

ARC Ratings affirms the public "BBB-" medium and long-term issue rating, with stable outlook, assigned to ENSE

Lisbon, 9 September 2020 - ARC Ratings, S.A. (ARC Ratings) has affirmed the final public "BBB-" rating, with Stable outlook, accorded to the EUR 360.0 million bond issued by Entidade Nacional para o Setor Energético, E.P.E. (ENSE), on 6 August 2008. This rating action is based on the implied support of the Portuguese sovereign and the coverage of the company's net financial debt provided by the market value of its oil reserves. In the context of oil price volatility this ratio (reserves/net financial debt) decreased, notwithstanding the decline in its net financial debt. Future oil price volatility may be even greater giving the uncertainty surrounding the impact of Covid-19 on the world economy. ARC Ratings will monitor the determinants of the assigned rating and take action as needed.

<u>ISSUER</u>	<u>ISSUE</u>	<u>AMOUNT</u>	<u>RATING CLASS</u>	<u>RATING</u>	<u>OUTLOOK</u>	<u>NEXT REVIEW DATE</u>
Entidade Nacional para o Setor Energético, E. P. E.	Bond loan	EUR 360.0 million	Medium and Long-Term Issue	BBB-	Stable	9 September 2021

ISSUER PROFILE

ENSE was founded in 2001 and is headquartered in Portugal. The company is a State-owned entity with the following duties:

- Being the Portuguese central stockholding entity for the acquisition and maintenance of the strategic portion of national emergency reserves of oil and oil products (reserves) – this its main activity.
- Supervision of all energy sectors.
- Management and monitoring of the storage activities for crude oil and its derivatives throughout the national territory, to guarantee and supply crude oil and petroleum products, depending on consumption needs.

RATING RATIONALE

ENSE's key rating drivers are the following:

- Government ownership – ENSE's share capital is wholly owned by the Portuguese Government and the bond has a continual ownership clause regarding the maintenance of this sole ownership by the Portuguese Government. Consequently, its rating is indirectly linked to the ratings of the Portuguese Republic: BBB/Stable/A-2 by Standard & Poor's Financial Services LLC; Baa3/P-3/Positive by Moody's Investors Service, Inc.; BBB/Stable by Fitch Ratings, Inc.. However, there is no obligation of timely support, but the Portuguese Government, as established in the company's bylaws, is ultimately responsible for ENSE's liabilities.
- Favourable debt profile – ENSE's debt level remains unchanged, still comprising solely the bond that is rated in an amount of EUR 360.0 million, maturing in 2028. Above all, ENSE's expenses (including bond interest) have been, as structurally intended, totally covered by revenues, mainly originated from the Portuguese oil market operators. ENSE's cash and deposits and investments in Portuguese Government issued debt securities

continued to increase to EUR 63.3 million, reducing the company's net financial debt.

- Stable, long-term relationships with key customers – The entity has developed strong, mutually beneficial relationships with the main distributors of oil products in Portugal: Galp Energia, SGPS, S.A. (Galp Energia), Repsol, S.A. (Repsol), BP p.l.c. (BP), Prio Supply, S.A. (PRIO) and Compañía Española de Petróleos S.A. (CEPSA).

The key constraints on ENSE's credit rating are:

- Oil price volatility and the coverage of the loan by reserves – The nature of ENSE's operations and concentration of its assets render its financial performance (in accounting terms, without cash flow impact) heavily exposed to oil price fluctuations. In fact, the oil price drop trend in the first half of 2020 led the coverage of gross financial debt by reserves to decrease to 0.79 times at the end of June (from 1.21 times at the end of 2019). The coverage of net financial debt by reserves also declined to close 1.0 times at the end of June 2020 (from 1.45 times at the end of 2019). The period up to the end of August 2020, saw an oil price recovery trend, albeit with some fluctuations.
- Concentration of customer base – The vast majority of ENSE's revenues (87.6%) continue to be derived from five companies, despite some decrease in 2019 compared with 2018: Galp Energia (accounting for 26.1% of ENSE's 2019 revenues), Repsol (21.7%), BP (20.2%), PRIO (10.5%) and CEPSA (9.1%). It should however be noted that ENSE maintains stable relationships with them and there is no risk of losing customers. ARC Ratings notes specifically that three of the aforementioned customers carry investment grade ratings.

RECENT DEVELOPMENTS AND OUTLOOK

The Covid-19 pandemic, that led to a lockdown of the Portuguese economy, has had a very limited impact on ENSE's activity. The company is prepared to operate in any contingency and dealt well with the Covid-19 disruption.

The total volume of oil products introduced for consumption in Portugal increased by 1.4% in 2019, to 8.36 million tonnes (Mton). In the Covid-19 context the total volume of oil products introduced for consumption in Portugal decreased sharply between March and May 2020 (being down by 51.9% in April).

ENSE's own reserves stabilised at 0.94 Mton at the end of 2019, while its reserves contracted under CSO Tickets (Compulsory Stockholding Obligation) increased by 18.2% to 0.36 Mton. CSO Tickets are contracted according to market demand for ENSE to replace the oil market operators. In 2019, strategically, ENSE acquired CSO Tickets for part of 2019 and the full 2020, benefiting from a lower average purchase price. ENSE continued to present substantial headroom between its own reserves and the legally required strategic reserves, allowing the company to continue replacing part of the operators' own obligation.

ENSE's revenues increased year-on-year by 7.6% in 2019, to EUR 26.1 million, and by 7.5% in the 1H2020, to EUR 13.9 million. ENSE's revenues primarily comes from its main activity (holding and managing reserves of crude oil and oil products), which accounted for 98.8% of total revenues in 2019 and 96.9% in the 1H2020. ENSE's revenues from its main activity corresponds to the recovery of its expenses on this activity (operating and financing expenses) from oil market operators.

ENSE increased its provision fund to EUR 47.6 million in June 2020, equivalent to 12.7% of the oil reserves' acquisition cost.

In its 2020 budget ENSE forecasted an insignificant net profit in 2020 and 2021. In the company’s view, any possible negative deviation in the result from its other activities (beyond its main activity) should be covered by the oil market operators.

RELATED CRITERIA AND RESEARCH

ARC Ratings’ Corporate Entities Rating Methodology (March 2020)
ENSE Rating Review – Report (9 September 2020)

THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY AND SHOULD BE READ IN CONJUNCTION WITH THE RESPECTIVE RATING REPORT

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This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

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