Petroleos Mexicanos

Mexican government’s $4.2 billion cash to PEMEX is credit positive

The government of Mexico (A3 negative) on 13 April said it had authorized a cash transfer to Petroleos Mexicanos (PEMEX, Baa3 negative) of up to $4.2 billion (all currency references are to US dollars). The possibility of a cash infusion is credit positive for PEMEX, helping the state-owned national oil company reduce to less than $13 billion the amount of additional external funding it must raise this year to cover capital spending and interest expenses, and to refinance maturing debt. We estimate that before this announcement, PEMEX would have had to raise $17 billion in external funding in 2016, including debt refinancing needs, on top of the $9.1 billion already raised earlier in 2016.

While the support announcement is credit positive, it does not change the company’s credit risk. We continue to believe that the company’s credit metrics will worsen as oil prices remain low, production continues to drop, taxes remain high, and the company must adjust down capital spending to meet its budgetary targets.

The government’s full $4.2 billion support, of which $1.5 will be a cash injection, adds to PEMEX’s savings program worth $5.7 billion for 2016. Despite the relatively small commitment for a company with about $85 billion in total debt, the announcement helps validate our assumption of very high implicit government support for the national oil company. PEMEX’s intrinsic credit risk is high, as its b3 Baseline Credit Assessment (BCA) would indicate a weak credit rating without government support. Our assumption of support from the federal government effectively gives PEMEX’s ratings six notches of uplift.

This week the government promised to give PEMEX $1.5 billion in an equity injection via certificates of participation, following a similar move in 2014 worth $1.4 billion and one in 2015 worth $670 million. Mexico also agreed to exchange $2.7 billion in non-negotiable government certificates bestowed in late 2015 for negotiable ones to help reduce the company’s liquidity constraints. We expect that PEMEX will cash in from the certificates across the remainder of the year.

PEMEX will use the $4.2 billion to pay down suppliers and reduce accounts payable, which have increased materially in the last few quarters and reached $9 billion in December 2015. The company now expects that accounts payable will be around $3 billion by the end of 2016.

The government will also raise the tax-deductibility ceiling on the company’s oil and gas production in shallow waters and onshore fields. Under current levels of oil prices and...
production, the new ceiling would generate $2.9 billion in savings for the company during the remainder of 2016, according to Mexico’s federal finance ministry.

On 31 March 2016 we downgraded PEMEX’s BCA to b3 from ba3, and downgraded its issuer rating to Baa3 from Baa1. The company’s ratings outlook is negative.

Founded in 1938, PEMEX is Mexico’s productive state-owned oil company. Its monopoly status will change with the continued implementation of the new energy law, although, in the foreseeable future, the company will remain the dominant energy player in the country, with fully integrated operations in oil and gas exploration and production, refining, distribution and retail marketing, and petrochemicals. PEMEX is also a leading oil exporter, shipping about half of its crude exported to various countries, mainly the US. As of December 2015, PEMEX posted $67.8 billion in last-12-month revenues, and its tax payments amounted to about 20% of the government’s annual budget. As of December 2015, its total assets amounted to $114.3 billion.
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Peer Group:
» Ecopetrol S.A.
» Petroleo Brasileiro S.A. - PETROBRAS
» YPF Sociedad Anonima

Methodologies:
» Global Integrated Oil & Gas Industry
» Government-Related Issuers

Moody's Related Research
» PEMEX's Market-Implied Ratings Drop, April 4, 2016
» Credit Opinion - PEMEX, April 1, 2016

GLOBAL OIL & GAS
» Ratings Review Summary, April 13, 2016
» SECTOR IN-DEPTH Independent Exploration and Production Industry - Global. E&P Ratings Reviews Emphasized Both Quantitative and Qualitative Factors, April 12, 2016
» SECTOR IN-DEPTH Net Benefits of Prolonged Drop in Oil Prices Diminish or Turn Negative for Some Sectors. March 10, 2016
» SECTOR COMMENT - Increased Supply and Concerns About Demand Growth Drive Prices Yet Lower. January 21, 2016
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