FitchRatings

# Fitch Affirms Cores at 'BBB+'; Outlook Stable

Fitch Ratings, Barcelona/London, 10 June 2016: Fitch Ratings has affirmed Corporacion de Reservas Estrategicas de Productos Petroliferos' (Cores) Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) at 'BBB+' with Stable Outlooks and Short-Term Foreign Currency IDR at 'F2'. The affirmation also affects Cores' outstanding EUR2,149m debt at end-2015. The ratings on the senior unsecured outstanding bond issues have been affirmed at 'BBB+'.

The affirmation reflects the unchanged link between Cores and the Spanish government over the last 12 months including Cores' ability to adjust the fees collected from operators to cover its operating costs and debt servicing.

KEY RATING DRIVERS
Cores' ratings are credit-linked to Spain (BBB+/Stable/F2), in line with Fitch's public sector entity criteria, given the company's strong legal status, strategic mission of maintaining and controlling the country's oil and gas emergency stocks, and strong control from the State.

Cores's ability to increase fees to the operators, at any time, provided that it can justify it is related to the coverage of operating cost (including debt repayment), is a key rating factor. Under Spanish law, operators in natural gas and oil distribution must pay a fee to Cores, and are also responsible for maintaining Cores' financial creditworthiness. The annual fee is established by ministerial order based on a proposal of Cores' Board of Directors and must cover Cores' operating expenditure.

Although the central government is not a stakeholder given Cores' legal status as a public-law corporation (Corporacion de derecho publico) we consider its control very strong. The government is not a dominant presence on Cores' Board of Directors, although, the company's President is appointed via the Ministry of Industry, Energy and Tourism (MINETUR).

In 2015, the legal framework was slightly amended to allow more flexibility in Cores' contracts with operators to increase the days of maintenance of their oil storage and to maintain gas storage in the future.

Oil is crucial for Spain's domestic energy supply, representing more than half the energy consumed in the country. Almost all oil is imported.

Cores' outstanding debt rose in 2015 to EUR2.1bn (EUR1.9bn in 2014), following the issue of a seven-year EUR350m bond to refinance a bond maturity in April 2016. Slight recovery in consumption in 2015 implied Cores had excess reserves, which we estimate at EUR359m, equivalent to 20% of its net risk (outstanding debt minus cash). In 2015, lower storage costs and low interest rates allowed Cores to continue to cut its operating expenditure, and consequently to reduce the fees charged to operators. Cores is a non-profit entity.

RATING SENSITIVITIES
Cores’ ratings could be downgraded if Spain is downgraded. A downgrade may also result from a diminishing of support from the central government, in particular with limitations on Cores' ability to increase at any time the fee paid by operators, which Fitch views as unlikely in the medium term.

A positive rating action on Spain would automatically be reflected in Cores' rating.

KEY ASSUMPTIONS
Fitch assumes oil will remain a strategic source of energy in the domestic economy.

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