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Ratings

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Societe Anonyme de Gestion de Stocks de Securite

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Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths:	Weaknesses:
• The holding of 74% of the French strategic oil reserves • Agreement with the Comité Professionnel des Stocks Stratégiques Pétroliers (CPSSP; not rated) that guarantees full cost coverage and limits operational risks • Close state supervision over the group's activities	• Uncertainties surrounding long-term debt financing

Outlook

The stable outlook on Société Anonyme de Gestion de Stocks de Sécurité (SAGESS) mirrors that on France. S&P Global Ratings expects that the agency will retain its critical role for and integral link with France, and we therefore expect the ratings on SAGESS to move in line with those on the sovereign.

Downside scenario

We could lower the ratings on SAGESS if we revised down our assessment of the likelihood of support from almost certain. We consider this as very unlikely, however. It could occur if we observe a weakening in the French government's commitment to international rules regarding oil stock management, or if there were changes in the regulatory framework, such as the one guaranteeing full cost coverage.

Upside scenario

We could raise the ratings if we raised those on France and the likelihood of support for SAGESS remained almost certain.

Rationale

We equalize our ratings on SAGESS with those on France (unsolicited; AA/Stable/A-1+). In our view, there is an almost-certain likelihood that the French government would provide timely and sufficient extraordinary support to SAGESS in the event of financial distress. Furthermore, we believe the French government's limited level of contingent liabilities does not constrain its capacity and willingness to support SAGESS in a timely manner if needed. We do not

consider the government's general propensity to support its government-related entity (GRE) sector doubtful.

We factor into our assessment of SAGESS our view of the agency's:

- Critical role for France--which has a high dependence on imported oil--in supporting the country's energy security and fulfilling its legal obligation to stockpile strategic oil reserves, according to International Energy Agency and EU requirements. In our opinion, SAGESS' strategic mission of maintaining national energy security and independence ensures it receives strong state support; and
- Integral link with France. The agency is integrated into the government's energy and defense policy and, through its agreement with the CPSSP, subject to state supervision and control. It benefits from a special legal status, including specific tax privileges, full cost coverage, and legal restrictions over its shareholding. Furthermore, SAGESS' debt is consolidated into the central government's debt.

Ongoing legal developments significantly affect the ways SAGESS may fund itself. In August 2016, the state included the agency on a list of GREs whose debt was consolidated with the central government's debt and were prohibited from issuing long-term debt as of August 2017. SAGESS contested the government's decision, but Paris' administrative court rejected its claims in January 2019. The agency successfully appealed the decision in June 2020, and two out of the three decrees that placed it on the list of GREs were cancelled. The government might still appeal to to the Supreme Court in the coming months. Should the Supreme Court confirm the state's decision regarding long-term debt issuance, we understand SAGESS could start progressively disposing of its oil reserves to pay down its debt, and would progressively enter a runoff mode. However, in view of the June 2020 appeal outcome, we believe it is now more likely that the agency will be removed from the list or benefit from an exemption by law to take on additional long-term debt. In this case, SAGESS would likely issue long-term debt to meet its debt repayment schedule and oil stock purchases. This would likely allow the agency to better match assets and liabilities durations, because it needs to carry large inventory at all times.

SAGESS' role remains intertwined with that of CPSSP. SAGESS' role is to stockpile oil and carry out related operating, administrative, and financial tasks on behalf of CPSSP, under an agreement with CPSSP that the French government approved. In accordance with the EU's 2009 directive, oil operators in the EU countries must ensure a supply of strategic oil reserves equivalent to 29.5% of inland oil consumption in the previous year. Oil operators in France can delegate this obligation to CPSSP, which in turn uses the agency to manage it.

We understand that SAGESS will certainly lose its Central Stockholding Entity status, recognized by a 2012 state decree under the 2009 EU directive on oil stockpiling obligations. This is because this status requires nonprofit orientation. In our view, this change is motivated by an initial misapplication of this status, and does not modify our view of the agency's role. It will continue to be the sole French central stockholding entity.

Since 2000, oil consumption in France has generally decline, due to improved energy efficiency and the rising use of alternative energy sources. However, oil operators have increasingly delegated to SAGESS the management of their strategic oil stocks over the past 10 years. As a result, the level of stock that the agency managed has tripled over the past 20 years--SAGESS accounted for about 76% of France's total strategic oil stocks as of end-July 2020, compared with 23% in 1995. After peaking in 2014, the oil stocks managed by the agency started to decrease in 2015. Based on continued reduction in oil consumption, we expect SAGESS will be in a position to sell part of its oil stocks in the near

future.

Reflecting its mission, the agency's net income has been marginally positive for the past decade, with some peaks in 2015 and 2017 (when it sold oil stocks); and in 2018, when SAGESS sold an oil repository and a pipeline, recording a large €77 million profit, and paid a €20 million dividend to its shareholders. Net income reached €11.8 million in 2019 thanks to gains realized on sold oil stocks, and we expect 2020 net income to be lower due given low oil prices. We expect that SAGESS may use proceeds from oil reserves sales to partly redeem its debt, rather than transferring large dividends to shareholders. Therefore, we expect the agency's funding needs will mostly stem from debt refinancing.

Ongoing government support of SAGESS remains very strong, in our view. CPSSP charges fees to oil operators for SAGESS' services, which are the agency's sole recurrent revenue source. SAGESS' legal framework ensures full cost recovery, because CPSSP reimburses all SAGESS charges--operating, financing, and exceptional--as stated by decree.

This was tested in 2012-2013, when SAGESS had to settle a one-time tax on oil stocks, although it is exempt from corporate income tax, according to French law. The agency funded the tax from an increase in fees paid by oil operators to CPSSP. Moreover, CPSSP will compensate SAGESS for any losses related to the sale of oil stocks in the event of a persistent drop in oil prices. More generally, we believe CPSSP could impose fee increases to mitigate any risks to SAGESS arising from interest rates or significant drops in oil prices, if needed.

Liquidity

Most of SAGESS' cash outflows (which are chiefly oil stock storage costs, debt service, and oil stock purchases) and inflows (monthly repayments from CPSSP, proceeds from commercial paper [CP], and oil stock sales) are highly predictable.

SAGESS being prohibited from issuing long-term debt since 2016, it relies on its €1.4 billion CP program for day-to-day funding, including the repayment in October 2019 of its €700 million bond. We understand that, under its financial policies, SAGESS has committed to 100% coverage of its CP outstanding at any time through its committed €900 million multiyear syndicated revolving credit facility (fully available until June 2021) and its €100 million liquidity line (fully available until November 2020 and for which SAGESS is negotiating a further extension). The next bond maturities are €500 million in 2022. However, if as expected, the agency is removed from the GREs list that cannot issue long-term debt, we would expect CP issuances to be lower, because we understand SAGESS would likely take on long-term debt to cover parts of its funding needs, as it has done over the past decade.

If a period of severe financial market disruption created refinancing risks for SAGESS on either its bonds outstanding or CPs, we also understand that the state and CPSSP could authorize SAGESS to sell up to 10% of its stocks, if it needed the liquidity. This 10% was worth about €430 million at market prices as of July 31, 2020. We would expect authorization to occur within a day, because adequate mechanisms and procedures are already in place, although these have never been tested.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Sovereign Risk Indicators, July 14, 2020
- France 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 3, 2020

Ratings Detail (As Of September 22, 2020)*	
Societe Anonyme de Gestion de Stocks de Securite	
Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Senior Unsecured	AA
Issuer Credit Ratings History	
25-Oct-2016	AA/Stable/A-1+
14-Oct-2014	AA/Negative/A-1+
12-Nov-2013	AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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