

MOL Hungarian Oil and Gas Company Plc

Update

Ratings

MOL Hungarian Oil and Gas Company Plc

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3
Senior unsecured	BBB-

Local Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

MOL Group Finance SA

Senior Unsecured	BBB-
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Outlooks

Foreign-Currency Long-Term IDR	Negative
Local-Currency Long-Term IDR	Negative

Financial Data

MOL Hungarian Oil and Gas Company Plc

	31 Dec 13	31 Dec 12
Revenue (HUFm)	5,400,417	5,522,316
Operating EBITDA (HUFm)	534,159	543,851
Operating EBITDA margin (%)	9.9	9.8
Funds from operations (HUFm)	410,887	392,826
Cash flow from operations (HUFm)	578,704	385,276
Free cash flow (HUFm)	322,278	51,942
Total debt with equity credit (HUFm)	1,163,760	1,268,360
FFO gross interest coverage (x)	7.0	5.8
FFO adjusted leverage (x)	2.6	2.8
FFO adjusted net leverage (x)	1.4	2.1

Key Rating Drivers

Negative Outlook: The Negative Outlook reflects pressures on MOL Hungarian Oil and Gas Company Plc's (MOL) operations from declining oil and gas production, a challenging downstream environment and uncertainties over its shareholding in its Croatian subsidiary INA - Industrija nafte d.d. (INA).

Declining Oil and Gas Production: MOL is yet to arrest the decline in oil and gas production, which decreased to 97 thousand barrels of oil equivalent per day (mboepd) in 2013 (excluding production from disposed assets) from 108mboepd in 2012. MOL plans to return to production growth by monetising assets in Kurdistan and the North Sea, where the company faces material capital expenditure, a risk of delay to future cash flow, and/or project expenses exceeding budget.

Rating Impact from INA Uncertainty: Tensions between the Croatian government and MOL over the corporate governance structure of INA intensified in 4Q13. INA accounted for 29% of MOL's consolidated EBITDA in 2013 and 39% of its hydrocarbon production. Fitch treats the potential loss of management control over INA as an event risk with probable negative credit implications. Pressure on MOL's ratings may also arise if INA's performance deteriorates further due to unfavourable regulatory changes.

Diversification Supports Ratings: MOL's ratings are supported by the company's business diversification with operations in upstream, refining, fuel retail and petrochemical segments, and by a strong financial profile. In addition to significant planned investments in the upstream segment, MOL plans to expand its petrochemical operations in the medium term with investments in butadiene, low density polyethylene and synthetic rubber production units, which will strengthen its business diversification.

Leverage Within Rating Guidance: MOL strengthened its financial profile with funds from operations (FFO) adjusted net leverage improving to 1.4x in 2013 from 2.1x in 2012. This was in spite of declining oil and gas production and the still difficult European refining environment. Fitch forecasts leverage will remain within our rating guidance, below 2.5x on a sustained basis assuming MOL's significant capex and M&A plans.

Rating Sensitivities

Stable Outlook: Changing the Outlook to Stable would probably require better-than-expected results in the delivery of its upstream projects in Kurdistan and/or the North Sea coupled with improved profitability in the downstream segment.

Rising Leverage: Negative rating triggers include FFO-adjusted net leverage above 2.5x on a through-the-cycle basis, extension of the timeline for its upstream project in Kurdistan, higher-than-expected budgeted expenditure to develop North Sea assets, and pressure on its business or financial profile related to disputes over corporate governance at INA.

Liquidity and Debt Structure

Adequate Liquidity: At end-March 2014, the company had available liquidity comprising cash of HUF236bn (EUR0.8bn) and undrawn committed long-term facilities of HUF763bn (EUR2.5bn equivalent) against debt maturing in one year of HUF302bn (EUR1bn).

Related Research

Fitch Affirms MOL at 'BBB-'; Outlook Negative (July 2014)

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Peer Group

Issuer	Country
A- OMV AG	Austria
BBB Repsol, S.A.	Spain
BBB- Polski Koncern Naftowy ORLEN S.A. (PKN)	Poland
Turkiye Petrol Rafinerileri A.S. (Tupras)	Turkey

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
11 Jul 14	BBB-	Negative
16 Jul 13	BBB-	Negative
13 Mar 13	BBB-	Stable
30 Oct 12	BBB-	Stable
19 Jul 12	BBB-	Stable
28 Nov 11	BBB-	Stable
3 Dec 10	BBB-	Stable
29 Mar 10	BBB-	Stable

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

The oil and gas industry continues to face challenges in both the upstream and downstream segments. Key upstream risk factors include the need to arrest the decline in the rate of annual production, and the rising costs and anticipated heightened regulatory oversight associated with accessing offshore, deepwater resources. Downstream risk factors are mainly associated with large European spare refining capacity, which negatively affects refining margins.

Financial Risks

General financial risks faced by the sector principally relate to maintaining key credit metrics commensurate with rating levels. Cash-flow generation is subject to cyclicity, driven mainly by changes in oil and gas prices, refining margins, and demand for oil and gas, and for refined products.

Peer Group Analysis 2013

	OMV A-/Stable	Repsol ^a BBB/Positive	MOL BBB-/Negative	PKN BBB-/Stable
Oil and gas production (mmbopd)	0.3	0.3	0.1	<0.1
Refining capacity (mmbpd)	0.3	1	0.4	0.6
FFO adjusted net leverage (x)	1.9	2.6	1.4	1.9 ^b
FFO fixed charge coverage (x)	10.4	3.9	6.5	6.8 ^b

^a Repsol on a standalone basis, excluding GN

^b Unadjusted for inventory holding gains/losses and sales of compulsory stock

Source: Fitch, companies

Key Credit Characteristics

Low or mid-investment-grade rating profiles can be achieved by medium-sized integrated companies with upstream operations located mainly in low-risk countries, often supported by a favourable and sustainable domestic position and prudent financial policies.

Overview of Companies

OMV AG (A-/Stable) – is a medium-sized integrated oil and gas company, with leading market positions in Austria and Romania. With 2013 production of 0.3 million barrels of oil equivalent per day (mmbopd), exploration and production is the group’s key segment in cash-flow terms, followed by refining and marketing, with a refining capacity of 0.3mmbpd.

Repsol, S.A. (BBB/Positive) – the upgrade in May 2014 reflected the successful monetisation of nearly all of the USD5.32bn in nominal value of Argentine government bonds Repsol received as compensation for the expropriation of 51% of its former subsidiary YPF (B-/Negative) and YPF Gas and the receipt of USD1.3bn of proceeds from the sale of Repsol’s remaining minority stake in YPF.

Polski Koncern Naftowy ORLEN S.A. (PKN) (BBB-/Stable) – the ratings reflect the company’s business diversification with operations in the refining, petrochemical and fuel retail sectors, its strong position in the Polish market and an improved financial profile. The ratings are mainly constrained by the cyclicity of the refining and petrochemical operations.

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating factor	Status ^a	Trend
Operations	Average	Neutral
Market position	Average	Neutral
Finances	Average	Neutral
Governance	Average	Neutral
Geography	Average	Neutral

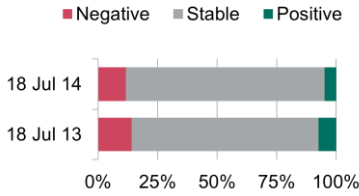
^a Relative to peer group
Source: Fitch

Related Criteria

[Corporate Rating Methodology \(May 2014\)](#)

Distribution of Sector Outlooks

Directional Outlooks and Rating Watches



Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

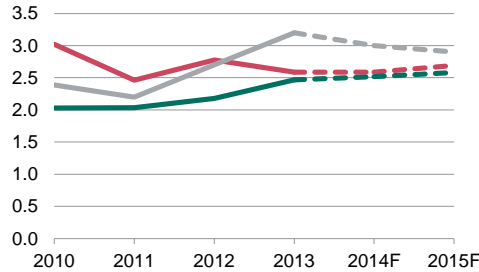
- for exploration and production oil price based on Fitch price deck (USD96/bbl for 2014 and USD91/bbl for 2015);
- capex for 2014 in line with the company's assumptions;
- no additional M&A spending in 2014 beyond transactions announced in 1H14;
- USD1bn of acquisitions in 2015.

Definitions

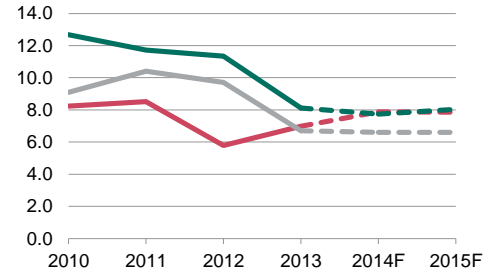
- **Leverage:** Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid minus interest received plus preferred dividends plus rental expense.
- **Interest cover:** FFO plus gross interest paid minus interest received plus preferred dividends divided by gross interest paid plus preferred dividends.
- **FCF/revenue:** FCF after dividends divided by revenue.
- **FFO profitability:** FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "[Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format](#)" Special Report, dated 25 November 2009 and available at www.fitchratings.com.

MOL Hungarian Oil and Gas Company Plc — Energy (Oil & Gas) Median — Emerging BBB Cat Median — Source: Company data; Fitch.

Leverage including Fitch expectations



Interest Cover including Fitch expectations

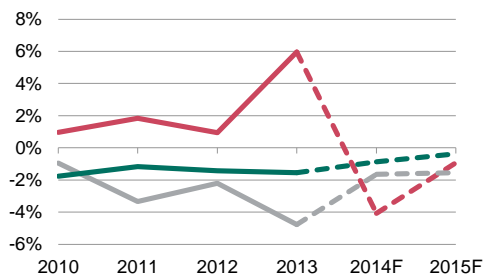


Debt Maturities and Liquidity at End-Mar 14

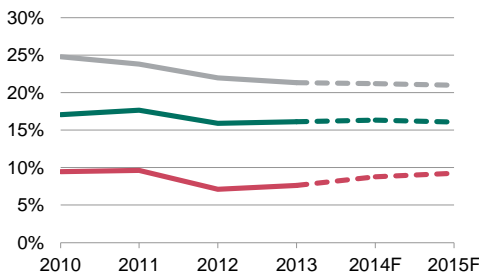
Debt maturities (EURbn)	Value
2Q14	0.8
3Q14-1Q15	0.2
2Q15-1Q16	1.0
2Q16-1Q17	0.1
After 2Q17	1.0
Cash and equivalents	0.8
Undrawn committed LT facilities	2.5

Source: Fitch

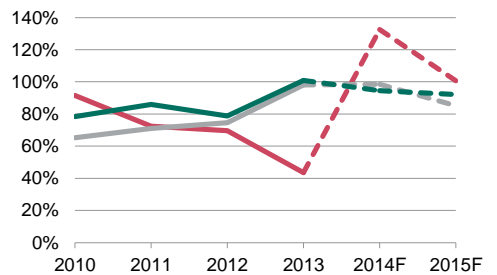
FCF/Revenues including Fitch expectations



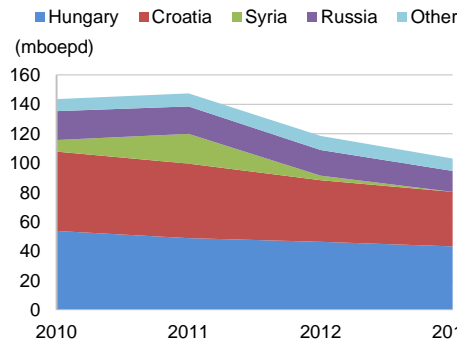
FFO Profitability including Fitch expectations



Capex/CFO including Fitch expectations

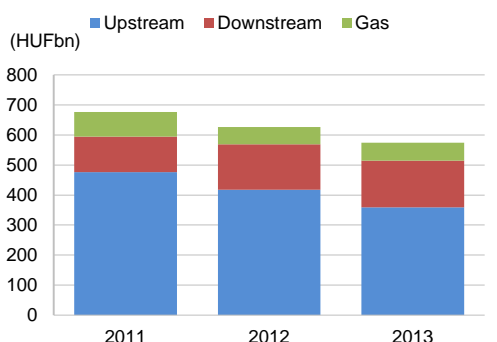


Hydrocarbon Production



Source: Fitch

EBITDA by Segment



Source: Fitch

Figure 1

Reconciliation of Key Financial Metrics for MOL

(HUFm)	31 Dec 13	31 Dec 12
Interest bearing loans and borrowings (incl. EUR610m Magnolia)	1,163,760	1,268,360
- Equity credit	0	0
= Total debt with equity credit	1,163,760	1,268,360
+ Total off-balance sheet debt (8 x long-term leases)	46,152	43,144
= Total lease-adjusted debt (a)	1,209,912	1,311,504
- Cash and equivalents (unrestricted)	564,170	318,579
= Net lease-adjusted debt (b)	645,742	992,925
Cash flows from operating activities (as reported)	614,685	454,033
+ Reversal of taxation paid	61,614	63,019
Net cash from operating activities (adjusted by Fitch)	676,299	517,052
- Net finance charges (d) including interest on Magnolia	51,011	73,863
- Taxation paid	61,614	63,019
+ Dividend received less dividends paid to minorities plus interest on Magnolia	15,030	5,106
= Cash flow from operations	578,704	385,276
- Change in working capital	167,817	-7,550
= Funds flow from operations (FFO) (e)	410,887	392,826
Long-term (LT) leases (g)	5,769	5,393
FFO adjusted gross leverage (x)		
Net lease-adjusted debt/(FFO + net finance charge + LT leases) (a/(e+d+g))	2.6	2.8
FFO adjusted net leverage (x)		
Net lease-adjusted debt/(FFO + net finance charge + LT leases) (b/(e+d+g))	1.4	2.1

Source: Fitch based on company reports

**MOL Hungarian Oil and Gas Company Plc
FINANCIAL SUMMARY**

	31 Dec 2013 HUFm Year End	31 Dec 2012 HUFm Year End	31 Dec 2011 HUFm Year End	31 Dec 2010 HUFm Year End
Profitability				
Revenue	5,400,417	5,522,316	5,343,234	4,299,654
Revenue Growth (%)	(2.19)	3.35	24.27	32.11
Operating EBIT	(5,527)	224,285	262,011	261,045
Operating EBITDA	534,159	543,851	611,851	541,605
Operating EBITDA Margin (%)	9.89	9.85	11.45	12.60
FFO Return on Adjusted Capital (%)	15.14	14.16	16.91	14.48
Free Cash Flow Margin (%)	5.97	0.94	1.85	0.97
Coverages (x)				
FFO Gross Interest Coverage	6.98	5.79	8.52	8.24
Operating EBITDA/Gross Interest Expense	8.07	6.75	9.12	9.81
FFO Fixed Charge Coverage (inc. Rents)	6.50	5.49	7.86	7.44
FCF Debt-Service Coverage	1.03	0.27	0.43	0.30
Cash Flow from Operations/Capital Expenditures	2.29	1.44	1.38	1.09
Debt Leverage of Cash Flow (x)				
Total Debt with Equity Credit/Operating EBITDA	2.18	2.33	2.24	2.47
Total Debt Less Unrestricted Cash/Operating EBITDA	1.12	1.75	1.73	1.89
Debt Leverage Including Rentals (x)				
Annual hire lease rent costs for long-term assets (reported and/or estimate)	5,769	5,393	6,509	6,806
Gross Lease Adjusted Debt/Operating EBITDAR	2.24	2.39	2.30	2.54
Gross Lease Adjusted Debt /FFO+Int+Rentals	2.59	2.78	2.46	3.02
FFO Adjusted Net Leverage	1.38	2.10	1.92	2.34
FCF/Lease Adjusted Debt (%)	26.64	3.96	6.92	2.98
Debt Leverage Including Leases and Pension Adjustment (x)				
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	2.24	2.39	2.30	2.54
Balance Sheet Summary				
Readily Available Cash	564,170	318,579	311,133	313,166
Restricted/Not Readily Available Cash	n.a.	n.a.	n.a.	n.a.
Short-Term Debt	309,397	408,576	320,848	263,587
Long-Term Senior Debt	854,363	859,784	1,051,265	1,117,304
Subordinated debt	n.a.	n.a.	n.a.	n.a.
Equity Credit	n.a.	0	0	42,517
Total Debt with Equity Credit	1,163,760	1,268,360	1,372,113	1,338,374
Off-Balance-Sheet Debt	46,152	43,144	52,072	54,448
Lease-Adjusted Debt	1,209,912	1,311,504	1,424,185	1,392,822
Fitch- identified Pension Deficit	4,187	4,439	4,956	5,119
Pension Adjusted Debt	1,214,099	1,315,943	1,429,141	1,397,941
Cash Flow Summary				
Operating EBITDA	534,159	543,851	611,851	541,605
Gross Cash Interest Expense	(66,157)	(80,629)	(67,125)	(55,215)
Cash Tax	(61,614)	(63,019)	(52,753)	(37,513)
Associate Dividends	15,030	5,106	(4,637)	2,334
Other Items before FFO (incl. interest receivable)	(10,531)	(12,483)	26,963	(44,272)
Funds from Operations	410,887	392,826	514,299	406,939
Change in Working Capital	167,817	(7,550)	(203,722)	(73,497)
Cash Flow from Operations	578,704	385,276	310,577	333,442
Total Non-Operating/Non-Recurring Cash Flow	34,955	(26,843)	12,754	13,483
Capital Expenditures	(252,389)	(268,180)	(224,751)	(305,401)
Dividends Paid	(38,992)	(38,311)	(23)	(19)
Free Cash Flow	322,278	51,942	98,557	41,505
Net (Acquisitions)/Divestitures	46,883	(22,667)	(26,204)	(3,526)
Net Equity Proceeds/(Buyback)	n.a.	n.a.	n.a.	n.a.
Other Cash Flow Items	(196,391)	(107,847)	(65,608)	(6,476)
Total Change in Net Debt	172,770	(78,572)	6,745	31,503
Working Capital				
Accounts Receivable Days	37	39	37	37
Inventory Days	41	43	41	41
Accounts Payable Days	42	40	41	47

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