S&P Global
Ratings

RatingsDirect®

Research Update:

Petroleos Mexicanos Global Scale Outlook Revised To Stable From Negative On Similar Action On Mexico; Ratings Affirmed

July 6, 2022

PRIMARY CREDIT ANALYST

Luis Manuel Martinez
Mexico City
+ 52 55 5081 4462
luis.martinez
@spglobal.com

SECONDARY CONTACT

Fabiola Ortiz
Mexico City
+ 52 55 5081 4449
fabiola.ortiz
@spglobal.com

Rating Action Overview

- We maintain our assessment of an almost certain likelihood of extraordinary government support to Petroleos Mexicanos (PEMEX) under a scenario of financial distress, although the sovereign doesn't guarantee the company's debt. Therefore, our ratings on PEMEX continue to mirror those on the sovereign.
- On July 6, 2022, S&P Global Ratings revised its global scale rating outlook on PEMEX to stable from negative following a similar action on the sovereign. We also affirmed our global scale 'BBB' foreign currency and 'BBB+' local currency ratings on the company. In addition, we affirmed our national scale 'mxAAA/mxA-1+' issuer credit ratings on PEMEX, and the national scale outlook remains stable. We also affirmed our 'BBB' foreign currency credit ratings on PEMEX's core subsidiaries. Finally, we affirmed our 'BBB-' rating issuer credit rating on Deer Park Refining L.P.
- High crude oil prices are improving PEMEX's credit metrics, but the company's weak liquidity continues to weigh on our assessment of its stand-alone credit profile (SACP).
- The stable outlook on PEMEX mirrors that on the sovereign and reflects our view that the close relationship between the company and the sovereign will remain unchanged in the next couple of years.

Rating Action Rationale

Our assessment of the likelihood of government support to PEMEX remains unchanged and is a key credit factor for the company. The global scale outlook revision to stable from negative on PEMEX and its subsidiaries (P.M.I. Trading DAC, PMI Norteamerica S.A. de C.V., Deer Park Refining L.P., and Mex Gas Supply S.L.) follows a similar action on the sovereign (see "Mexico Outlook Revised To Stable On Cautious Policy Execution; 'BBB' Foreign Currency Rating Affirmed," published July 6, 2022). This is because we maintain our assessment of an almost certain likelihood of extraordinary government support to the company in a scenario of financial distress. In our view, PEMEX still has a critical role for the Mexican government, both economically and for executing the government's energy policy. Also, the integral link between PEMEX and the government is supported by the high government involvement in all strategic decisions and its full ownership of the company.

We consider that our assessment has been reinforced throughout President Andrés Manuel López Obrador's administration through recurring government aid to PEMEX in the form of capital contributions, legal amendments to alleviate the company's tax burden, the monetization of certain assets, and close collaboration to deter fuel theft. Although this aid has been insufficient to fully address PEMEX's multiannual funding needs, it underpins the track record of government support to the company. Another factor we capture in our assessment is the reversal in Mexico's energy policy under the current administration, which repositions PEMEX at center stage and curbs the participation of private players in the domestic energy sector. In our view, it has become evident that this plan increases the government's incentives to support PEMEX, when needed, because the administration aims to enlarge the role of the state in the energy sector, which it has deemed strategic.

PEMEX's financial performance is improving significantly due to favorable oil prices, although liquidity constraints still weigh on its SACP. The sharp increase in oil prices this year has boosted PEMEX's revenue, profit margins, and cash flow. The company's credit metrics have rapidly improved so far this year, and we now expect its debt to EBITDA to trend below 4.0x by year-end 2022. While this is a dramatic improvement from the 6.2x leverage in 2021, the company's credit metrics remain highly sensitive to the cyclicality of oil prices, and leverage would increase above 5.0x in our base case that considers a correction of oil prices in the next two years. In our opinion, liquidity is still the credit factor that continues to weigh most heavily on PEMEX's SACP.

We expect PEMEX to face a shortfall of cash sources relative to its cash needs in the next 12 months, pointing to higher credit risks. However, we think the government will continue to support PEMEX, as it did in the previous three years, and that the company will continue to have market access and bank funding to address short-term funding needs.

Outlook

The stable outlook on PEMEX and on its subsidiaries reflects that on the sovereign rating. In the next 24 months, we don't expect a change in the relationship between PEMEX and the government, reflected in our assessment that there is an almost certain likelihood of government support to the company if it were to face unexpected setbacks. Therefore, we don't consider the company's SACP as a constraining factor for PEMEX's creditworthiness. Instead, we equalize our ratings on the company with those on the sovereign.

Downside scenario

We could lower the rating on PEMEX if our view of the relationship between the company and the government, or our assessment of likelihood of support, changes. Furthermore, a downward revision of PEMEX's SACP would result from limited access to market or bank financing to address its maturities as they come due. In such a scenario, we would expect the likelihood of support from the government to remain unchanged, with the latter implementing specific actions to directly service the company's financial obligations.

Upside scenario

An upgrade would only follow a similar rating action on the sovereign. We could revise upward the company's SACP if new projects materialize and bolster production and cash flows, while initiatives to strengthen finances improve profitability and reduce financing needs in the next few years, reducing debt to EBITDA consistently below 5.0x.

Company Description

PEMEX is a Mexico-based integrated oil and gas company, fully owned by the government. The company holds 1P reserves of about 7.4 billion barrels of oil equivalent (boe) as of Dec. 31, 2021. During 2022 so far, it has had an average total production of hydrocarbon liquids of 1.77 million barrels per day, including production with partners. PEMEX's subsidiaries conduct the exploration and production (E&P) of hydrocarbon resources; the refining of petroleum products and derivatives; pipeline transportation, storage, and distribution to third parties; and certain petrochemical activities, among others. The company has an international trading and risk management segment that operates through P.M.I. Trading, PMI Norteamerica, and Mex Gas Supply.

Our Base-Case Scenario

Assumptions

- Our price deck assumptions for WTI crude oil are $95 per barrel for the remainder of 2022, declining to $80 per barrel in 2023 and to $50 per barrel in 2024. These assumptions don't consider a spread between the Mexican mix and WTI, reflecting market dynamics that have narrowed the price differential between both crudes.
- Stable crude oil production between 1.78 and 1.80 million barrels per day (mbd) for the next couple of years, because we expect PEMEX to continue pushing forward its production goals.
- Revenue to grow about 34% in 2022 largely due to the high oil prices. For 2023, we expect a 16% revenue contraction as we adjust our oil price assumptions while crude oil production volumes remain mostly unchanged.
- Crude oil to export terminals slightly below 1.0 mbd.
- Profit-sharing duty rate down to 40% starting in 2022 and onward.
- Capital expenditures (capex) of about $10 billion annually for the next couple of years. Approximately 75% of the capex budget will go to E&P activities, and the rest will go to the National Refining System (NRS).

Key metrics:

- Adjusted EBITDA margin at 44% in 2022 and 40% in 2023;
- Adjusted debt to EBITDA at 3.6x by year-end 2022, increasing to 4.4x in 2023 per our assumption of declining oil prices; and

- Positive discretionary cash flow (DCF) to debt of 2.2% in 2022 that will gradually turn negative into 2023 in a scenario of lower oil prices.

Liquidity

We continue to assess PEMEX's liquidity as weak because we expect a substantial deficit in covering liquidity uses for the next 12 months. However, we acknowledge PEMEX's long and proven track record of accessing the debt market and bank funding, which will be key for the company to address its upcoming debt maturities.

Principal liquidity sources:

- Cash and cash equivalents of MXN48.3 billion as of March 31, 2022;
- Estimated cash funds from operations (FFO) of about MXN266.0 billion for the next 12 months;
- Working capital inflows of MXN10.0 billion for the next 12 months.

Principal liquidity uses:

- Short-term debt of MXN532.1 billion as of March 31, 2022, and we incorporate the flexibility that PEMEX has to extend the maturity date of some of these obligations without incurring cash outflows, according to the terms of some facilities; and
- Capex of about MXN229.1 billion for the next 12 months.

Covenants

PEMEX faces the following restrictive covenants on certain business actions under its credit facilities and international bond issuances:

- The sale of all, or substantially all, of its assets;
- The incurrence of liens against its assets to secure debt for borrowed money (subject to certain exceptions); and
- Transfer, sale, or assignment of rights to payment not yet earned under contracts for the sale of crude oil or natural gas, accounts receivable, or other negotiable instruments (subject to certain thresholds).

Government Influence

The ratings on PEMEX reflect its relationship with its controlling shareholder--the Mexican government--and the latter's incentives, capacity, and tools to support the company. We expect an almost certain likelihood that the government would provide timely and sufficient extraordinary support to PEMEX in the event of distress. We base this assumption on the following factors:

- The critical role that PEMEX plays for the Mexican government, both economically and for executing the government's energy policy; and

- The integral link between PEMEX and the government, given its full ownership of the company and the high government involvement in all strategic decisions.

Issue Ratings - Subordination Risk Analysis

Capital structure

PEMEX's capital structure mainly consists of senior unsecured debt. Currently, about 80% of total debt is capital markets issuances, and about 20% is bank loans. There's no material secured debt collateralized by real assets.

Analytical conclusions

The rating on PEMEX's senior unsecured debt is the same as our issuer credit rating on the company because it has limited secured debt. Also, unsecured debt at the subsidiaries' level represents about 1% of the company's total debt, which is well below our priority debt ratio of 50%. The company has no debt we classify as secured. Therefore, we don't apply notching to PEMEX's debt, and we rate the senior unsecured notes 'BBB', in line with the issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Industrials: Commodities Trading Industry Methodology, Jan. 19, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Oil Refining And Marketing Industry, March 27, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

****************** Mexico *******************		
Ratings Affirmed		
Petroleos Mexicanos		
Issuer Credit Rating		
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+	
Petroleos Mexicanos		
Senior Unsecured	BBB	
Senior Unsecured	BBB+	
Senior Unsecured	mxAAA	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Petroleos Mexicanos		
Issuer Credit Rating		
Foreign Currency	BBB/Stable/--	BBB/Negative/--
Local Currency	BBB+/Stable/--	BBB+/Negative/--
P.M.I. Trading DAC		
Issuer Credit Rating		
Foreign Currency	BBB/Stable/--	BBB/Negative/--
PMI Norteamerica S.A. de C.V.		
Issuer Credit Rating		
Foreign Currency	BBB/Stable/--	BBB/Negative/--
Deer Park Refining L.P.		
Issuer Credit Rating		
Foreign Currency	BBB-/Stable/A-3	BBB-/Negative/A-3
Local Currency	BBB-/Stable/A-3	BBB-/Negative/A-3
Mex Gas Supply S.L.		
Issuer Credit Rating		
Foreign Currency	BBB/Stable/--	BBB/Negative/--

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