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

- 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.

MEXICO CITY (S&P Global Ratings) July 6, 2022—S&P Global Ratings took the rating action described above. 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.

. 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.

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

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Contact the analysts:

Luis Manuel Martinez

Primary Credit Analyst, Mexico City

P. + 52 55 5081 4462

E. luis.martinez@spglobal.com

Fabiola Ortiz

Secondary Contact, Mexico City

P. + 52 55 5081 4449

E. fabiola.ortiz@spglobal.com