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FITCH: PENSION REFORM AGREEMENT WILL LESSEN PEMEX LIABILITIES

Fitch Ratings-New York/Chicago-13 November 2015: Petroleos Mexicano's (Pemex's) announcement on Wednesday that it had concluded negotiations with its labor union to reform its pension system is credit positive for the company but neutral for its credit rating, according to Fitch Ratings.

We expect the agreement to significantly lower Pemex's pension liabilities, which as of Sept. 30, 2015 amounted to approximately USD90 billion.

Still, Pemex's pension liabilities could continue to grow as employees that have accumulated tenure with the company for longer than 15 years may opt to stay under the previous plan that allows for retirement at 55 years of age and 25 years of service. The Mexican government is expected to capitalize the company's pension assets in an amount equivalent to the savings to lower the net pension liability.

The pension reform is similar to the ones carried out by Comision Federal de Electricidad (CFE), Bancomext, Banobras and Nafinsa between 2006 and 2008, when these entities increased the retirement age to 60 years of age and required 30 years of service. The range of pension liabilities' instant reductions for these entities at that time ranged from near zero for CFE to approximately 15% for Banobras.

CFE's pension modification in 2008 only applied to new employees at the time, which resulted in relatively low instant savings but slower growth in pension liabilities. Banobras implemented a voluntary migration from the previous defined benefits plans to defined contributions, which resulted in an approximately 15% reduction in pension liabilities. Fitch estimates Pemex's savings from the negotiation could be in this range and will double as a result of the contribution from the government to pension assets.

Pemex's agreement with its union increases the retirement age for employees that have been with the company for less than 15 years to 60 years of age and 30 years of service from the previous 55 years of age and 25 years of service. Current employees may opt to stay under the previous defined benefits plan or obtain a bonus to migrate to a defined contribution plan instead. Employees who join the company after Jan. 1, 2016 will be under a defined contribution plan.

The agreement also changes the indexation for retirees' salaries to inflation from the previous indexation to union negotiated wages. This may impact the speed at which the company's pension liabilities grow going forward. The agreement's short-term cash flow implications for Pemex still remain uncertain.

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