

RATING ACTION COMMENTARY

Fitch Affirms Empresa Nacional del Petroleo at 'A-'; Outlook Stable

Tue 15 Nov, 2022 - 8:59 a. m. ET

Fitch Ratings - New York - 15 Nov 2022: Fitch Ratings has affirmed Empresa Nacional del Petroleo's (ENAP) Long-Term Foreign Currency Issuer Default Rating (IDR) at 'A-'. Fitch has also affirmed ENAP's National Long-Term Rating at 'AAA(d)'. The Rating Outlook is Stable.

ENAP's Long-Term Foreign Currency IDR, equalized with the Chilean sovereign rating, reflects the company's 100% ownership by the Chilean government and the sovereign's incentive to provide financial support to the company, given its strategic importance for the country. The company is responsible for assuring a significant portion of Chile's energy supply, and owns 100% of the country's refining capacity.

Financial support for ENAP has historically come from capital injection and capitalization of retained earnings at the company's subsidiaries. The Ministry of Finance approves the company's budget and any additional debt assumed by ENAP.

KEY RATING DRIVERS

Government Related Entity: ENAP's ratings are linked with the sovereign rating through Fitch's Government Related Entity (GRE) criteria. The company is equalized as it scores 50 points per the GRE linkage. Both factors, Status, Ownership and Control and Support Track Record and Expectations remain 'very strong', as the Government has an historical track record of equity injections, along with the capitalization of retained earnings from ENAP's subsidiaries. For the past 12 years the Government has waived the right to receive dividends from its subsidiaries, which has strengthened ENAP's capital structure. In addition, ENAP receives annually approximately between USD70 million and USD75 million in subsidies for natural gas sales in the Magallanes region.

Socio-Political Implications of Default has remained as 'very strong', reflecting the strong incentives the Chilean government has to support ENAP in the event of financial distress given the company's strategic importance, as it provides 55% of the refined products of the country's aggregate market share and owns 100% of total refining capacity in Chile. ENAP's Financial Implications of default remains as 'strong', as the company's total outstanding debt is not guaranteed by the Government and represents less than 5% of the country's total debt.

Improved EBITDA: For LTM ended Sept. 30, 2022, ENAP registered an EBITDA of USD1.2 billion, significantly higher compared with USD800 million during 2021. Refining and marketing (R&M), ENAP's strategic business unit, registered higher refining margins, better international crude oil and gas prices, combined with ENAP management focus on cost and expense control. Prime margins per barrel increased to approximately USD27 during 2022, from USD11.4 during 2021. In addition, the company's higher



EBITDA contribution from exploration and production (E&P) unit, reflects higher volume and prices for crude oil and gas production. To a lesser extent, the gas and energy (G&E) unit has increased its EBITDA generation compared with 2021, mainly driven by higher prices for natural gas sales.

Stand-Alone Credit Profile: Absent implicit and explicit Chilean government support, Fitch assesses ENAP's credit profile on a stand-alone basis, commensurate with the 'b' rating category. For LTM ended Sept. 30, 2022, financial metrics improved compared with YE 2021, ENAP's EBITDAR leverage reached to 3.6x from 5.4x, mainly explained higher refining margins and a strong demand for refined products due to ease in lockdowns. ENAP will maintain a structural debt above USD4.0 billion over the rating horizon, with EBITDAR leverage metrics in the range of 4.2x during 2022-2026, consistent with the 'b' category according to Fitch's Sector Navigator Rating Criteria for Oil Refining and Marketing companies.

Manageable Capex Plan: Fitch anticipates an increase in ENAP's capex plan through 2022-2025, in the range of USD500 million annually, with a peak of USD700 during 2023. Approximately 50% of the capex program is concentrated in the E&P business to secure reserves and keep current productions levels, while the remaining portion is allocated to the R&M business concentrated on the company's current operations with the focus on safety and environmental agreements. In Fitch's view, ENAP will finance the capex plan with internal cash flow generation, without incurring in additional debt.

Good Access to Refinancing: Fitch does not see refinancing as a major risk due to ENAP's proven access to financial markets. After the refinance of long-term debt in 2021 with the issuance of a USD560 million international notes due 2031 and a local bond for approximately USD120 million due 2025, ENAP does not face any significant maturities until the USD600 million due October 2024. Fitch expects ENAP will keep the historic track record accessing local and international markets based on government support.

The ratings also reflect the approval of a corporate governance law for ENAP. Fitch considers positively a more independent board of directors that provides more stability to the company toward its medium- and long-term objectives. The new law requires ENAP to have a five-year business and development plan that increases the strategic importance of the company, making it an even more important player in the country's energy matrix.

Fitch does not provide separate ESG scores for ENAP as its ratings and ESG scores are derived from its parent. ESG relevance scores and commentary for the parent entity - Chile - can be found here [<https://www.fitchratings.com/entity/chile-80442224>] Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

DERIVATION SUMMARY

ENAP's rating linkage to the Chilean sovereign rating is in line with the linkage present for most national oil and gas companies (NOCs) in the region, including **Petroleos Mexicanos** (BB-/Stable), YPF S.A. (CCC-), **Ecopetrol** S.A. (BB+/Stable), **Petroleo Brasileiro** S.A. (BB-/Stable) and **Petroleos del Peru - Petroperu** S.A. (BB+/RWN). In most cases in the region, the NOCs are of significant strategic importance for energy supply to their countries, and a default could have potentially negative social and financial implications at a national level. Similar to its peers, ENAP has strong legal ties to the Government, through its majority ownership, strong operational control and governmental budgetary approvals.

ENAP's ratings reflect its strategic importance for the country's energy matrix, as it owning 100% of total refining capacity in Chile and represents approximately 55% of the country's demand for refined products. The rating is reinforced by consistent support from the Chilean government, reflected by the USD400 million capitalization during 2018, in addition to the capitalization of retained earnings at ENAP's subsidiaries, enhancing company's capital structure and subsidies for natural gas sales in the Magallanes

region, approved on a yearly basis.

ENAP has higher refining capacity than Petroperu. Both have geographical diversification throughout the national territory, which allows them to have the necessary capacity to supply national demand and meet distribution requirements. On a stand-alone basis, Fitch believes absent implicit and explicit Chilean government support, ENAP's credit profile is commensurate with the 'b' rating category, which is several notches above that of Petroperu at 'ccc'.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Fitch price deck for Brent oil prices of USD100/bbl in 2022; USD85/bbl in 2023 and USD65/bbl in 2024 and USD53 in the long term;
- Capex plan during 2022 for USD550 million, increasing to USD700 million in 2023 and returning to USD500 million annually 2024-2025. 50% concentrated in R&M, 45% in E&P and the remaining portion in gas;
- Refining margins in the range of USD27 per barrel during 2022, and USD10 in the long term;
- Subsidy for gas consumption in the Magallanes Region remains in place;
- Continuous support from the Chilean government.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade of ENAP could result from an upgrade of the sovereign provided the company's standalone credit profile (SCP) remains unaffected;
- An upgrade of ENAP's SCP could result if the company's EBITDAR leverage is consistently below 4.2x over the rating horizon.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Downgrade of the sovereign's rating and/or the perception of a lower degree of linkage between ENAP and the sovereign;
- Weakening of the company's linkage with the government in the form of legal, operational and/or strategic ties, combined with reduced government incentive to support ENAP;
- Any significant changes in ENAP's business, commercial and financial strategy that would deteriorate the company's SCP to 'ccc' rating category from its current 'b' level.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a 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 worst-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

Improved Liquidity: ENAP's cash on hand as of Sept. 30, 2022, amounted to USD548 million, higher compared with USD181 million at YE 2021. Liquidity is reinforced by undrawn committed credit line facilities of USD150 million, and two extra committed credit lines of CLP25,000 million each. In addition, the company has undrawn a 30-year local bond program for approximately USD825 million (CLF20 million).

ISSUER PROFILE

ENAP is a state-owned company in Chile engaged in the exploration, production, refining, and marketing of hydrocarbons and their derivatives. The company has a total refining capacity of approximately 230,000 bbl/day divided in three refineries, which represents 100% of the country's refining capacity.

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

ENAP has ESG Relevance Score of '4' for Governance Structure, due to its nature as a majority government-owned entity and the inherent governance risk that arise with a dominant state shareholder. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

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

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
<input type="text"/>	<input type="text"/>	<input type="text"/>
Empresa Nacional del Petróleo (ENAP)	LT IDR A- Affirmed	A-
	Natl LT AAA(cl) Affirmed	AAA(cl)
senior unsecured	LT A- Affirmed	A-
senior unsecured	Natl LT AAA(cl) Affirmed	AAA(cl)

PREVIOUS Page 1 of 1 10 rows NEXT

[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Metodología de Calificación de Entidades Relacionadas con el Gobierno \(pub. 12 Nov 2020\)](#)

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Metodología de Calificación de Finanzas Corporativas \(pub. 02 Dec 2021\)](#)

[Sector Navigators: Addendum to the Corporate Rating Criteria \(pub. 28 Oct 2022\)](#)

[Corporate Rating Criteria \(pub. 28 Oct 2022\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[Corporate Monitoring & Forecasting Model \(COMFORT Model\), v8.0.3 \(1\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Empresa Nacional del [Petróleo](#) (ENAP) EU Endorsed, UK Endorsed

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ENTITIES

Empresa Nacional del **Petroleo** (ENAP)

ISSUER CONTENT

Empresa Nacional del **Petroleo** (ENAP)

Empresa Nacional del **Petróleo**

Fitch Ratifica Clasificaciones de ENAP en 'AAA(cl)'

Fitch Affirms Empresa Nacional del **Petroleo** at 'A-'; Outlook Stable

Fitch Asigna 'A-' a Emisión de Bonos Propuesta de USD600 millones de ENAP

Fitch Rates ENAP's Proposed USD600 Million Notes 'A-'

Empresa Nacional del **Petróleo**

Fitch Clasifica Nuevas Líneas de Bonos de ENAP en 'AAA(cl)'

[Latin American Corporates Sovereign Rating and Country Ceiling Exposure \(Excel\)](#)

RECOMMENDED CONTENT

Commercial Mortgage REIT Cash Earnings Supported by Higher Rates

Fitch Revises Fresenius SE's Outlook to Negative; Affirms IDR at 'BBB-'

Fitch Revises Fresenius Medical Care's Outlook to Negative; Affirms IDR at 'BBB-'

China's Deepening Slowdown Is a Growing Risk for Some US Corporates

Fitch Rates ONEOK's Senior Unsecured Notes 'BBB'

[Fitch U.S. High Yield Default Insight \(YTD Default Rate Inches Up to 1.3%; Top Market Concern Total Grows\)](#)

YTD Default Rate Inches Up to 1.3%; Top Market Concern Total Grows

[Fitch U.S. High Yield Default Insight Data File \(November 2022\)](#)

[Wizz Air Holdings Plc](#)

Fitch Upgrades Nabors Industries IDR to 'B-'; Outlook Stable

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RATINGS KEY

POSITIVE

NEGATIVE

EVOLVING

STABLE

OUTLOOK



WATCH



* Long Term/Short Term Issuer Default Rating displayed in orange denotes EU or UK Unsolicited and Non-Participatory Ratings

Where there was a review with no rating action (Review – No Action), please refer to the “Latest Rating Action Commentary” for an explanation of key rating drivers

*Premium content is displayed in Fitch Red



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