

FITCH: HIGH TAX BURDEN PUSHES PEMEX TOWARD INSOLVENCY

Fitch Ratings-Chicago-21 October 2016: Petroleos Mexicanos (Pemex) faces insolvency as a result of heavy taxes, an insufficient support package, and the long-term effects of capex reduction, according to a new Fitch Ratings sensitivity analysis.

"The Mexican government's continued demand for dividends from Petroleos Mexicanos (Pemex) in the form of taxes will force the company to borrow at an unsustainable pace, said Lucas Aristizabal, Senior Director. "Essentially, Pemex borrows 100% to pay taxes versus the government borrowing directly from investors to fund its deficit, at lower cost."

"Pemex's taxes ensure it will likely transfer all of its EBITDA in 2016, while making it improbable that the company would have positive free cash flow in the foreseeable future," Aristizabal added. "The recently announced support package from the government, although a step in the right direction, was insufficient to make the company self-sustainable.

Pemex's direct oil and gas production costs are very competitive, providing little room to lower replacement costs. A prolonged reduction in expenditures and investments increases operational risks and jeopardizes long-term viability. Reductions of pension cash outflows are difficult, and lay-offs will have minimum savings on cash outflows.

Pemex's capital investments have been below implied replacement costs and not enough to stem production decreases. The announced investment cuts will likely restart the production decline and proved reserves and reserve life could also decline.

The full special report titled "Petroleos Mexicanos (Pemex) Sensitivity Analysis" is available at www.fitchratings.com.

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Related Research

Petroleos Mexicanos (Pemex) Sensitivity Analysis (Taxes: Pemex's Path to Insolvency)

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