



Fitch Affirms nogaholding at 'BB-'; Outlook Stable

Fitch Ratings - Paris - 07 October 2019:

Fitch Ratings has affirmed The Oil and Gas Holding Company B.S.C.(c)'s (nogaholding) Long-Term Foreign-Currency Issuer Default Ratings (IDR) at 'BB-' with a Stable Outlook. The ratings on nogaholding's USD3 billion GMTN programme and nogaholding's senior unsecured bonds have also been affirmed at 'BB-'. A full list of rating actions is below.

Fitch classifies nogaholding as a government-related entity (GRE) of Bahrain under its GRE rating criteria and believes that extraordinary support from Bahrain (BB-/Stable/B) would be forthcoming, in case of need. We deem the strength of linkage with Bahrain and the incentive for the latter to provide extraordinary support to nogaholding, in case of need, as warranting a high score of 60. This leads to an equalisation of nogaholding's IDRs with Bahrain's.

nogaholding is Bahrain's sovereign wealth fund acting as Bahrain's steward, owner and manager of all government investments in the oil, gas and petrochemical sector. It fuels Bahrain's economy by meeting Bahrain's energy and hydrocarbon needs and by providing necessary funds from oil and gas revenue to sustain the development of other sectors of the economy.

Key Rating Drivers

Status, Ownership and Control Assessed as Very Strong

nogaholding is a limited liability company, 100%-owned by the Bahrain state through National Oil & Gas Authority (NOGA) and is the government's investment arm in the oil and gas sector. The government directly controls all nogaholding's important operational and financial transactions through its majority representation on nogaholding's board of directors, most of whom are government officials. Bahrain's Minister of Oil and Chairman of NOGA, HE Shaikh Mohamed bin Khalifa bin Ahmed Al Khalifa is currently Chairman of nogaholding's board of directors. Additionally, nogaholding is accountable to parliament through the Ministry of Finance and is subject to official government audits through the National Audit Court of Bahrain. In Fitch's view, given the full ownership and control by the government, it is very likely that nogaholding's liabilities would ultimately be transferred to Bahrain in case of liquidation.

Support Track Record and Expectations Assessed as Very Strong

Since its inception, nogaholding has received consistent support from the government to maintain a sufficiently strong financial profile. The government provides support in the form of land, a discounted oil price over the long term and other assets for nogaholding's subsidiaries' investments and projects. All of nogaholding's assets have been contributed in kind by the government. Notably, in 2016, nogaholding received USD1.3 billion in capital contributions from the government through the addition of Tatweer Petroleum's assets.

Moreover, the government will support the Bahrain Petroleum Company's (Bapco, the Middle East's longest standing refinery) modernisation programme (BMP), supplying Bapco with 38,700 b/d of crude oil at a significant discount to market prices (USD1 per barrel, plus USD11 per barrel of production costs, indexed at 2.5% per year) during the construction period of Bapco's enhanced refining facilities. This support in kind is formalised through the COSA agreement -Crude Oil Supply Agreement-between Bapco, nogaholding and

the Kingdom of Bahrain which was renewed in 2018 for with a validity period of 25 years and whereby nogaholding was stated as the direct beneficiary of the subsidized oil supply. The associated cash gain from this arrangement represents the majority of equity funding for the BMP.

Socio-Political Impact of default Assessed as Very Strong

A default by nogaholding would materially endanger sovereign power for a significant period, with likely grave political or economic repercussions for the government, given the strategic importance of its assets for Bahrain's oil and gas sector. The whole oil and gas sector accounts for 17.6% of Bahrain's GDP and around 82.4% of Bahrain government revenue. nogaholding's public policy role consists of managing the sovereign's longer-term investments in the oil and gas sector. nogaholding aligns its strategy with NOGA's aim of fulfilling the Kingdom's growing demand for energy. nogaholding acts as a sovereign wealth fund and holds a stake in more than 10 oil and gas companies in Bahrain, including Bapco - which makes the vast majority of nogaholding's consolidated revenue - Bahrain National Gas Company, Bahrain National Gas Expansion Company, Bahrain Aviation Fuelling Company, Bahrain Lube Base Oil Company, Bahrain Gasoline Blending and Tatweer Petroleum.

Financial Implications of Default assessed As Very Strong

Fitch views nogaholding as a proxy funding vehicle for Bahrain and believes a default of nogaholding could materially impair investor confidence in the sovereign's creditworthiness. This in turn could lead to a significant increase in the cost of funding or external debt markets being temporarily cut off for the sovereign. nogaholding is one of the key market players in the country, notably through its USD3 billion GMTN programme. nogaholding's issued debt (USD2 billion outstanding) accounts for around 6% of Bahrain's government outstanding debt.

This assessment under the GRE criteria gives a final score of 60 points and leads to nogaholding's rating being equalised with the sovereign's IDRs, irrespective of the entity's standalone credit assessment.

Operations

As a result of an increase in oil prices, nogaholding's revenue rose to BHD2.9 billion in 2018 from BHD2.3 billion in 2017, while its net profit declined to BHD104.5 million (2017: BHD236.6 million), with a return on equity close to 5%. Long-term debt increased to BHD1.12 billion in 2018 (net debt/EBITDA: 1.1x) from BHD609 million in 2017 (net debt/EBITDA: 0.4x). Fitch expects consolidated debt will significantly increase in the medium term to finance a number of sizeable investments and projects in the sector.

In line with Bahrain's plan to further develop the downstream oil and gas sector, nogaholding plans to invest over USD8 billion in the medium term including the BMP, the LNG Import Terminal and the Bahrain Gas Plant Project (part of Bahrain National Gas Expansion Company). nogaholding's liquidity position is sound, with cash equivalents of BHD809.5 million in 2018 and a committed USD570 million bank facility to be repaid in 2021. Fitch also expects the new development projects, resulting in a significant improvement in capacity will steadily support nogaholding's revenue, including dividends, despite the volatility and cyclical nature of the refining industry.

RATING SENSITIVITIES

nogaholding's ratings are credit-linked to those of the sovereign. A downgrade could result from a reassessment of significantly reduced strength of linkage or incentive-to-support factors.

Positive rating action on the sovereign would result in similar rating action on the issuer.

Changes to nogaholding's Long-Term IDR would also be reflected in its senior unsecured bonds ratings.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
The Oil and Gas Holding Company	LT IDR BB- ● Affirmed	BB- ●
	ST IDR B Affirmed	B
	LC LT IDR BB- ● Affirmed	BB- ●
senior unsecured	LT BB- Affirmed	BB-

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Applicable Criteria

Government-Related Entities Rating Criteria (pub. 25 Oct 2018)
Rating Criteria for International Local and Regional Governments (pub. 13 Sep 2019)

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