FitchRatings

RATING ACTION COMMENTARY

Fitch Revises MOL's Outlook to Stable; Affirms at 'BBB-'

Fri 02 Jun, 2023 - 13:43 ET

Fitch Ratings - Warsaw - 02 Jun 2023: Fitch Ratings has revised the Outlook on MOL Hungarian Oil and Ga Company Plc's (MOL) Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR 'BBB-'.

The revision of the Outlook reflects that while a halt in Russian oil and gas supplies to Hungary cannot be ru out given the ongoing war in Ukraine and hostilities between Russia and the EU, we believe there is a lower risk of the negative scenario materialising. We also believe that MOL is better placed to weather material disruptions in Russian supplies due to its increasing capability to replace Russian oil by half by December 2(with a full self-sufficiency expected by 2025 and source gas from alternative routes.

MOL's rating is supported by a diversified and integrated business with assets in downstream, upstream, re and gas midstream; by low leverage and by a strong competitive position in the company's core markets. Th rating is constrained by MOL's short reserve life compared with direct peers and uncertainties about the company'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, runni via Ukraine, where the war is ongoing. MOL estimates it is currently able to replace 80% of Russian oil, but i would lead to a gradual build-up of technical issues in its production installations. MOL currently uses 30%-35% of non-Russian crude oil and estimates that the proportion will grow to around half by December 2023, while full replacement will be possible from 2025.

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

Natural Gas Shipments Maintained: Fitch understands that shipments of Russian natural gas to Hungary, covering 80% of domestic needs, have largely been maintained with traditional routes. While a complete ha cannot be ruled out via EU routes, Hungary would likely receive shipments via TurkStream. If LNG shipmen via European routes were at least partially available, we assume the negative impact on MOL could be relatively limited.

Windfall Taxes Manageable: MOL was subject to various forms of windfall taxes and price caps in 2022, totalling USD2.2 billion. Despite the high tax burden, the company's financial performance was exceptional strong compared with historical periods. We understand windfall taxes have largely been maintained for 2023.

We forecast lower oil and gas prices, as well as refining margins in 2023, but we assume MOL's financial pro will remain strong despite the high tax burden. We assume normalisation of taxes from 2024. If windfall tax continue after 2024, we expect MOL's credit profile will remain solid.

Standalone Rating: MOL is currently 30.49% owned by three foundations, which are effectively controlled the Hungarian government. The ownership changes, where shares held by MOL and The Hungarian Nation Asset Management Inc. were transferred to the foundations, took place between 2019 and 2021.

We continue to rate MOL on a standalone basis, as we assess the links between the company and the Hungarian state (BBB/Negative) as weak to moderate under Fitch's Government-Related Entities (GRE) Rating criteria. This reflects a Moderate assessment of Status, Ownership and Control as well as Socio-Political Impact of Default and a Weak assessment of Support Track Record and Financial Implications of a GRE Default.

Waste Management Business: MOL won concessions for municipal waste management services in 2022 starting on 1 July 2023. MOL will be responsible for the collection of close to 5 million tonnes of municipal solid waste, will ensure its treatment and make related investments of USD600 million-USD800 million in t next 10 years. According to management, MOL's entrance into a new business segment is consistent with it energy transition strategy. While the addition of utility type regulated cash flows may be positive for the cre profile, execution risks remain, given lack of MOL's expertise in waste management.

DERIVATION SUMMARY

MOL's close EMEA downstream peers are Compania Espanola de Petroleos, S.A.U (CEPSA, BBB-/Stable) an Polski Koncern Naftowy ORLEN S.A. (PKN ORLEN, BBB+/Stable). MOL and its closest peer CEPSA have similar business profiles, characterised by vertical integration and comparable refinery capacities (380kbbl/ vs. CEPSA's 474kbbl/d). MOL's smaller refinery capacity is balanced by larger upstream production scale especially after CEPSA's divestment of UAE production asset in 2023 (83kboe/d vs. CEPSA's 41kboe/d), and slightly larger retail network (2,000 vs CEPSA's 1,700). MOL recorded EBITDA of EUR4.3 billion in 2022 compared with EUR3.1 billion for CEPSA.

In comparison with PKN ORLEN, MOL has a small operational scale of downstream segment and less diversified cash flows, especially after PKN ORLEN's recent series of acquisitions including Energa S.A, one the main electric utilities in Poland in 2019, the refining and marketing business of LOTOS Group in 2022, a PGNiG, vertically integrated natural gas utility in 2022. Following the latest PGNiG acquisition, we upgrade

PKN 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 the exemptions from the oil embargo granted to Hungary in June 2022. However, MOL is currently targeting becoming completely independent by 2025 by establishing 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

- HUF/USD rate of 363 in 2023, 381 in 2024, 384 from 2025 through 2026

- Upstream production at around 81kboe/d (excluding non-consolidated associated companies)

- Refining throughput averaging 330kbbl/d from 2023 through 2026

- Refining margins averaging USD4/bbl from 2023 through 2026

- Capex broadly in line with management guidance

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 sustainably below 1.5x;

- Favourable resolution of the 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, i.e., with significantly lower upstream production not substituted with cash flows from other segments;

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

- Sustained problems in securing natural gas supplies leading to re-evaluation of MOL's business profile or a increase in leverage beyond the negative sensitivity.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scena (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and wors case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: MOL's strong liquidity position is primarily underpinned by an ample cash balance of HUF509 billion and undrawn committed credit facilities of HUF1,120 billion as of end-March 2023. Togeth with FCF generation we deem this sufficient to fully cover debt servicing over the medium term.

ISSUER PROFILE

MOL is a medium size integrated oil & gas company. In 2022 MOL generated USD4.7 billion of clean curren cost of supplies EBITDA (USD3.5 billion in 2021). It operates three refineries (in Hungary, Slovakia and Croatia) with a total refinery capacity of 380kbbl/d. MOL's 2022 upstream production excluding affiliates w 83kboe/d (92kboe/d total production). Upstream assets are located mainly in Hungary, Croatia and Azerbaijan.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This mea ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature o the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scor visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

MOL Hungarian Oil and Gas Company Plc	LT IDR BBB- Rating Outlook Stable Affirmed	BBB- Rating Outlook Negative
	ST IDR F3 Affirmed	F3
	LC LT IDR BBB- Rating Outlook Stable Affirmed	BBB- Rating Outlook Negative
	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

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub. 12 May 2023)

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

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