FitchRatings

FITCH REVISES MOL'S OUTLOOK TO NEGATIVE; AFFIRMS AT 'BBB-'

Fitch Ratings-London-16 July 2013: Fitch Ratings has revised the Outlook on MOL Hungarian Oil and Gas Company Plc's (MOL) Long-term Issuer Default Rating (IDR) to Negative from Stable and affirmed the IDR at 'BBB-'. A full list of rating actions is below.

The Outlook revision reflects growing pressures on the company's operations on a number of fronts, and the limited headroom under Fitch's forecasts for the group to take action - such as acquisitions - to rapidly boost upstream production. Pressures include monetising resources in Kurdistan, the core of MOL's upstream growth strategy, where the company faces material capital expenditures and an extended development and production timeframe, possibly stretching out to 2018. This could delay future expected cash flow and/or result in project expenses exceeding budgeted expenditure.

Furthermore, upstream revenue and EBITDA declines that materialised in 2012 seem unlikely to rebound quickly as a result of Western sanctions against Syria and a prolonged conflict in the region. Finally, the downstream refining and marketing environment in Hungary is under pressure with tight margins and weak demand.

KEY RATING DRIVERS
Capex Financing
MOL's plan to fully finance capex from operating cash flow in 2013-2014 supports its ratings. Fitch assumes that MOL's management will continue to pursue a conservative financial risk policy and that it would reduce its capex plan in the event of weaker than projected cash flow - for example, if there is a fall in oil prices or a prolonged suspension of oil and gas production in Syria.

Resilient Metrics Despite Challenges
Healthy oil prices and management's actions have allowed the group to maintain net FFO adjusted leverage of around 2x, despite challenges. These include the weak economy, crisis-related tax charges in Hungary and loss of cash flow from oil and gas production in Syria (around 14% of production in 2011). Overcapacity in European oil refining and the loss-making refining segment in Croatia create additional headwinds.

No Acquisition Headroom
A frequent strategy for oil companies faced with limited upstream growth in the medium term is acquisitions. MOL has no rating headroom for large debt-funded acquisitions given the challenges it is facing and the agency's projections for 2013-2014 based on Fitch's Brent oil price assumptions (USD100/bbl for 2013 and USD92/bbl for 2014).

Exposure to Hungary
Geographically, MOL's business is not dominated by the Hungarian economy - the country represented 27% of revenue and less than 50% of EBITDA in 2011. Moreover, MOL's two main profit drivers - crude oil prices and crack spreads on refined products - are affected by global factors, not the domestic economy.

Ownership Structure
MOL's largest shareholder is the Hungarian state, which owns 24.6% following the acquisition of a 21.2% stake from Russia's Surgutneftegas OJSC in July 2011. Fitch continues to regard MOL as a private company since the state does not control MOL because of the 10% voting cap for all shareholders. There have been no changes in MOL's board of directors, strategy or financial policies since the acquisition in 2011.

Country Ceiling
MOL's foreign currency ratings are higher than that of the Hungarian sovereign (BB+/Stable) but

below Hungary's Country Ceiling of 'BBB.' In line with Fitch's criteria, Country Ceilings, dated 13 August 2012, were the company's standalone rating to rise above 'BBB' its foreign currency IDR would be capped by the Country Ceiling.

RATING SENSITIVITIES
Positive: Possible upward change to the rating is presently limited by the company's Negative Outlook. Future developments that could stabilise the rating include:

- An accelerated timeline for delivering on its upstream project in Kurdistan, as Fitch is concerned about the deliverability of upstream cash flow.
- Positive developments in Syria that restore the company's previous production.
- Successfully completing additional efficiency improvements that are needed in the downstream sector to improve profitability and margins.

Negative: Future developments that could lead to negative rating action include:
- Negative rating guidelines include FFO-adjusted net leverage above 2.5x on a through-the-cycle basis. To date despite operational headwinds MOL has shown the ability and willingness to maintain conservative financial ratios through a reduction in capex or dividends.
- A further extension of timeline for delivering on its upstream project in Kurdistan.
- Delays to completing additional efficiency improvements that are needed in the downstream sector to improve profitability and margins.
- Large debt-financed acquisitions.

LIQUIDITY AND DEBT STRUCTURE
Sufficient Liquidity
At end-December 2012, the company had available liquidity comprising cash of HUF318bn (EUR1.1bn) and undrawn committed long-term facilities of HUF667bn (EUR2.2bn equivalent) against debt maturing in one year of HUF407bn (EUR1.4bn).

Manageable Maturities
Fitch views the company's debt maturity profile as adequate for the rating. Approximately 30% of debt matures after 2015, and short-term debt can be refinanced or repaid with existing cash and credit facilities

FULL LIST OF RATING ACTIONS

MOL Hungarian Oil and Gas Company PLC
Long-term IDR: affirmed at 'BBB-'; Outlook Negative
Local currency Long-term IDR: affirmed at 'BBB-'; Outlook Negative
Senior unsecured debt: affirmed at 'BBB-'
Short-term IDR: affirmed at F3
Local currency Short-term IDR: affirmed at F3

MOL Group Finance SA
Senior unsecured debt: affirmed at 'BBB-'

Contact:
Principal Analyst
Jakub Zasada
Associate Director
+48 22 338 6295

Supervisory Analyst
Jeffrey Woodruff, CFA
Senior Director
+44 20 3530 1281
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Committee Chair
Alex Griffiths
Senior Director
+44 20 3530 1033

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable criteria, 'Corporate Rating Methodology', dated 8 August 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460