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Research Update:

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

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Overview

- Corporación de Reservas Estrategicas de Productos Petroliferos (CORES), which manages Spain's strategic oil reserves, benefits from a strong legal status, ensuring that its operating revenues cover its expenses.
- We equalize our issuer credit ratings on CORES with those on Spain, reflecting our opinion that 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 stable outlook on CORES reflects that on Spain.

Rating Action

On July 19, 2016, S&P Global Ratings affirmed its 'BBB+/A-2' long- and short-term issuer credit ratings on Corporación de Reservas Estrategicas de Productos Petroliferos (CORES), which manages Spain's strategic oil reserves. The outlook is stable.

Rationale

We consider CORES to be a government-related entity (GRE). In accordance with our criteria for rating GREs, 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 Industry, Energy, and Tourism, 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 Industry, Energy, and Tourism. The Ministry appoints the chairman of CORES, and four of the 11 members of its board of directors. While the board makes agreements by simple majority, the ministry may exercise veto power through CORES' chairman on any decision that it deems contrary to public interest.
- 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 will now also include the additional responsibility of managing strategic reserves of gas, although the

activity has not yet started. Only the government itself would, in our opinion, be able to take on CORES' mandate.

CORES does not receive funds from the government, nor does it benefit from any explicit guarantee on 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 the 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.

CORES' total debt was €2.15 billion on Dec. 31, 2015. This figure, however, includes €350 million of a bond issued in November 2015 to prefund a maturity of the same amount that was due in April 2016. The proceeds of this issue were kept as cash until the bond came due. As a result, as of May 31, 2016, CORES' financial debt had dropped to €1.82 billion.

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. Fees are cashed in monthly, ensuring regular access to liquidity inflows. CORES 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 issued a €350 million bond in November 2015, with which it prefinanced a maturity for the same amount due in April 2016. It temporarily maintained the proceeds as cash. We view this as a conservative financing strategy.

CORES now faces only €30 million in maturities in 2016. The next long-term debt financial maturities will not fall until 2018, when a €500 million bond comes due. We expect CORES will likely again take a prudent approach to the refinancing of this maturity. It currently has €185 million in unused liquidity backup facilities, of which €145 million are signed until 2019. The remaining €40 million will mature in 2017. We understand CORES intends to maintain at least the current level of liquidity backup.

If necessary, CORES may also sell excess oil reserves, for which there is a liquid market, to meet all or part of its financing needs. Lower oil product consumption in Spain has left CORES holding reserves above the legally established limits (which are set in days of consumption). As of June 30, 2016 (latest available information), it held reserves that were about 22% higher than legally required. The market value of such reserves would be about €448 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 could sell all or part of these excess reserves if necessary, and they are currently valued far above its remaining €30 million in debt due in 2016 and a sizable chunk of its 2018 maturities. CORES is legally required to have a detailed plan of sales for excess reserves. The entity has designed its plan in a such a way that these sales would concide with the expiration of storage contracts, thus avoiding inefficiencies in operating costs. Nevertheless, CORES' board retains full discretion on whether to sell reserves at any point in time.

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 stable outlook on CORES reflects that on Spain. It also reflects our expectation that the entity's link with and role for Spain will remain unchanged over our outlook horizon to year-end 2018. We therefore expect the rating on CORES will move in tandem with that on Spain.

If we upgraded Spain, we would upgrade CORES, all other factors remaining equal. Similarly, in the event of a sovereign downgrade, we would downgrade CORES.

Related Criteria And Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Spanish Strategic Oil Reserves Manager CORES Upgraded to 'BBB+' On Similar Sovereign Rating Action; Outlook Stable - October 6, 2015
- Kingdom of Spain Upgraded To BBB+ On Reforms; Outlook Stable - October 2, 2015
- Spanish Strategic Oil Reserves Manager CORES 'BBB/A-2' Ratings Affirmed; Outlook Stable, September 14, 2015

Ratings List

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

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