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Research Update:

Petroleos Mexicanos And Subsidiaries Upgraded To Foreign Currency 'BBB+' And Local Currency 'A' On Sovereign Upgrade

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Overview

- On Dec. 19, 2013, we raised our local currency ratings on Mexico to 'A' from 'A-' and our foreign currency ratings to 'BBB+' from 'BBB'.
- We are taking a similar action on Mexico-based oil company PEMEX and on its rated subsidiaries.
- The outlook on Pemex and its rated subsidiaries is stable mirroring that on the sovereign.

Rating Action

On Dec. 20, 2013, Standard & Poor's Ratings Services raised its ratings on Petroleos Mexicanos (PEMEX) to foreign currency (FC) 'BBB+' from 'BBB', and to local currency (LC) 'A' from 'A-'. We also raised the ratings on PEMEX's subsidiaries, P.M.I. Trading Ltd., PMI Norteamerica S.A. de C.V., and MGI SUPPLY LTD, mirroring the ratings on PEMEX. At the same time, we affirmed our 'mxAAA/mxA-1+' national scale ratings on PEMEX and raised the counterparty and financial strength ratings on Kot Insurance Co. A.G. to 'A' from 'A-'. The outlook is now stable.

Rationale

The rating actions follow the recent one notch upgrade on Mexico to foreign currency 'BBB+' and local currency 'A'. In accordance with our criteria for government-related entities, we still believe that there is an "almost certain" likelihood that the government of Mexico would provide timely and extraordinary support to PEMEX in case of financial distress, and therefore we equalize the ratings on PEMEX with those on the sovereign.

The ratings on PMI Trading, PMI NASA and MGI SUPPLY mirror those on PEMEX, given that we view them as its core subsidiaries and that, in our view, they would benefit indirectly from the Mexican government's potential extraordinary support to PEMEX. We view KOT Insurance Co. A.G. as PEMEX's core subsidiary.

On Dec. 19, 2013, we raised our long-term local currency rating on Mexico to 'A' from 'A-' and our long-term foreign currency rating to 'BBB+' from 'BBB'. The passage of a landmark energy reform, supported by some changes in the fiscal framework, bolsters Mexico's growth prospects and fiscal flexibility in the medium term. In our view, the approved changes to the constitution,

including the so-called "transitory" articles that provide more detail on the opening of the sector, have the potential to attract significant investment across the entire energy sector.

On a stand-alone basis, we believe that this reform would help Pemex to increase production in the medium-term by partnering with private parties. Still, we do not expect an immediate impact in our SACP assessment. Additionally, we do not expect this reform to change our current assessment of PEMEX's role and link with the Mexican government, and therefore our ratings on PEMEX will continue to mirror those on the sovereign.

Outlook

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

Ratings Score Snapshot

Corporate Credit Rating: FC: BBB+/Stable/-- LC: A/Stable/--

Stand-alone credit profile: bbb-

- Group credit profile: BBB+
 - Entity status within group: Ultimate parent
 - Sovereign rating: FC: BBB+/Stable/A-2; LC: A/Stable/A-1
- Likelihood of government support: Almost certain

Related Criteria And Research

Related Criteria

- Corporate Methodology, Nov. 19, 2013
- Group Rating 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

- Mexico Long-Term Foreign Currency Rating Raised To 'BBB+', Local Currency Rating Raised To 'A'; Outlook is Stable, Dec. 19, 2013

Ratings List

Upgraded/Outlook Action

Petroleos Mexicanos		
PMI Norteamerica S.A. de C.V.		
MGI SUPPLY LTD		
P.M.I. Trading Ltd.		
Corporate Credit Rating		
Foreign Currency	BBB+/Stable/--	BBB/Positive/--
Local Currency	A/Stable/--	A-/Positive/--
Kot Insurance Co. A.G.		
Counterparty Credit Rating		
Local Currency	A/Stable/--	A-/Positive/--
Financial Strength Rating		
Local Currency	A/Stable/--	A-/Positive/--
Petroleos Mexicanos		
Senior Unsecured	A	A-
Senior Unsecured	BBB+	BBB

Ratings Affirmed

Petroleos Mexicanos		
Corporate Credit Rating		
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+	
Senior Unsecured	mxAAA	

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