EuroRating affirmed 'BBB+' credit rating with a stable outlook assigned to the company Orlen S.A.

Public / Private rating	**public**
Continued / One off rating	**continued (monitored rating)**
Category	**rating for the issuer**
Name of the rated entity	**Orlen S.A.**
Type of the rated entity	**corporation**
Type of the credit rating	**long-term, international scale**
Date of rating affirmation	**11 April 2024**
Rating level	**BBB+**
Rating outlook	**stable**

Warsaw, 11 April 2024 – EuroRating credit rating agency has revised the credit rating for the company Orlen S.A. The rating has been affirmed at 'BBB+' with a stable outlook.

KEY RATING DRIVERS

Dominant market position: The company operates as a vertically integrated multi-energy conglomerate. Following the acquisitions of the Lotos Group and PGNiG, Orlen holds a quasi-monopolistic position in the Polish market for liquid fuels and gas, while also expanding into the electricity and hydrogen markets. The company operates production facilities and a sales network not only in Poland, but also in the Czech Republic, Germany and Lithuania.

Low debt: In recent years, the share of equity in the balance sheet total has oscillated around 45-55%. Orlen also maintained relatively low interest-bearing debt, characterized by a favorable maturity structure (most of the debt is long-term). Due to simultaneously maintaining high cash levels, net debt sometimes even became negative. Over the past few years, the net debt to EBITDA ratio has consistently remained relatively low or even very low (at the end of 2023 the ratio was close to zero).

Satisfactory liquidity: The current liquidity ratio is consistently maintained at satisfactory levels. However, the quick liquidity ratio is occasionally slightly low. For the past three years, the cash to short-term debt ratio has remained at a relatively high level.

Stable and relatively high margins: For approximately 10 years, Orlen has consistently achieved relatively high and stable gross margins on sales. The EBITDA and operating margins are also described as good and stable. The normalized net margin is consistently positive and at times quite high.

High positive cash flows: Orlen Group consistently generates positive cash flows from operating activities and their value has been growing dynamically in recent years. In 2023, they reached a record level in the history of the Group of PLN 44 billion. In the past few years, normalized free cash flows have also been consistently positive and sometimes high (PLN 7.9 billion in 2023), allowing the company to pay dividends to shareholders.

Huge scale of operations and strategic role in the economy: After acquiring the competing Lotos Group and the gas monopolist PGNiG, Orlen became the largest company in Poland, with revenues exceeding PLN 372 billion in 2023. As the Group supplies the vast majority of key fuels, its role in the economy is considered strategic.

Planned development towards renewable energy: Taking into account the declining nature of the liquid fuel market in the longer term, Orlen has been consistently investing in the energy sector, including renewable sources. The Group is currently starting the construction of a large offshore wind farm in the Baltic Sea and investing in research and development for green hydrogen production, expected to become the dominant energy carrier in the long term.

High investment expenditures: Planned development, particularly in renewable energy sources, involves high investment expenditures. In 2024 Orlen Group plans to invest a record amount of PLN 38 billion, with almost PLN 28 billion allocated for development investments.

Good reputation on the capital market: Orlen's shares have been listed on the Warsaw Stock Exchange since 1999 and it is one of the main components of the WIG20 index. Orlen's long history, strong position and good reputation make it easier for the company to raise capital if needed for strategic investments and development projects.

High probability of support from the main shareholder: The State Treasury, holding nearly 50% of shares, is the largest shareholder of Orlen. EuroRating believes, that due to the company's key role in the economy, it could count on support from the main shareholder in a crisis situation.

Susceptibility to political influence: As a state-controlled company, Orlen is susceptible to political influence, which may result in frequent and unjustified personnel changes at the level of the supervisory board and the management board, as well as decisions not conditioned by economic calculation and the long-term interests of the company.

STABLE RATING OUTLOOK

The stable rating outlook means that, according to the current EuroRating’s estimates, the rating assigned to the company should most likely remain unchanged in the horizon of the next 12 months.

MAIN FACTORS THAT COULD LEAD TO A RATING CHANGE

The most significant potential factors that could (individually or collectively) lead to a positive rating action (change of the rating outlook to positive and/or rating upgrade), EuroRating includes: maintaining the net debt to EBITDA and net debt to equity ratios at very low levels in the medium term; continued achievement of high margins and strong positive cash flows from operating activities as well as high free cash flows, while maintaining moderate dividend payouts to shareholders; an increase in the equity to the balance sheet total ratio within the Group's capital structure; and a sustained improvement in liquidity position.

The most significant potential factors that could (individually or collectively) lead to a downgrade of current credit rating (and/or to a change of the rating outlook to negative): potential further escalation of the geopolitical situation related to the Russia-Ukraine war; potential supply issues for refineries owned by the Group regarding crude oil; potential significant deterioration in financial results and decrease in generated cash flows; potential significant increase in net financial debt and its ratios to EBITDA and equity; significant decline in the equity share in the balance sheet total; excessive investment expenditures – particularly in assets unrelated to the core fuel and energy business; and excessively high dividend payouts to shareholders.

BEST/WORST RATING SCENARIO

The full range of best- and worst-case scenarios for all rating categories spans from 'AAA' to 'D'. Historical long-term statistics on rating migrations (changes between individual rating classes) for entities rated by EuroRating are published in the report on rating statistics, available at:
https://www.eurorating.com/en/ratings/statistics (annexes No. 6-9).

REGULATORY DISCLOSURES

Information on the EuroRating credit rating agency

EuroRating is a fully independent international credit rating agency operating since 2007, specializing in assessing the credit risk of enterprises and financial institutions. EuroRating Sp. z o.o. is formally registered by the European Securities and Markets Authority (ESMA) as a credit rating agency authorized to issue public credit ratings throughout the European Union (in accordance with the Regulation of the European Parliament and of the Council No. 1060/2009 on credit rating agencies) and is under direct supervision of ESMA.

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Methodology

The presented credit rating for the company Orlen S.A. is an issuer credit rating – it is a general assessment of the creditworthiness of the assessed entity and concerns the credit risk of its senior, unsecured and unsubordinated financial obligations.

The presented credit rating has been assigned in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council on credit rating agencies.

The methodology used in this rating was "Credit rating methodology for non-financial corporations" published in June 2023 and available at: https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology

The rating scale of the EuroRating credit rating agency as well as detailed rating definitions are published at: https://www.eurorating.com/en/ratings/rating-scale

Historical default statistics for entities assessed by EuroRating are published in the report on rating statistics, available at: https://www.eurorating.com/en/ratings/statistics

EuroRating’s definition of default as well as definitions of rating notations can be found in the agency’s website at: https://www.eurorating.com/en/ratings/methodology/definition-of-default

Credit ratings assigned by the EuroRating credit rating agency are not solely estimates of the probability of default of a rated entity, but represent a total estimated assessment of a risk of loss (i.e. the ultimate loss of part or all of the receivables along with any interest) by the creditors of the rated entity in the event of its default. Ratings assigned by EuroRating therefore express a combination of the estimated probability of default of the rated entity and the estimated level of loss of receivables by its creditors in the event of an actual default (Loss Given Default).

Public status of the credit rating / terms of use

The presented credit rating for the company Orlen S.A. is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published on the EuroRating’s website in the section "Credit ratings", in the relevant tab on the rated entity/security.

The terms of use for credit ratings issued by EuroRating are published on the agency's website at: https://www.eurorating.com/en/ratings/about-credit-ratings/terms-of-use

Solicitation status

The rating assigned to the company Orlen S.A. was not solicited by the rated entity or any related third parties. The rated entity did not participate in the rating process, the agency had no access to internal documents or the management of the rated entity, and the analytical process was based on publicly available information. The main sources of information used in the rating process were: interim financial statements, presentations and reports of the rated entity, as well as publications in the media about the economy, the industries in which the company operates and about the rated entity itself. The information on the assigned credit rating was presented to the rated entity in advance. The rating was issued without any changes resulting from this disclosure.

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