MOL Hungarian Oil and Gas Company Plc

Update

Ratings

Foreign Currency

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

Local Currency

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

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

MOL Hungarian Oil and Gas Company Plc

	31 Dec 11	31 Dec 10
Revenue (HUFbn)	5,343	4,300
Funds from operations (HUFbn)	549	416
Capital expenditure (HUFbn)	-225	-305
Free cash flow (HUFbn)	116	42
FFO-adjusted leverage (x)	2.31	2.95
FFO-adjusted net leverage (x)	1.81	2.29
FFO gross interest coverage (x)	10.12	9.58

Note: Some financial data, including debt, have been adjusted according to Fitch's definitions.

Related Research

Rating Oil and Gas Production Companies (August 2012)

Rating Oil Refining and Marketing Companies (August 2012)

2013 Outlook: EMEA Oil and Gas (December 2012)

2013 Outlook: North American Oil & Gas (December 2012)

Hungary (December 2012)

Analysts

Jakub Zasada, ACCA
+48 22 338 6295
jakub.zasada@fitchratings.com

Jeffrey Woodruff, CFA
+44 20 3530 1281
jeffrey.woodruff@fitchratings.com

Key Rating Drivers

Capex Financing: MOL Hungarian Oil and Gas Company Plc's (MOL) plan to fully finance capex from operating cash flow in 2013-2014 supports its ratings. Fitch Ratings 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.

Improved Ratios Alleviate Challenges: The company's improved credit ratios, coupled with healthy oil prices, alleviate several challenges facing MOL. 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) due to the unrest in the country. Overcapacity in European oil refining and the loss-making refining segment in Croatia create additional headwinds.

No Rating Headroom: Fitch believes that MOL has no rating headroom for large debt-funded acquisitions given the challenges mentioned above 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 by 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, financial or dividend policies since the acquisition in 2011.

Country Ceiling: MOL's foreign-currency ratings are currently capped by Hungary's Country Ceiling of 'BBB' rather than the sovereign rating (BB+/Stable), in line with Fitch's criteria report, *Country Ceilings*, dated 13 August 2012 (see *Related Criteria*).

Rating Sensitivities

Limited Upstream Presence: Positive rating action is currently unlikely given MOL's business profile relative to peers with relatively small upstream operations and various operational and other business challenges facing the company.

Rising Leverage: Negative rating triggers include FFO-adjusted net leverage above 2.5x on a through-the-cycle basis or a prolonged suspension of Syrian oil and gas production if not mitigated by an overall capex reduction in line with lower cash flows.

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.

Peer Group

Issuer	Country
A−	
OMV AG	Austria
BBB−	
MOL Hungarian Oil and Gas Company Plc	Hungary
Repsol, S.A.	Spain
BB+	
Polski Koncern Naftowy ORLEN S.A. (PKN)	Poland

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
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

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	Weak	Neutral

[a] Relative to peer group

Related Criteria

Corporate Rating Methodology (August 2012)

Country Ceilings (August 2012)

Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis (December 2012)

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 cyclicality, driven mainly by changes in oil and gas prices, refining margins, and demand for oil and gas, and for refined products.

Peer Group Analysis (Data for 2011/2012[a])

Long-Term IDR/Outlook	OMV A−/Stable	MOL BBB−/Stable	Repsol BBB−/Stable	PKN BB+/Positive
Oil and gas production (mmboepd)[b]	0.30	0.12	0.33	0
Refining capacity (mmbpd)	0.45	0.47	1.0	0.62
Funds from operations (EURm)	3,046	1,763	5,411	1,205
FFO-adjusted net leverage (x)	1.7	1.8	3.2	1.5
FFO interest coverage (x)	11.5	10.1	5.6	11.7

[a] Oil and gas production and refining capacity for 2012, financial data for 2011
[b] All companies exclude equity affiliates and joint ventures; gas conversion equals 6,000 cubic feet per equivalent barrel.
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) – a medium-sized integrated oil and gas company, with leading positions in Austria and Romania. With 2012 production of 0.30 million barrels of oil equivalent per day (mmboepd), exploration and production is OMV's key segment in terms of cash flow, followed by refining and marketing with a refining capacity of 0.45mmbpd.

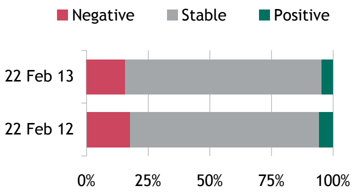
MOL Hungarian Oil and Gas Company Plc (BBB−/Stable) – a medium-sized integrated oil and gas company with leading downstream market positions in Hungary, Croatia and Slovakia. It has relatively large downstream operations with a capacity of 0.47mmbpd, compared with a relatively small upstream business (0.12mmboepd).

Repsol, S.A. (BBB−/Stable) – Fitch revised Repsol's outlook to Stable from Negative in January 2013. This reflects the agency's expectation that Repsol's deconsolidated credit metrics and business profile will not weaken to levels consistent with a lower rating. Fitch believes Repsol should be able to complete fixed asset divestments by end-2013 and use proceeds to reduce debt and stabilise credit metrics. Repsol's credit profile has limited additional downside, even in the absence of divestments, which supports the Stable Outlook.

Polski Koncern Naftowy ORLEN S.A. (PKN) (BB+/Positive) – the leading refining and marketing company in central Europe, with total refining capacity of 0.62mmbpd, located in Poland, Lithuania and the Czech Republic.

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

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:

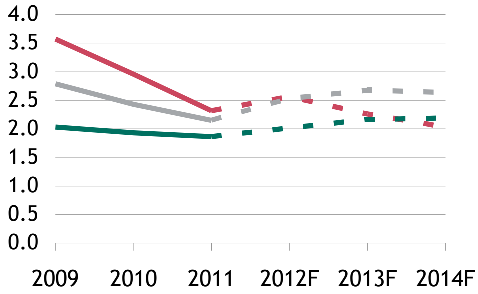
- for exploration and production oil price based on Fitch price deck (USD100/bbl for 2013 and USD92/bbl for 2014);
- no oil and gas production in Syria in 2013 and 2014;
- capex for 2013-2014 in line with the company's assumptions;
- refining margins weaker in 2013 compared with 2012.

Note: 2009 data is based on the audited 2009 annual report with six months' contribution from INA, hence credit ratios for 2009 are not directly comparable to other years.

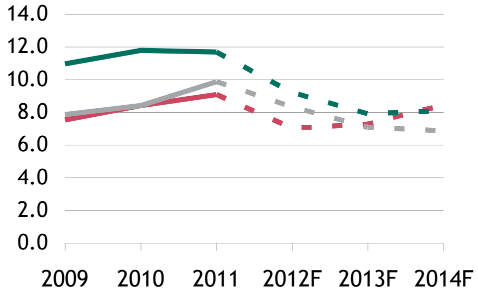
Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid 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.

Leverage
including Fitch expectations



Interest Cover
including Fitch expectations

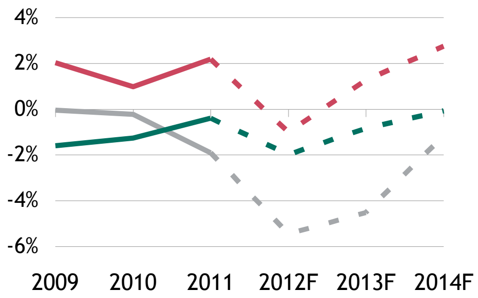


Reported Debt Maturities and Liquidity at end-December 2012

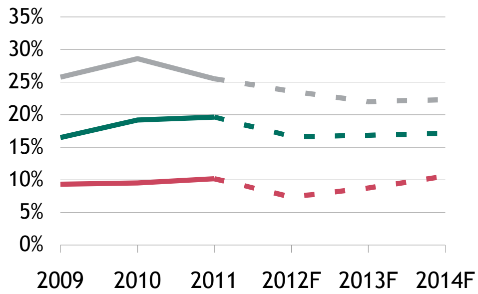
Debt maturities	(EURm)
2013	1,396
2014	241
2015	961
After 2015	1,143
Cash and equivalents	1,093
Undrawn committed long-term facilities	2,220

Source: Fitch

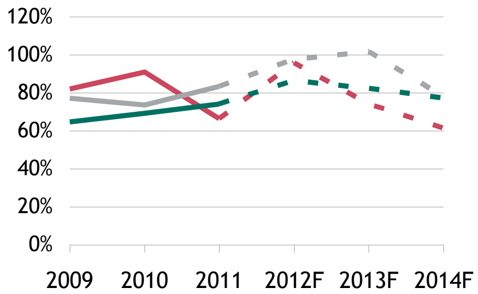
FCF/Revenues
including Fitch expectations



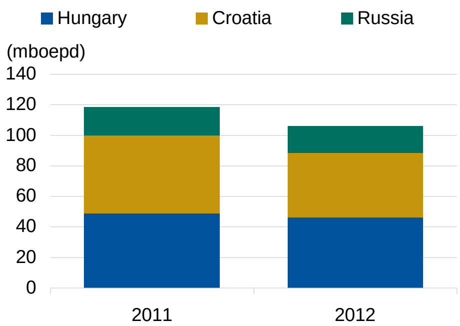
FFO Profitability
including Fitch expectations



Capex/CFO
including Fitch expectations

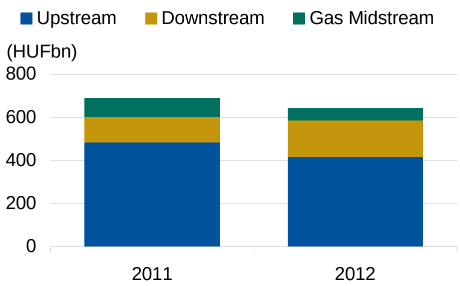


Hydrocarbon Production



Source: MOL

EBITDA Excl. Spec. Items



Source: MOL
Note: Excluding corporate and other and segment transfers

MOL Hungarian Oil and Gas Company Plc
FINANCIAL SUMMARY

	31 Dec 2011 HUFm Year End	31 Dec 2010 HUFm Year End	31 Dec 2009 HUFm Year End	31 Dec 2008 HUFm Year End
Profitability				
Revenue	5,343,234	4,299,654	3,254,700	3,535,001
Revenue Growth (%)	24.27	32.11	(7.93)	36.28
Operating EBIT	262,011	261,045	143,158	189,710
Operating EBITDA	611,851	541,605	350,298	341,618
Operating EBITDA Margin (%)	11.45	12.60	10.76	9.66
FFO Return on Adjusted Capital (%)	17.71	14.56	11.92	16.00
Free Cash Flow Margin (%)	2.18	0.98	2.02	(1.24)
Coverages (x)				
FFO Gross Interest Coverage	9.08	8.42	7.52	6.45
Operating EBITDA/Gross Interest Expense	9.33	9.95	9.88	6.20
FFO Fixed Charge Coverage (inc. Rents)	8.36	7.60	7.08	6.12
FCF Debt-Service Coverage	0.47	0.31	0.34	0.04
Cash Flow from Operations/Capital Expenditures	1.51	1.10	1.22	0.97
Debt Leverage of Cash Flow (x)				
Total Debt with Equity Credit/Operating EBITDA	2.24	2.47	3.53	2.90
Total Debt Less Unrestricted Cash/Operating EBITDA	1.73	1.89	3.02	2.25
Debt Leverage Including Rentals (x)				
Annual hire lease rent costs for long-term assets (reported and/or estimate)	6,509	6,806	3,391	3,415
Gross Lease Adjusted Debt/Operating EBITDAR	2.30	2.54	3.57	2.96
Gross Lease Adjusted Debt /FFO+Int+Rentals	2.31	2.95	3.57	2.94
FCF/Lease Adjusted Debt (%)	8.17	3.02	5.20	(4.31)
Debt Leverage Including Leases and Pension Adjustment (x)				
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	2.30	2.54	3.57	2.95
Liquidity				
(Free Cash Flow+Available Cash+Committed Facils)/(ST Debt + Interest) (%)	292.16	262.57	138.74	264.99
Balance Sheet Summary				
Cash and Equivalents (Unrestricted)	311,133	313,166	177,105	222,074
Restricted Cash and Equivalents	n.a.	n.a.	n.a.	n.a.
Short-Term Debt	320,848	263,587	282,034	182,716
Long-Term Senior Debt	1,051,265	1,117,304	994,299	890,263
Subordinated debt	n.a.	n.a.	n.a.	n.a.
Equity Credit	0	42,517	41,297	80,764
Total Debt with Equity Credit	1,372,113	1,338,374	1,235,036	992,215
Off-Balance-Sheet Debt	52,072	54,448	27,128	27,320
Lease-Adjusted Debt	1,424,185	1,392,822	1,262,164	1,019,535
Fitch- identified Pension Deficit	4,956	5,119	4,906	3,462
Pension Adjusted Debt	1,429,141	1,397,941	1,267,070	1,022,997
Cash Flow Summary				
Operating EBITDA	611,851	541,605	350,298	341,618
Gross Cash Interest Expense	(67,125)	(55,215)	(46,571)	(53,333)
Cash Tax	(52,753)	(37,513)	(28,978)	(61,923)
Associate Dividends	5,334	4,359	896	2,197
Other Items before FFO (incl. interest receivable)	44,821	(43,657)	28,092	61,840
Funds from Operations	**542,128**	**409,579**	**303,737**	**290,399**
Change in Working Capital	(203,722)	(73,497)	59,707	24,898
Cash Flow from Operations	**338,406**	**336,082**	**363,444**	**315,297**
Total Non-Operating/Non-Recurring Cash Flow	12,754	13,483	2,014	35,257
Capital Expenditures	(224,751)	(305,401)	(297,890)	(323,753)
Dividends Paid	(9,994)	(2,044)	(1,881)	(70,710)
Free Cash Flow	**116,415**	**42,120**	**65,687**	**(43,909)**
Net (Acquisitions)/Divestitures	(26,204)	(3,526)	(3,582)	(210,056)
Net Equity Proceeds/(Buyback)	n.a.	n.a.	959	112,197
Other Cash Flow Items	(83,466)	(7,091)	(311,387)	(48,035)
Total Change in Net Debt	6,745	31,503	(248,323)	(189,803)
Working Capital				
Accounts Receivable Days	37	37	41	35
Inventory Days	41	41	38	34
Accounts Payable Days	41	47	47	38

Some financial data, including EBITDA and debt, were adjusted according to Fitch's definitions. The hybrid bonds of EUR610m (not rated by Fitch) have no equity credit in Fitch's credit ratio calculations from end-2011, in line with its criteria report, Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis, dated December 2012.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.