

**Rating Action: Moody's downgrades PEMEX's ratings to Ba3; outlook remains negative**

---

27 Jul 2021

New York, July 27, 2021 -- Moody's Investors Service (Moody's) downgraded Petroleos Mexicanos' (PEMEX) corporate family rating and the senior unsecured ratings on the company's existing notes, as well as the ratings based on PEMEX's guarantee, to Ba3 from Ba2. Moody's also lowered PEMEX's Baseline Credit Assessment (BCA), which reflects its standalone credit strength, to caa3 from caa2. These rating actions were based on PEMEX'S high liquidity risk and increasing business risk as the company faces high debt maturities while it expands its refining capacity and production. Moody's believes that such strategy will generate higher refining operating losses in the short and medium term. The outlook on Pemex's ratings remains negative primarily given the negative outlook on the Mexico government's Baa1 rating.

Ratings downgraded as follows:

Downgrades:

..Issuer: Pemex Project Funding Master Trust

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Ba3 from (P)Ba2

....Senior Unsecured Regular Bond/Debenture, Downgraded to Ba3 from Ba2

..Issuer: Petroleos Mexicanos

.... Corporate Family Rating, Downgraded to Ba3 from Ba2

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Ba3 from (P)Ba2

....Senior Unsecured Regular Bond/Debenture, Downgraded to Ba3 from Ba2

Outlook Actions:

..Issuer: Pemex Project Funding Master Trust

....Outlook, Remains Negative

..Issuer: Petroleos Mexicanos

....Outlook, Remains Negative

**RATINGS RATIONALE**

PEMEX's Ba3 corporate family rating and caa3 BCA reflect Moody's view that the company's liquidity needs and negative free cash flow will rise in the next three years due to high debt maturities and lower operating cash flow derived from the expansion of its refining business, which has generated operating losses in the last several years (close to \$17 billion in 2018-20, as reported). Although oil and gas production growth has been below management targets, Moody's acknowledges that PEMEX has been successful in reverting production and reserves declines in the last two years and believes that this trend will continue in 2021. However, Moody's expects that PEMEX's cash flow generation and credit metrics will deteriorate further in the next three years as the company increases fuel production, while grappling with limited capital investment ability, high debt maturities, and volatile oil and fuel prices.

PEMEX's Ba3 rating takes into consideration Moody's joint default analysis, which includes the rating agency's assumptions of very high government support in case of need and very high default correlation between PEMEX and the Government of Mexico, resulting in six notches of uplift from the company's caa3 BCA. Since 2016, the government has supported PEMEX in various ways, including capital injections, tax reductions and early redemption of notes receivable from the government. For 2021, the government announced a \$3.5 billion

reduction in PEMEX's taxes and cash transfers to help the company repay debt maturities of \$6.5 billion in the year. Moody's assumes that the government will continue to fund PEMEX's cash needs and help the company comply with its debt amortization obligations of \$5.8 billion in 2022 and \$6.4 billion in 2023.

PEMEX has weak liquidity and is highly dependent on government support. On March 31, 2021, PEMEX had \$2 billion in cash and currently has less than \$175 million in available committed revolving credit facilities to address over \$10.8 billion in debt maturities from April 2021 to the end of 2022, besides substantial negative free cash flow in the period, driven by insufficient operating cash generation to pay taxes and invest in capital.

The negative rating outlook on PEMEX's Ba3 ratings is primarily based on the negative outlook on Mexico's Baa1 rating given the importance of the sovereign's credit strength and ongoing support to PEMEX's ratings.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A downgrade of Mexico's Baa1 rating would likely result in a downgrade of PEMEX's rating. For Moody's to consider an affirmation of PEMEX's Ba3 rating following a sovereign downgrade, the company's BCA would have to substantially improve. Factors that could drive a higher BCA would be the ability of the company to (i) strengthen its liquidity position (ii) internally fund enough capital investment to fully replace reserves and deliver modest production growth and (iii) generate free cash flow for debt reduction. Because PEMEX's ratings are highly dependent on the support from the government of Mexico, a change in assumptions about government support and its timeliness could lead to a downgrade of PEMEX's ratings.

Further downgrades in the company's BCA could also lead to further downgrades of PEMEX's ratings. Factors that could lead to a lower BCA include material increase in net debt, an operating performance worse than forecasted, reserves decline and decreases in reserves life.

An upgrade is unlikely in the near term given the negative outlook for Mexico's Baa1 rating and Moody's expectations for continued negative free cash flow at PEMEX.

The methodologies used in these ratings were Integrated Oil and Gas Methodology published in September 2019 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1172345](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1172345), and Government-Related Issuers Methodology published in February 2020 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1186207](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

Founded in 1938, PEMEX is Mexico's national oil company, with fully integrated operations in oil and gas exploration and production, refining, distribution and retail marketing, as well as petrochemicals. PEMEX is also a leading crude oil exporter, around 60% of its crude is exported to various countries, mainly to the US and Asia. In the twelve months ended December 31, 2020 the company produced an average of 1,706 thousand barrels of per day of crude oil (excluding partners).

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated

regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website [www.moody.com](http://www.moody.com).

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1288435](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288435).

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on [www.moody.com](http://www.moody.com).

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on [www.moody.com](http://www.moody.com).

Please see [www.moody.com](http://www.moody.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for additional regulatory disclosures for each credit rating.

Nymia C. Almeida  
Senior Vice President  
Corporate Finance Group  
Moody's de Mexico S.A. de C.V  
Ave. Paseo de las Palmas  
No. 405 - 502  
Col. Lomas de Chapultepec  
Mexico, DF 11000  
Mexico  
JOURNALISTS: 1 888 779 5833  
Client Service: 1 212 553 1653

Marcos Schmidt  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: 0 800 891 2518  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

**MOODY'S**  
INVESTORS SERVICE

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or

the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.