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PEMEX 'BBB' Foreign Currency Rating Affirmed, In Line With Affirmation Of Sovereign Rating; Outlook Remains Negative

- 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, the ratings on PEMEX continue to mirror those on the sovereign.
- On Dec. 4, 2020, S&P Global Ratings affirmed its global scale 'BBB' foreign currency and 'BBB+' local currency ratings on PEMEX, and maintained the negative global scale rating outlook, in line with the affirmation of the sovereign ratings. In addition, we affirmed our national scale 'mxAAA/mxA-1+' issuer credit ratings on the company. The outlook on the national scale rating is stable. We also affirmed our 'BBB' issuer credit ratings on PEMEX's subsidiaries.
- Weak oil prices and difficulties to increase production volumes have eroded PEMEX's key credit metrics, and have exacerbated the company's liquidity pressures. However, our stand-alone credit profile (SACP) on PEMEX remains at 'ccc+' because we believe the government will maintain its ongoing support, as it did in 2019 and 2020, and that the company will continue to access the debt market and bank funding to refinance its short-term debt maturities.
- The negative 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) Dec. 4, 2020—S&P Global Ratings took the rating action described above. We recently updated our assessment of likelihood of government support to PEMEX, and have concluded that the company's role and link to the government—according to our criteria--are still unchanged. Although the sovereign doesn't guarantee PEMEX's debt, the government has provided recurring aid to the company in the past two years in the form of capital contributions, tax relief, debt management operations, and close collaboration to deter fuel theft. While such aid has been insufficient to fully address PEMEX's funding needs, it underscores the track record of government support to the company. Another factor 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.

Our assessment of likelihood of government support to PEMEX captures the critical role that the company has for the Mexican government, both economically and for the execution of the government's energy policy. Our assessment also incorporates the integral link between PEMEX and the government, given its full ownership of the company and the high government involvement in all strategic decisions.

Last year, we indicated that the strategy PEMEX adopted in its business plan increased its exposure to business and performance risks, and raised doubts about long-term sustainability.

In 2020, the steep decline in oil prices and setbacks to reach production targets have undermined PEMEX's capacity to fully fund its capital investment plan for the year, which we believe is already constraining the company's ability to keep up the pace with exploratory efforts to develop its reserve base, and increase production volumes. We currently don't expect oil prices to recover in the near term because the pernicious effects of the coronavirus pandemic on global demand for oil and oil products could linger until 2021. Also, while PEMEX is managing to stabilize production volumes, constraints on capital investments will keep the company's production growth prospects stalled.

In this context, the company's credit metrics have deteriorated in line with our SACP assessment of 'ccc+'. For instance, leverage reached double digits for the last 12 months ended Sept. 30, 2020. Also, as we had expected, fragile business conditions this year accelerated the depletion of PEMEX's cash and other liquid investments, and prompted it to increase the use of short-term debt to support working capital needs. Based on our expectation that PEMEX faces a shortfall of sources of cash relative to its cash needs for the next 12 months, we now assess the company's liquidity as weak. While PEMEX's credit metrics and liquidity could point to heightened credit risks, the SACP remains at 'ccc+' because we believe the government will continue supporting PEMEX, as it did in 2019 and 2020, and that the company will continue accessing the debt market and bank funding to refinance its short-term debt maturities.

In our view, PEMEX is lagging major oil players in terms of strategy for energy transition. While large players are targeting sharp reductions in exploration and production (E&P) and focusing on renewable energy sources, the bulk of PEMEX's capex for the next few years will be in E&P. The company has engaged some environmental protection measures such as the reduction of emissions and lower water usage in refineries, although these initiatives make up a small portion of the company's overall operations.

Related Criteria

- 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: 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

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 information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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