Tagging Info

Fitch Affirms CORES at 'BBB +'; Outlook Stable

Ratings Endorsement Policy

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Fitch Ratings-London/Barcelona/Frankfurt-18 June 2014: Fitch Rating has affirmed Corporacion de Reservas Estrategicas de Productos Petroliferos' (Cores) Long-Term foreign and local currency Issuer Default Ratings (IDR) at 'BBB+', and its Short-Term foreign currency IDR at 'F2'. The Outlooks on the Long-Term IDRs are Stable. Cores' EUR850m bonds were affirmed at 'BBB+'.

KEY RATING DRIVERS

Cores' ratings are credit linked to the Spanish government (BBB+/Stable/F2), in line with Fitch's public sector entity criteria, given the company's strategic mission of maintaining and controlling the country's oil and gas emergency stocks. In 2013 the close links were reinforced when Cores was designated the central entity in charge of managing emergency stocks in Spain (Royal Decree-law 15/2013). The ratings also take into account the government's strong control of Cores, for example, through its ability to increase revenue to cover operating cost.

Oil is crucial for domestic energy supply, representing more than half of the energy consumed and almost all its consumption of oil is imported.

Although the central government is not a stakeholder as Cores is a public law entity, we consider its control over the activity of Cores as very strong. The government is a dominant presence on Cores' Board of Directors, and its President, who is directly appointed by the Ministry of Industry, Energy and Tourism, has a veto right.

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. Their annual fee is established by ministerial order under the proposal of Cores' Board of Directors. The fee could increase at any time, if Cores' creditworthiness requires it. Because the fee, which is paid on a monthly basis, represents only about 0.3% of the retail price of a litre of oil, a sharp rise would, in Fitch's view, have little impact on the volume of sales.

In 2013, despite a decrease of consumption of oil products Cores was generating larger reserves than budgeted, due to savings in borrowing cost, to the point that the Board decided to lower the fees charged to operators. As Cores did not buy a large amount of oil reserves in 2013, its outstanding debt remained at EUR1.8bn. Cores issued a EUR350m three-year bond in April 2013 with a fixed rate of 3.25%. The decline in consumption has meant that at the end of 2013, Cores had excess reserves estimated at EUR813m, equivalent to 45% of its outstanding debt.

RATING SENSITIVITIES

A positive action on the rating of Spain would automatically be reflected in the ratings of Cores.

Cores' ratings could be downgraded if Spain is downgraded or if oil ceases to be a strategic source of energy for the domestic economy, which Fitch views as unlikely. The ratings may also be downgraded if government support diminishes, particularly with respect to its capacity to increase the fee paid by operators, or if fee collection from operators declines on a sustained basis. This is, however, unlikely in the medium term.

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Additional information is available on www.fitchratings.com

Applicable criteria, "Tax-Supported Rating Criteria", dated 14 August 2012, and 'Rating of Public Sector Entities Outside the United States' dated 4 March 2014, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
Rating of Public-Sector Entities - Outside the United States

Additional Disclosure
Solicitation Status