ARC Ratings downgrades ENMC to "BB+" Stable

ISSUER ENMC – Entidade Nacional para o Mercado de Combustíveis, E.P.E.	**ISSUE RATING** BB+ Medium and Long Term (BB+, with stable outlook)
RATING DATE 18 September 2015	

ARC Ratings, S.A. (ARC Ratings) has downgraded to "BB+" with Stable outlook from 'BBB-" with Negative outlook the rating accorded to the EUR 360.0 million bond loan issued by EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E. (EGREP), now ENMC – Entidade Nacional para o Mercado de Combustíveis, E.P.E. (ENMC), on 6 August 2008 under the terms identified in the Rating Report dated 2 June 2008. The rating outlook has been changed to Stable.

COMPANY PROFILE

Through Decree Law (DL) no. 165/2013, dated 16 December, the Portuguese State assigned to ENMC (a State-owned enterprise) the duties of developing, managing and maintaining strategic reserves of oil products. Additional responsibilities include prospecting, research, the development and exploitation of petroleum resources, monitoring of the fuel market, petroleum products, biofuels and piped LPG, as well as the National Petroleum System.

RATING RATIONALE

– Continued oil price volatility (negative) - The nature of ENMC's operations and concentration of its assets render its financial performance heavily exposed to oil price fluctuations. Further decline remains a possibility, and would reduce the extent to which ENMC's reserves cover the bond loan under review (0.93 times in 2014, down from 1.6 times in 2013).

– Threats to Portuguese economy (negative) - Please see ARC Ratings' Sovereign Rating Report for the Republic of Portugal, available at: www.arcratings.com, for a comprehensive analysis of the Portuguese economy.

– Concentration of customer base (negative) - The majority of ENMC's revenue derives from just four companies: PETROGAL, REPSOL, BP and CEPSA. The financial commitments of PETROGAL and CEPSA are currently unrated, rendering the credit risk presented by these two entities less transparent.

– Coverage of loan by reserves (negative) - Standing at 2.0 times in 2011 and 2012, 1.6 times in 2013, and now just 0.93 times in 2014, the coverage of the bond loan by reserves continued its downward trajectory last year. For the first time, the value of the reserves is not by itself sufficient to cover the value of the bond loan. This element represented a crucial factor in the analysis and rating outcome.

– State ownership (positive) - ENMC's share capital is wholly owned by the Portuguese Government. Consequently, its rating is heavily connected to the ratings of the Portuguese Republic, however there is no implicit support. At the time of publication, the issuer ratings assigned to the Portuguese Republic by ARC Ratings were: for medium and long-term obligations, BBB- with stable outlook; and for short-term obligations, A-3. Furthermore, given ENMC's strategic importance, and the nation's on-going duty to maintain oil products reserves, there is good reason to believe the Portuguese State will continue to retain full control over ENMC.

- Financial stability and favourable debt profile (positive) - Although ENMC experienced notable losses in 2014 (due to adverse oil price fluctuations), the entity's capacity to meet its financial commitments remains adequate. In addition, the entity's debt levels remain largely unchanged, still comprising almost entirely (>99%) of the bond loan now subject to review - the interest on which is not payable by ENMC.
- Positive economic trends (Portugal) (positive) – Please see ARC Ratings' Sovereign Rating Report for the Republic of Portugal, available at: www.arcratings.com, for a complete analysis of the Portuguese economy.
- Stable, long-term relationships with key customers (positive) - The entity has developed strong, mutually beneficial relationships with the main distributors of oil products in Portugal (PETROGAL, Repsol, BP, CEPSA).
- Staff, premises and technological developments (positive) - In 2013, Decree Law no. 165/2013 assigned further duties to ENMC. The entity has since grown its workforce, hiring staff with new skills, expanded its premises, and upgraded its software. In these contexts, it is well-positioned moving forward.

THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY AND SHOULD BE READ IN CONJUNCTION WITH THE RESPECTIVE RATING REPORT.

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