S&P Global Ratings

RatingsDirect®

Research Update:

Spanish Strategic Oil Reserves Manager CORES 'BBB+/A-2' Ratings Affirmed; Outlook Remains Positive

Primary Credit Analyst:
Ines Olondriz, Madrid (34) 91-788-7202; ines.olondriz@spglobal.com

Secondary Contact:
Alejandro Rodriguez Anglada, Madrid (34) 91-788-7233; alejandro.rodriguez.anglada@spglobal.com

Research Contributor:
Marta Saenz, Madrid +34 917887231; marta.saenz@spglobal.com

Table Of Contents

Research Update:

Spanish Strategic Oil Reserves Manager CORES 'BBB+/A-2' Ratings Affirmed; Outlook Remains Positive

Overview

- Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), which manages Spain's strategic oil reserves, benefits from a strong legal status, ensuring that its operating revenues cover its expenditures.
- We equalize our issuer credit ratings on CORES with our sovereign credit ratings on Spain because, in our opinion, there is an almost certain likelihood that CORES would receive timely and sufficient extraordinary support from the Spanish government.
- We are affirming our 'BBB+/A-2' ratings on CORES.
- The positive outlook on CORES reflects that on Spain.

Rating Action

On July 13, 2017, S&P Global Ratings affirmed its 'BBB+/A-2' long- and short-term issuer credit ratings on Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), which manages Spain's strategic oil reserves. The outlook is positive.

Rationale

We consider CORES to be a government-related entity (GRE). We believe there is an almost certain likelihood that the Spanish government would provide timely and sufficient extraordinary support to CORES in the event of financial distress. We therefore equalize our ratings on CORES with those on Spain (BBB+/Stable/A-2).

CORES is a corporation governed by public law, but with a distinct legal status and acting under private law. It conducts its activities under the supervision of the central government, exercised through the Ministry of Energy, Tourism, and the Digital Agenda, and therefore we consider it to be a GRE. Our opinion of an almost certain likelihood of support reflects our view of CORES':

- Integral link with the Spanish government. CORES is a public-law entity, tightly controlled and supervised by the Spanish Ministry of Energy, Tourism, and the Digital Agenda. The Ministry appoints the chairman of CORES, as well as four of the 11 members of its board of directors. Although the board makes decisions by a simple majority, the ministry may exercise its veto power through CORES' chairman on any decision that it deems contrary to public interest; and
- Critical role as an entity specifically formed to provide a strategic public service on behalf of the Spanish government. CORES has a specific mandate to monitor the level of Spain's oil reserves--virtually all of which come from imports--and ensure that they are sufficient to cover the country's oil consumption needs for a legally determined period of time. Following the reform of

Spain's hydrocarbon law in May 2015, CORES' role also includes the additional responsibility of managing strategic gas reserves, although this activity has not yet started. Only the government would, in our opinion, be able to take over CORES' mandate.

CORES does not receive funds from the government, nor does it benefit from any explicit guarantee of its liabilities. However, the government provides CORES with what we see as strong ongoing support in the form of a regulatory framework under which oil and gas operators have an obligation to pay whatever fees are necessary to fully cover all of CORES' costs, including debt service. Moreover, the current legal framework allows the government to demand extraordinary fees from operators if necessary. Ultimately, we think that if CORES were to be dissolved, the central government would take over its obligations. CORES borrows from local and international financial markets to finance its purchase of oil stocks. Its debt totaled €1.76 billion on Dec. 31, 2016.

Because we equalize our long-term rating on CORES with that on the sovereign, our assessment of the company's stand-alone credit profile is not a rating driver. In our view, the likelihood of extraordinary government support is almost certain and we do not believe this is subject to transition risk. Furthermore, CORES executes strategic government policies.

Liquidity

We view CORES' liquidity as adequate, given that the entity factors in all of its expenses, including debt service, when determining the annual fees applicable to its members. CORES collects fees monthly, ensuring regular access to liquidity inflows, and typically sets its fees with very conservative assumptions about expenditures. As a result, it normally generates excess fees. When it becomes clear that fees charged are likely to surpass costs, CORES adjusts fees downward to ease the pressure on its members. However, CORES could choose to retain excess fees as reserves if necessary.

CORES faces €500 million of debt maturities in 2018, which we expect it will start refinancing well ahead of time. It currently has €175 million in unused liquidity backup facilities that expire in 2019-2020. CORES expects to obtain another €25 million credit line by the end of July 2017, bringing its total available liquidity lines to €200 million.

If necessary, CORES may also sell excess oil reserves, for which there is an active market, to meet all or part of its financing needs. CORES holds reserves exceeding the legally established limits, which are set in days of consumption. As of May 31, 2017 (the latest available information), CORES' reserves were about 14% higher than legally required. The market value of such reserves would be about €300 million, although we note that the value of excess reserves is subject to fluctuations arising from changes in consumption and global prices for petroleum products.

CORES is legally required to have a detailed plan for sales of excess reserves, and it has designed this plan in such a way that these sales would coincide with the expiration of storage contracts, thereby avoiding inefficiencies in operating costs.

Nevertheless, CORES' board retains full discretion on whether to sell reserves at any point in time. In 2016, CORES sold part of its reserves for €144 million, generating a net gain of €40 million, and has used the proceeds to reduce its debt, as it is legally obliged to do.

CORES may also request that the ministry levy extraordinary fees to its members to cover all or part of its long-term debt maturities. However, we consider it unlikely that CORES would have to resort to this option.

Outlook

The positive outlook on CORES reflects that on Spain. If we upgraded Spain, we would raise our ratings on CORES, assuming the company's role for and link with the sovereign remained unchanged.

We could revise our outlook on CORES to stable over the next 18-24 months if we took the same action on Spain.

We could lower our ratings on CORES over the next 18-24 months if we assessed that its role for and link with the Spanish government had weakened, indicating a lower likelihood of extraordinary support. However, we see this scenario as unlikely.

Related Criteria And Research

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Credit FAQ: How We Rate Entities Managing Strategic Oil Reserves – May 4, 2017
- Strategic Oil Reserves Manager CORES Outlook Revised To Positive After Similar Action On Spain; Affirmed At 'BBB+/A-2' – April 5, 2017
- Kingdom of Spain Outlook Revised To Positive On Strong And Balanced Economic Performance; 'BBB+/A-2' Ratings Affirmed - March 31, 2017

Ratings List

	Rating	
	To	From
Corporacion de Reservas Estrategicas de Productos Petroliferos		
Issuer Credit Rating		
Foreign and Local Currency	BBB+/Positive/A-2	BBB+/Positive/A-2
Senior Unsecured		

Ratings List Continued...

Local Currency	BBB+	BBB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Additional Contact:
SovereignEurope; SovereignEurope@spglobal.com