligation, as well as lower costs and risks associated with the maintenance of reserves and the transfer of debt from operators to CORES. In fact, in recent years, Spain has gradually increased CORES' days of obligation (to 42 from 30) and, since 2016, CORES has been able to legally assume additional days of obligation requested by the operators for a maximum of 50 days of the total obligation.

Our assessment of the socio-political implications of CORES' default as 'Very Strong' reflects the fact that the company's financial default would materially endanger the continued provision of its activity, which would affect its borrowing capacity, considering that CORES funds its purchase of reserves through debt borrowing.

The assessment also reflects the lack of an 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.

Thus, 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.

The European Commission can take legal action against member states that do not comply with the EU directive and can, in certain cases, impose economic sanctions. The EU, through the International Energy Agency, exhaustively controls and publishes data on the reserve stocks of each member state on a monthly basis to guarantee that EU targets are met.

Financial Implications of Default: 'Strong'

Our assessment of the financial implications of CORES' default as 'Strong' reflects the fact that the Spanish government would have a strong incentive to provide extraordinary financial support to prevent such a default. This is because a default would have a significant impact on Spain's credit international reputation and its ability to meet EU targets, affecting its availability and cost of borrowing. The assessment also reflects the fact that CORES' debt and accounts are consolidated in Spain's national accounts.

The availability of borrowing would be affected by CORES' default because the company is mostly financed in the capital markets (62.8% of outstanding debt in 2019), risking failure to meet the EU target. CORES has access to debt loans from the Instituto de Credito Oficial (ICO) (A-/Stable), which is the Spanish public bank that supports the public sector, offering companies borrowing on advantageous financial conditions and with long amortising periods. At end-2019, 29.9% of CORES's outstanding debt was from ICO loans.

Consumption of Final Energy in Spain

(000 of oil equivalent)	2018	2019
Carbon	1,588	1,358
Oil products	49,028	49,203
Gas	14,735	13,980
Electricity	20,504	20,213
Renewable	6,250	6,295
Non-renewable	4	4
Total final consumption	**92,109**	**91,052**

Source: Fitch Ratings, CORES

Overall GRE Assessment

The assessment of CORES' rating factors leads to a score of 45 under our *GRE Rating Criteria*.

Financial Profile

Revenue

CORES generates almost all of its revenue from fees collected from operators, particularly Repsol, S.A. (BBB/Stable) and Compañía Española de Petroleos (Cepsa), which together accounted for 54% of total fees in 2019.

CORES typically reduces fees charged to operators in the last quarter of the year, depending on the development of operators' sales and its own opex costs. For instance, in October 2019, CORES reduced fees for liquid hydrocarbon products by 6%, distillate products by 4.3% and gasoline by 12.6%. In May 2020, CORES approved an extraordinary fee for operators with effect from June, to compensate for the decline of oil consumption and operators' contributions driven by the coronavirus crisis.

The majority of energy supplies are imported (Spain imported 66.3 million tons of crude oil in 2019, or 72.8% of its final energy consumption). In 2019, Nigeria became Spain's largest crude oil supplier (16.9% of total), ahead of Mexico (14.2%), Libya (12.8%) and Saudi Arabia (12.4%).

Fees for Gasoline (Automobile and Aviation)

Year	EUR/m^3
For 2021 (approved in Dec 20)	0.0643
For 2020 (approved in May 20)	0.1839
For 2020 (approved in Dec 19)	0.0643
For 2019 (approved in Oct 19)	0.0643
For 2019 (approved in Dec 18)	0.0700

Source: Fitch Ratings, Official State Bulletin

Expenditure

Opex has been relatively stable in recent years. Storage is the major cost for CORES as 100% of the company's reserves are stored in storage companies or refineries, all of which are in Spain. Storage costs were EUR125.7 million in 2019, down from EUR127.3 million in 2018.

In 2019, CORES had long-term contracts with eight companies for storing its reserves. Compañía Logística de Hidrocarburos (CLH) is the leading transporter and storer of petroleum products in Spain, storing 46% of CORES' reserves. This company has one of the largest and most efficient integrated transport networks and petroleum storage facilities in the world, with more than 4,000km of pipelines, and 40 storage facilities with more than 8 million m3 of capacity. CLH achieved profit after tax of EUR238 million in 2018, of which EUR78 million came from international operations.

A lack of storage facilities is a risk for CORES. However, if this happens, the central government would intervene and compel operators and logistics operators to store CORES' reserves, or to enlarge their facilities (as occurred in 2013 and 2014).

CORES' reserves are distributed from refineries (Repsol, Cepsa and BP plc (A/Stable)) to different points of consumption through a large and efficient land and sea logistics network, comprising more than 4,000km of pipelines and 43 logistics companies.

Financial Performance

CORES is non-profit corporate, which by law, has stable fee revenue that must cover its total spending. Typically, CORES reduces fees charged to operators (fees collected from operators more than covering opex), 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.

Debt

CORES debt profile is conservative; at end-2019, 100% of debt was denominated in euros, and 60% of outstanding debt was at fixed interest rates. However, an increase in interest rates would not be a risk for CORES as the company could approve extraordinary fees to cover all debt servicing. At end-2019, about half of CORES' total outstanding debt was set to mature between 2021 and 2027, with 63% coming from outstanding bullet bonds.

Among CORES' outstanding long-term debt from loans, 81% was contracted with ICO and the remainder was concentrated in Banco Bilbao Vizcaya Argentaria, S.A. (10%; BBB+/Stable) and Banco de Sabadell, S.A. (6%; BBB-/Stable) and Bankinter (3%).

Debt Analysis

	2019
Fixed rate (% of total debt)	60
Short-term debt (% of adjusted debt)	0.13
Average cost (%)	1.02
Average maturity (years)	5.35

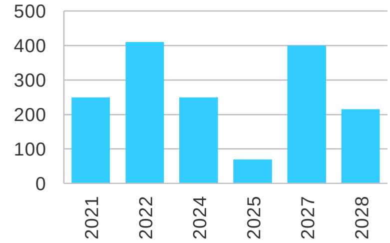
Source: Fitch Ratings, CORES

In 2018, CORES decided to sell reserves as it had already maintained reserves above required levels. The sale generated EUR31.8 million in 2019, which, as per the regulatory framework, were first used to reduce debt; therefore, outstanding debt declined to EUR1.606 billion in 2019 from EUR1.636 billion in 2018.

At end-December 2019, cash reserves were EUR22.9 million, with EUR140 million in eight available credit lines.

In 2019, the debt maturity of EUR125 million from an ICO loan was renegotiated to be paid in 2028 rather than 2020. In addition, in 2020, CORES early repaid EUR35 million of a debt operation and refinanced a debt loan. We do not expect CORES to have contracted new debt operations or sold excess reserves last year. Therefore, we expect the outstanding debt at end-2020 to remain the same.

Debt Amortisation Schedule as of 31 December 2019 - Capital Repayments (EURm)



Source: Fitch Ratings, CORES

Peer Analysis

Fitch rates two other Spanish GREs: Administrador de Infraestructuras Ferroviarias (ADIF; A-/Stable), the national railway infrastructure manager and Sociedad Estatal de Participaciones Industriales (SEPI; A-/Stable), the national strategic holding company, both of which ratings are, like CORES, equalised with the sovereign rating.

Peers

Issuer	Sponsor	GRE score	IDR	Rating approach
CORES	Spain	45	A-	Equalised
Administrador de Infraestructuras Ferroviarias (ADIF)	Spain	50	A-	Equalised
Sociedad Estatal de Participaciones Industriales (SEPI)	Spain	50	A-	Equalised

Source: Fitch Ratings

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' – ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance SCORES, visit:

https://www.fitchratings.com/site/esg.

Appendix A

(EURm)	2015	2016	2017	2018	2019
Income statement					
Turnover	170.7	304.3	177.6	161.4	183.8
Staff expenses	-3.5	-3.7	-4.0	-4.4	-5.0
Depreciation	-2.8	-2.8	-2.8	-2.8	-2.9
Other operating revenues and expenditure	-3.4	-106.5	-14.2	-3.6	-10.2
Operating balance before transfers and grants	20.1	53.4	27.4	23.2	40.0
Transfers and grants from public sector	-	-	-	-	-
Operating balance after transfers and grants	20.1	53.4	27.4	23.2	40.0
Interest revenue	0.1	0.2	0.0	0.2	0.0
Interest expenditure	-18.1	-13.2	-9.8	-17.1	-17.1
Operating balance after financing	38.3	66.9	37.2	40.5	57.2
Non-operating revenue and expenditure	-	-	-	-	-
Profit (loss) before taxation	2.2	40.3	17.6	6.3	22.9
Taxation	0.0	-0.1	0.0	0.0	0.0
Profit (loss) after tax	2.2	40.4	17.7	6.3	22.9
Balance sheet					
Assets					
Tangible assets	29.7	26.9	24.2	21.7	18.9
Intangible assets	0.0	0.0	0.1	0.3	0.7
Other long-term assets	-	-	-	-	-
Long-term investments	54.5	58.5	8.6	10.2	14.5
Stock	1,986.9	1,880.4	1,866.1	1,862.5	1,852.3
Trade debtors	0.1	0.5	0.5	1.4	0.6
Other current assets		0.0	22.7	0.1	0.0
Total cash, liquid investments, and sinking funds	351.4	60.0	440.7	51.7	22.9
Total assets	2,422.7	2,026.3	2,363.0	1,947.7	1,909.8
Liabilities and equity					
Long-term debt	1,766.4	1,763.6	1,561.7	1,509.2	1,604.6
Pension	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-
Short-term debt	383.4	1.2	524.7	127.2	2.2
Trade creditors	16.6	15.1	15.7	41.9	13.3
Other short-term liabilities	8.1	8.9	5.7	7.8	5.2
Equity	40.5	40.4	17.7	6.3	22.9
Reserves	195.0	197.2	237.6	255.2	261.5
Minority interests	-	-	-	-	-
Total liabilities and equity	2,422.7	2,026.3	2,363.0	1,947.7	1,909.8

Source: Fitch Ratings, CORES

Appendix A

Debt statement	2015	2016	2017	2018	2019
Short-term debt	383.4	1.2	524.7	127.2	2.2
Long-term debt	1,766.4	1,763.6	1,561.7	1,509.2	1,604.6
Subordinated debt	-	-	-	-	-
Finance leases	-	-	-	-	-
Total debt	2,149.8	1,764.8	2,086.3	1,636.5	1,606.8
Other Fitch-classified debt	-	-	-	-	-
Unfunded pension liabilities	-	-	-	-	-
Adjusted debt	2,149.8	1,764.8	2,086.3	1,636.5	1,606.8
Unrestricted cash, liquid deposits, and sinking funds	351.4	60.0	440.7	51.7	22.9
Net debt	1,798.3	1,704.8	1,645.7	1,584.8	1,584.0
Net adjusted debt	1,798.3	1,704.8	1,645.7	1,584.8	1,584.0
Contingent liabilities	-	-	-	-	-
Net overall risk	1,798.3	1,704.8	1,645.7	1,584.8	1,584.0

Cash flow statement					
EBITDA	23.0	56.2	30.2	26.0	42.9
Changes in working capital	4.7	104.6	11.6	31.0	-20.1
CFO: Cash flow from operations	8.8	147.1	33.6	41.1	6.7
Net capital expenditure	19.0	0.0	-0.2	-0.4	-0.5
Cash flow before financing	27.8	147.1	33.5	40.7	6.2
Dividends paid	-	-	-	-	-
Equity injection	-	-	-	-	-
New borrowing	346.4	0.0	397.2	70.0	0.0
Other cash financing	-	-	-	-	-
Debt repayment	-60.1	-438.1	-50.0	-499.7	-35.0
Cash flow after financing	314.1	-291.0	380.7	-389.0	28.8

Source: Fitch Ratings, CORES

Appendix B

Ratio analysis	2015	2016	2017	2018	2019
Profitability ratios					
Personnel costs/total operating revenue (%)	2.1	1.2	2.3	2.7	2.7
Transfers and grants from public sector/total operating revenue (%)	-	-	-	-	-
EBITDA/total operating revenue (%)	13.4	18.5	17.0	16.1	23.4
Balance sheet ratios					
Current assets/total assets (%)	96.5	95.8	98.6	98.4	98.2
Current assets/total debt (%)	108.8	110.0	111.7	117.1	116.7
Return on equity (%)	0.9	17.0	6.9	2.4	8.1
Return on assets (%)	0.1	2.0	0.7	0.3	1.2
Debt ratios					
Total debt/EBITDA (x)	93.7	31.4	69.1	62.8	37.4
Adjusted debt/EBITDA (x)	93.7	31.4	69.1	62.8	37.4
Net debt/EBITDA (x)	78.4	30.3	54.5	60.9	36.9
Net adjusted debt/EBITDA (x)	78.4	30.3	54.5	60.9	36.9
EBITDA/gross interest coverage (x)	1.3	4.2	3.1	1.5	2.5

Source: Fitch Ratings, CORES

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.