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Petroleos Mexicanos

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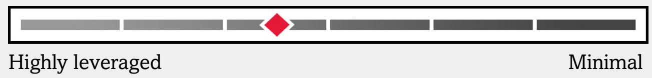
Petroleos Mexicanos

Corporate Credit Rating	BBB+/Stable/--

Profile Assessments

BUSINESS RISK	SATISFACTORY	
FINANCIAL RISK	SIGNIFICANT	

Initial Analytical Outcome ("Anchor") And Rating Result

Our 'BBB+' rating on Petroleos Mexicanos (PEMEX) is derived from:

- Our anchor of 'bbb-', based on our "satisfactory" business risk and "significant" financial risk profile assessments for the company;
- The 'bbb-' stand-alone credit profile (SACP) for PEMEX, which is the same as its anchor with no impact from any modifier; and
- Our view of an "almost certain" likelihood that the government of Mexico (foreign currency: A/Stable/A-1; local currency: BBB+/Stable/A-2) would extend extraordinary support to the company in the event of financial distress.

Rationale

Business Risk: Satisfactory	Financial Risk: Significant
• Almost certain likelihood of extraordinary government support; • PEMEX's dominant position in the large national oil and gas market; • Mexico's large oil and gas reserve base; and • Declining production levels but long-term growth potential.	• Weak after-tax measures; • Large, unfunded pension obligations; • Substantial share of revenues taken by the government; and • Ample access to domestic and international capital markets

Outlook: Stable

The stable outlook on PEMEX mirrors the sovereign outlook. Given our assessment of "almost certain" likelihood of government support, the ratings on PEMEX would continue to follow those on the sovereign.

Downside scenario

A downgrade is unlikely at this point, as we don't expect PEMEX's relationship with the government to change significantly in the next two to three years.

Upside scenario

We could raise the ratings on the company if we upgrade the sovereign.

Standard & Poor's Base-Case Scenario

Assumptions

- Standard & Poor's current oil and natural gas price assumptions;
- Production will fall by 1% and will begin to improve in 2018, when new participants enter the market; and
- Annual capital expenditures (capex)--excluding maintenance capex--for about $20 billion per year.

Key Metrics

	2014F	2015F	2016F
EBITDA Margin	75%-76%	77%-78%	77%-78%
Debt/EBITDA	1.7x-1.9x	1.9x-2.0x	1.9x-2.0x
EBITDA/Interest	7.0%-7.2%	7.0%-7.2%	7.0%-7.2%
FFO/Debt	9.5%-10%	9.5%-10%	9.5%-10%

*Leverage and coverage ratios include asset retirement obligations of $3.4 million, surplus cash of $4.6 million reducing debt, and pensions adjustments of $68.9 billion that increase 2013 debt, EBITDA, and interest expenses. We do not expect these adjustments to change materially in 2014 and 2015. F--Forecast.

Company Description

PEMEX is a decentralized public entity of the Mexican government that is an integrated oil and gas company and the largest company in Mexico. The company operates through its main subsidiaries: PEMEX Exploración y Producción (PEP), PEMEX Refinación, PEMEX Gas y Petroquimica Básica (PGPB), and PEMEX- Petroquímica. However, we expect the company to have a new organizational structure divided into two divisions (Exploration and Production and Industrial Transformation) rather than four, as a result of the recently ratified energy reform.

By 2015, the reform stipulates that PEMEX will shift from its status as a decentralized public entity to a productive company that, although still state-owned, will enjoy greater technical, managerial and budgetary autonomy.

Business Risk: Satisfactory

PEMEX has a "satisfactory" stand-alone business risk profile based on its large oil and gas reserve base. As we expected, its crude oil production has fallen by 1% to 2.5 MMbd given the natural decline in company's fields. Nevertheless, we believe that this negative trend will begin to reverse once private companies begin to invest in the oil and gas market as a result of the energy reform. However, we estimate that the boost in production will be seen in the medium-term, given the natural ramp-up of new fields.

PEMEX's proven and undeveloped reserve base of about 13.9 billion barrels of crude oil equivalent for 1P (proved reserves) hydrocarbons reserves could also benefit from higher investment in the sector.

Our business risk assessment also incorporates our view of the national industry as its competitive dynamics are largely driven by government policy, regulation, government control and taxation. The company will continue to be 100% government-owned, and we do not anticipate any changes in government control in the short-term.

During December 2013, Mexico's congress approved reforms to open the sector to private investment. Although secondary legislation is still pending as are the details related to the reform, PEMEX will lose its monopoly position in the energy market and will begin to compete in the sector. However, we believe that PEMEX will continue to be a dominant participant in the market.

Amendments to articles 25, 27 and 28 establish that the Mexican government will continue to own hydrocarbons, but private investment will be allowed in the sector through several schemes (service contracts, profit sharing, production sharing contracts, and licenses). The amendments also establish the Mexican Oil Fund for Stabilization and Development that will receive, manage and distribute the income derived from these contracts. The amendments stipulate that PEMEX will continue to be state-owned, and will become "productive" by 2015; the term should be defined with more clarity in the secondary legislation.

The energy reform also established the Centro Nacional de Control de Gas Natural (Cenagas) a decentralized public organism that will operate the national pipeline system and natural gas storage that was previously operated by Pemex-Exploration and Production. At the end of 2013, this pipeline network consisted of approximately 39,000 km of pipelines. Cenagas will also oversee the Los Ramones project, which will supply natural gas imported from the United States to central Mexico. We believe that Cenagas will allow PEMEX to focus on activities that will boost profits.

Finally, PEMEX has submitted a proposal to the Secretary of Energy indicating which fields it plans open up to third-party participation for development; the secretariat has until September 2014 to consider the proposal and make a final determination. We believe PEMEX plans to keep all of the oil and gas developments that have undergone exploration and seismic studies, and areas in which PEMEX is not interested or that the Secretary of Energy and the National Hydrocarbons Commission (CHN, its Spanish acronym) have not designated to PEMEX for further development will be opened up to third party participation.

S&P Base-Case Operating Scenario

Although the company's day-to-day operations will change as a result of the reform, we expect the benefits of these to be felt in the medium term. Therefore, our key elements for our base case scenario are:

- In the short-term, production will continue to decline by 1%, as the impact of new participants in the market will be reflected in the next three to four years;
- Standard & Poor's price deck for oil and gas exports; and
- PEMEX will maintain most of the fields where it has operational and financial capabilities.

Peer comparison

We selected PEMEX's peers based on scale and government-related entity (GRE) status. We also selected British Petroleum because the ratings on it are similar to those on PEMEX. PEMEX's margins are higher as a result of our EBITDA adjustment given its postretirement benefit obligation that boosts EBITDA by $33.3 billion (see reconciliation table). Debt to EBITDA was 1.4x as of Dec. 31, 2013, which is better than PEMEX's regional and international peers.

Table 1

Petroleos Mexicanos -- Peer Comparison

Industry Sector: Integrated Oil & Gas

	Petroleos Mexicanos	Petroleo Brasileiro S.A. - Petrobras	Ecopetrol S.A.	Petroleos de Venezuela S.A.	BP PLC
Rating as of March 18, 2014	A/Stable/--	BBB-/Stable/--	BBB/Stable/--	B-/Negative/--	A/Positive/A-1
(Mil. $)	--Average of past three fiscal years--				
Revenues	120,430.6	132,483.1	12,185.0	114,714.0	377,732.0
EBITDA	84,919.9	46,114.8	4,968.6	41,998.8	37,876.8
Funds from operations (FFO)	12,313.1	35,958.6	5,309.0	30,858.3	26,823.3
Net income from cont. oper.	(6,422.6)	12,731.3	2,268.5	2,290.0	20,244.3
Cash flow from operations	11,850.0	35,397.8	3,033.4	14,958.7	26,084.3
Capital expenditures	15,584.9	36,821.6	2,462.2	18,599.3	21,814.3
Free operating cash flow	(3,734.9)	(1,423.8)	571.2	(3,640.7)	4,270.0
Discretionary cash flow	(3,734.9)	(4,337.1)	(1,947.2)	(5,954.3)	(931.0)
Cash and short-term investments	3,924.6	5,973.5	0.8	7,620.0	892.7
Debt	120,262.8	145,029.9	2,023.7	43,349.3	73,423.0
Equity	(16,305.3)	156,979.9	13,091.9	72,358.8	120,836.3
Adjusted ratios					
EBITDA margin (%)	70.5	34.8	40.8	36.6	10.0
Return on capital (%)	89.0	7.9	51.3	29.8	12.5
EBITDA interest coverage (x)	9.8	5.1	48.4	6.1	13.0
FFO cash int. cov. (X)	5.7	17.9	N.M.	N.M.	26.6
Debt/EBITDA (x)	1.4	3.1	0.4	1.0	1.9
FFO/debt (%)	10.2	24.8	262.3	71.2	36.5

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Table 1

Petroleos Mexicanos -- Peer Comparison (cont.)					
Cash flow from operations/debt (%)	9.9	24.4	149.9	34.5	35.5
Free operating cash flow/debt (%)	(3.1)	(1.0)	28.2	(8.4)	5.8
Discretionary cash flow/debt (%)	(3.1)	(3.0)	(96.2)	(13.7)	(1.3)

N.M. - Not Meaningful.

Financial Risk: Significant

Currently, PEMEX accounts for about 40% of country's public sector revenue through taxes and duties. Therefore, our view of PEMEX's stand-alone financial risk profile as "significant" reflects the company's weak after tax measures due to the substantial share of revenues taken by the government and PEMEX's significant, unfunded pension obligations. We continue to expect taxes to continue to be a significant burden on the company's finances.

As a result of company's large capex and insufficient cash flow generation to finance these investments, the company accesses the debt markets on a regular basis. PEMEX has a total annual investment plan of about $30 billion for the next five years. Pemex has estimated capex for $27.7 billion which will increase to $31 billion by 2018. Pemex's board authorized maximum debt to be raised by $14.7 billion in order to finance its future capex. We expect PEMEX to have negative free operating cash flow for the next two years, which it will offset by accessing local and international capital markets (as it has done in the past) and through its support from its government ownership.

PEMEX continued to post negative equity totaling $14.2 billion as of Dec. 31, 2013. Under Mexican law, PEMEX as a public, decentralized entity is permitted to operate with negative equity. Accordingly, the company's financing agreements do not include financial covenants or events of default that could be triggered as a result of negative equity. According to the energy reform, PEMEX should become a productive, state-owned company by 2015, and therefore, we expect that it will post positive equity by then.

S&P Base-Case Cash Flow And Capital Structure Scenario

- More than 80% of PEMEX's capex will be allocated to exploration and production activities;
- Total debt to EBITDA of 1.5x-2.0x;
- Fund from operations (FFO) to total debt of 9.5%-10%;
- Negative free operating cash flow for the next few years as a result of its aggressive capex plan.

Financial summary

Table 2

Petroleos Mexicanos -- Financial Summary					
Industry Sector: Integrated Oil & Gas					
	--Fiscal Year Ended Dec. 31				
	2013	**2012**	**2011**	**2010**	**2009**
Rating history	A/Stable/--	A-/Stable/--	A-/Stable/--	A/Stable/--	A/Stable/--

Table 2

Petroleos Mexicanos -- Financial Summary (cont.)					
(Mil. $)					
Revenues	122,810.4	126,813.9	111,667.7	103,954.9	83,481.4
EBITDA	95,248.5	97,987.7	61,523.5	60,031.4	45,795.5
Funds from operations (FFO)	22,628.4	21,435.4	(7,124.4)	284.9	(2,168.2)
Net income from continuing operations	(12,912.7)	200.2	(6,555.1)	(3,848.5)	(7,250.5)
Cash flow from operations	11,917.2	13,422.9	10,209.9	9,476.5	10,802.7
Capital expenditures	18,509.0	15,349.2	12,896.6	14,966.8	16,537.8
Free operating cash flow	(6,591.8)	(1,926.3)	(2,686.7)	(5,490.4)	(5,735.1)
Discretionary cash flow	(6,591.8)	(1,926.3)	(2,686.7)	(5,490.4)	(5,735.1)
Cash and short-term investments	3,083.1	4,590.6	4,100.2	5,323.2	4,908.9
Debt	133,448.3	128,890.6	98,449.4	96,240.7	96,439.0
Equity	(14,151.9)	(20,872.3)	(13,891.6)	(16,203.3)	(23,894.5)
Adjusted ratios					
EBITDA margin (%)	77.6	77.3	55.1	57.7	54.9
Return on capital (%)	77.5	105.9	85.3	72.5	61.2
EBITDA interest coverage (x)	11.2	11.5	6.8	5.1	4.3
FFO cash int. cov. (x)	10.3	8.4	0.4	2.0	1.4
Debt/EBITDA (x)	1.4	1.3	1.6	1.6	2.1
FFO/debt (%)	17.0	16.6	(7.2)	0.3	(2.2)
Cash flow from operations/debt (%)	8.9	10.4	10.4	9.8	11.2
Free operating cash flow/debt (%)	(4.9)	(1.5)	(2.7)	(5.7)	(5.9)
Discretionary cash flow/debt (%)	(4.9)	(1.5)	(2.7)	(5.7)	(5.9)

Liquidity: Adequate

PEMEX has "adequate" sources of liquidity to cover its needs over the next 12-18 months, in our view. We expect the company's sources to exceed uses by 1.2x, the minimum threshold for an "adequate" designation under our criteria. The company enjoys an ample track record of easy access to bank financing and domestic and international capital markets. It issued MXN$12.5 billion in the local market and $4.0 billion in the international markets during the first quarter of 2014. The company has no financial covenants on its debt.

Principal Liquidity Sources	Principal Liquidity Uses
• Strong cash balances of about $6.2 billion as of Dec. 31, 2013 • FFO of $15 billion • Working capital inflows of about $7.8 million; and • Available committed credit lines of about $3.0 billion in bilateral credits.	• Capex (excluding maintenance capex)of about $20 billion under our base case scenario; and • Debt amortizations of about $7.0 million.

Debt maturities

2014 $6.921 billion

2015 $4.993 billion

2016 $6.240 billion

2017 $5.106 billion

2018 onward $41.071 billion

Reconciliation

Table 3

Reconciliation Of Petroleos Mexicanos Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)										
Petroleos Mexicanos reported amounts	**--Fiscal year ended Dec. 31, 2013--**									
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	64,241.2	(14,190.3)	122,810.4	61,976.8	50,663.6	3,023.0	61,976.8	14,909.0	--	18,509.0
Standard & Poor's adjustments	--	--	--	--	--	--	--	--	--	--
Interest expense (reported)	--	--	--	--	--	--	(3,023.0)	--	--	--
Interest income (reported)	--	--	--	--	--	--	667.2	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	(66,049.4)	--	--	--
Postretirement benefit obligations/deferred compensation	68,879.6	0.0	--	33,271.7	33,271.7	5,396.9	29,157.0	(2,991.9)	--	--
Surplus cash	(3,083.1)	--	--	--	--	--	--	--	--	--
Asset retirement obligations	3,410.6	--	--	--	--	--	--	--	--	--
Non-operating income (expense)	--	--	--	--	5,706.2	--	--	--	--	--
Non-controlling Interest/Minority interest	--	38.5	--	--	--	--	--	--	--	--
Interest expense - Other	--	--	--	--	--	100.1	(100.1)	--	--	--
Total adjustments	69,207.1	38.5	0.0	33,271.7	38,977.9	5,497.0	(39,348.4)	(2,991.9)	0.0	0.0
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	133,448.3	(14,151.9)	122,810.4	95,248.5	89,641.5	8,520.0	22,628.4	11,917.2	0.0	18,509.0

Ratings Score Snapshot

Corporate Credit Rating:

Foreign currency: BBB+/Stable/--

Local currency: A/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral "no impact")
- Capital structure: Neutral ("no impact")
- Liquidity: Adequate ["no impact")
- Financial policy: Neutral ("no impact")
- Management and governance: Strong ["no impact")
- Comparable rating analysis: Neutral ("no impact")

Stand-alone credit profile: bbb-

Sovereign rating:

Foreign currency rating: A/Stable/A-1

Local currency rating: BBB+/Stable/A-2

Likelihood of government support: Almost certain

Related Criteria And Research

Related Criteria

- Corporate Methodology, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 09, 2010

Related Research

- Petroleos Mexicanos And Subsidiaries Upgraded To Foreign Currency 'BBB+' And Local Currency 'A' On Sovereign Upgrade, Dec. 20, 2013

Ratings Detail (As Of March 25, 2014)		
Petroleos Mexicanos		
Corporate Credit Rating		
Foreign Currency		BBB+/Stable/--
Local Currency		A/Stable/--
CaVal (Mexico) National Scale		mxAAA/Stable/mxA-1+
Senior Unsecured		
CaVal (Mexico) National Scale		mxAAA
Senior Unsecured		A
Senior Unsecured		BBB+
Corporate Credit Ratings History		
20-Dec-2013	*Foreign Currency*	BBB+/Stable/--
12-Mar-2013		BBB/Positive/--
14-Dec-2009		BBB/Stable/--
11-May-2009		BBB+/Negative/--
20-Dec-2013	*Local Currency*	A/Stable/--
12-Mar-2013		A-/Positive/--
28-Jul-2011		A-/Stable/--
14-Dec-2009		A/Stable/--
06-Jul-2009		A-/Watch Pos/--
11-May-2009		A-/Negative/--
05-Aug-2004	*CaVal (Mexico) National Scale*	mxAAA/Stable/mxA-1+
14-Oct-2003		mxAAA/Stable/--
Related Entities		
Banco Nacional de Comercio Exterior S.N.C.		
Issuer Credit Rating		
Foreign Currency		BBB+/Stable/A-2
Local Currency		A/Stable/A-1
CaVal (Mexico) National Scale		mxAAA/Stable/mxA-1+
Banco Nacional de Obras y Servicios Publicos S.N.C.		
Issuer Credit Rating		
Foreign Currency		BBB+/Stable/A-2
CaVal (Mexico) National Scale		mxAAA/Stable/mxA-1+
Senior Secured		
CaVal (Mexico) National Scale		mxAAA
Comision Federal De Electricidad		
Issuer Credit Rating		
Foreign Currency		BBB+/Stable/--
Local Currency		A/Stable/--
CaVal (Mexico) National Scale		mxAAA/Stable/--
Senior Unsecured		BBB+

Ratings Detail (As Of March 25, 2014) (cont.)	
Instituto Para La Proteccion al Ahorro Bancario	
Issuer Credit Rating	
Foreign Currency	BBB+/Stable/A-2
Local Currency	A/Stable/A-1
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
Senior Unsecured *CaVal (Mexico) National Scale*	mxAAA
Senior Unsecured	A
Kot Insurance Co. A.G.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Mexico	
Issuer Credit Rating	
Foreign Currency	BBB+/Stable/A-2
Local Currency	A/Stable/A-1
CaVal (Mexico) National Scale	mxAAA/Stable/--
Transfer & Convertibility Assessment	A+
Senior Secured *CaVal (Mexico) National Scale*	mxAAA
Senior Unsecured *CaVal (Mexico) National Scale*	mxAAA
Senior Unsecured	A
Senior Unsecured	BBB+
MGI SUPPLY LTD	
Issuer Credit Rating	
Foreign Currency	BBB+/Stable/--
Local Currency	A/Stable/--
Nacional Financiera S.N.C. (NAFIN)	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
PMI Norteamerica S.A. de C.V.	
Issuer Credit Rating	
Foreign Currency	BBB+/Stable/--
Local Currency	A/Stable/--
P.M.I. Trading Ltd.	
Issuer Credit Rating	
Foreign Currency	BBB+/Stable/--
Local Currency	A/Stable/--
Seguros de Credito a la Vivienda SHF S.A. de C.V.	
Financial Strength Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/--
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/--

Ratings Detail (As Of March 25, 2014) (cont.)	
Sociedad Hipotecaria Federal S.N.C.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
Senior Unsecured	
CaVal (Mexico) National Scale	mxAAA

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.