Fitch Ratings

RATING ACTION COMMENTARY

# Fitch Affirms MOL at 'BBB-'; Outlook Stable

Thu 30 May, 2024 - 12:32 ET

Fitch Ratings - Warsaw - 30 May 2024: Fitch Ratings has affirmed MOL Hungarian Oil and Gas Company Plc's (MOL) Long-Term Issuer Default Rating (IDR) at 'BBB-'. The Outlook is Stable.

MOL's rating is supported by a diversified and integrated business with assets in downstream, upstream, retail, and gas midstream, low leverage and a strong competitive position in the company's core markets. The rating is constrained by MOL's short reserve life compared with direct peers', a moderate scale, and by uncertainties regarding the continued supply of Russian oil to Hungary and MOL's stake in Croatia's INA - Industrija Nafte, d.d. (INA).

## KEY RATING DRIVERS

**Russian Oil Gradually Replaced:** Pipeline oil supplies are exempt from sanctions, but event risk of supply disruptions results mainly from the Druzhba pipeline, the key supply route for Russian oil to Hungary, running via Ukraine, where the war is ongoing. MOL plans to use around 40% of non-Russian crude oil in 2024 and estimates full replacement will be possible from 2026. However, the company does not rule out the possibility of continuing to purchase Russian crude, depending on market and regulatory conditions.

The impact of a complete immediate halt of Russian oil supplies to Hungary is difficult to predict. However, we assume that any temporary problems would be manageable for MOL, given its strong financial profile, its ability to substitute a large share of Russian supplies and also the likely boost to refining margins this action could entail.

**Updated Strategy:** MOL's updated strategy focuses on reducing Scope 1+2 greenhouse gas (GHG) emissions by 25% by 2030 from 2019 levels, with net carbon neutrality by 2050. The strategy includes allocating 30%-40% of capex to low-carbon projects for 2025-2030 covering energy efficiency, electrification, renewable energy, and circular-economy initiatives. We view the strategy as largely an extension of earlier plans with a growing focus on energy transition.

**Strong Refining Margins Continue:** Throughout 2023 and into 1Q24, MOL has reported robust refining margins. Despite a roughly 30% reduction in margins in April relative to 1Q24, they still exceeded historical levels. Future refining margins will hinge on supply, particularly with the launch of new refineries in 2024, primarily in Africa and the Middle East. Moreover, diminished Russian refining capabilities due to the war are likely to influence the global demand/supply balance. Nonetheless, our projections conservatively assume that refining margins will return to mid-cycle levels.

**Petchem Segment Under Stress:** MOL's petrochemical segment is hit by an industry downturn in Europe, with net losses for 2023 and 1Q24, as inventory reductions for petrochemical products hit sales volumes and margins. However, we see signs of a gradual recovery with quarterly improvements in profitability among several European peers.

**Polyol Project Completed:** MOL completed in May 2024 its EUR1.3 billion polyol complex in Tiszaújváros, Hungary. The facility is set to produce around 200,000 tons of polyol annually. Polyol is a key material for durable plastics used in various products, from mattresses to car seats and insulation. MOL expects the project will contribute nearly EUR150 million annually to EBITDA.

**Standalone Rating:** MOL is currently 30.49% owned by three foundations, which are effectively controlled by the Hungarian government (BBB/Negative). We continue to rate MOL on a standalone basis due to a support score of 10 under Fitch's Government-Related Entities (GRE) Criteria. The score reflects 'Strong' preservation of government policy role for MOL's operations in the key oil and gas sector in Hungary while other responsibility and incentives to support factors as per the GRE Criteria are not strong enough to contribute to the support score.

**Reserve Life a Constraint:** MOL's consolidated (excl. JVs) 1P and 2P reserve life of six and nine years, respectively, at end-2023, is short versus peers'. We expect MOL to rely on acquisitions to replenish reserves. While we view MOL's reserve life as a rating constraint, we see its diversified business profile and strong financial profile leaving ample headroom for acquisitions and partly mitigating risks to its upstream segment.

## DERIVATION SUMMARY

MOL's close EMEA downstream peers are Compania Espanola de Petroleos, S.A. (CEPSA, BBB-/Stable) and ORLEN S.A. (ORLEN, BBB+/Stable). MOL and its closest peer CEPSA have similar business profiles, characterised by vertical integration and comparable refinery capacities (380kbbl/d versus CEPSA's 489kbbl/d).

MOL's smaller refinery capacity is balanced by larger upstream production scale especially after CEPSA's divestment of UAE production asset in 2023 (82kboe/d versus CEPSA's 42kboe/d). Both companies have similar scale of retail networks with around 2,000 service stations.

In comparison with ORLEN, MOL has small downstream production and less diversified cash flows, especially after ORLEN's mergers with the refining and marketing business of LOTOS S.A. in 2022, and Polskie Gornictwo Naftowe I Gazownictwo S.A. (PGNiG), a vertically integrated natural gas utility in 2022. Following the latest PGNiG acquisition, we upgraded ORLEN to 'BBB+' in November 2022, reflecting its enlarged refinery capacity of 894kbbl/d and meaningfully diversified revenue stream via utility businesses, which stabilises profitability and cash flow.

Unlike the other peers, MOL is still dependent on Russian crude supply due to exemptions from the oil embargo granted to Hungary in June 2022. However, MOL is aiming to become fully independent by 2026 with alternative crude supply routes through the Adria region.

## KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Oil and natural gas prices in line with Fitch's base-case price deck to 2027

- USD/HUF at 355 in 2024, and 352 for 2025-2027

- Upstream production maintained at around 79kboe/d (excl. non-consolidated associated companies)

- Refining throughput averaging 337kbbl/d for 2023-2026

- Refining margins to gradually normalise to USD7.5/bbl in 2027 from USD8.5/bbl in 2024

- Annual capex at USD2.1 billion to USD2.4 billion for 2024-2027

- Higher tax rate in 2024, reflecting revenue-based tax

- Increase in average interest rates after refinancing existing debt at higher cost

- Dividends paid of HUF150 billion-HUF200 billion for 2024-2027, in line with operating performance

## RATING SENSITIVITIES

**Factors That Could, Individually or Collectively, Lead to Positive Rating Action/ Upgrade:**

- Improved operational profile in the upstream or petrochemical segment

- Lower reliance on oil and gas supplies from Russia

- EBITDA net leverage below 1.5x on a sustained basis

- Favourable resolution of dispute with the Croatian government regarding MOL's stake in INA

**Factors That Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade:**

- EBITDA net leverage above 2.5x on a through-the-cycle basis

- Inability to maintain an integrated business profile, with sharply lower upstream production not substituted with cash flows from other segments

- Negative impact on financial profile from the dispute regarding the INA stake

- Continuing problems in securing natural gas supplies leading to re-evaluation of MOL's business profile or an increase in leverage beyond its negative sensitivity

## LIQUIDITY AND DEBT STRUCTURE

**Strong Liquidity:** MOL's strong liquidity position is primarily underpinned by a comfortable cash balance of HUF404 billion and undrawn committed credit facilities of HUF1,054 billion fully covering short-term debt of HUF155 billion as of end-2023.

## ISSUER PROFILE

MOL is a medium-sized integrated oil & gas company based in Hungary.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

## RATING ACTIONS

| ENTITY / DEBT | RATING | | | PRIOR |
|---|---|---|---|---|
| MOL Hungarian Oil and Gas Company Plc | LT IDR | BBB- Rating Outlook Stable | Affirmed | BBB- Rating Outlook Stable |
| | ST IDR | F3 | Affirmed | F3 |

| | | |
|---|---|---|
| | LC LT IDR BBB- Rating Outlook Stable Affirmed | BBB- Rating Outlook Stable |
| | LC ST IDR F3 Affirmed | F3 |
| senior unsecured | LT BBB- Affirmed | BBB- |
| MOL Group Finance S.A. | | |
| senior unsecured | LT BBB- Affirmed | BBB- |

VIEW ADDITIONAL RATING DETAILS

## FITCH RATINGS ANALYSTS

**Arkadiusz Wicik, CFA**
Senior Director
Primary Rating Analyst
+48 22 103 3016
arkadiusz.wicik@fitchratings.com
Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce
Marszalkowska 107, 00-110 Warsaw

**Jihwan Kim**
Associate Director
Secondary Rating Analyst
+49 69 768076 165
jihwan.kim@fitchratings.com

**Guillaume Daguerre**
Senior Director
Committee Chairperson
+34 93 323 8404

guillaume.daguerre@fitchratings.com

## MEDIA CONTACTS

**Tahmina Pinnington-Mannan**
London
+44 20 3530 1128
tahmina.pinnington-mannan@thefitchgroup.com

Additional information is available on www.fitchratings.com

## PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria - Effective from 13 October 2023 to 2 August 2024 (pub. 13 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 3 November 2023 to 21 June 2024 (pub. 03 Nov 2023)

Government-Related Entities Rating Criteria - Effective from 12 January 2024 to 9 July 2024 (pub. 12 Jan 2024)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

| | |
|---|---|
| MOL Group Finance S.A. | EU Issued, UK Endorsed |
| MOL Hungarian Oil and Gas Company Plc | EU Issued, UK Endorsed |

## DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by

Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.



READ LESS

## SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.