Rating Action: Moody’s reviews four European energy companies and related entities for downgrade

Global Credit Research - 22 Jan 2016

London, 22 January 2016 -- Moody’s Investors Service (Moody’s) placed on review for downgrade the ratings of EBN B.V., Royal Dutch Shell Plc, Total S.A., Statoil ASA and their respective subsidiaries. Also on review for downgrade are Motiva Enterprises LLC and Deer Park Refining LP, two US-based refining joint ventures closely linked to Royal Dutch Shell. The list of the companies and rating actions appears below.

RATINGS RATIONALE

Oil prices have deteriorated substantially in the past few weeks and have reached nominal price lows not seen in more than a decade. Moody’s has adjusted its view downward for the likely range of prices. We see a substantial risk that prices may recover much more slowly over the medium term than many companies expect, as well as a risk that prices might fall further. Even under a scenario with a modest recovery from current prices, producing companies will experience much lower cash flows. Today’s review for downgrade considers that much weaker industry fundamentals have potential to warrant rating changes for all companies covered in this press release.

As part of its ongoing assessment of energy markets, Moody’s sharply reduced its oil price assumptions on January 21 in light of continuing oversupply in the global oil markets and demand growth that remains tepid. Iran is poised to soon add 500,000 to 1,000,000 barrels per day to global supply. OPEC and many non-OPEC oil producers continue to produce without restraint as they battle for market share, and the addition of Iranian oil to the market this year will offset or exceed expected declines in US production of about 500,000 barrels per day. Increased production vastly exceeds growth in oil consumption, given modest growth in consumption from major consumers such as China, India and the US. Production now exceeds demand by about 2 million barrels per day, adding to already high global oil stocks.

Lower oil and gas prices will further weaken cash flows for exploration and production companies, like EBN, and the upstream portion of integrated companies. This will cause further deterioration in financial ratios, including deeper negative free cash flow. Most companies are unable to internally fund capital spending at current market prices. Current industry conditions also reduce the value of assets offered for sale and have made accessing capital markets more expensive. While integrated oil and gas companies benefit from the profitability of their downstream operations, the upstream operations represent a much larger part of the capital employed and cash flow for most of these companies.

This ratings review will focus on cost structure and returns, as well as management’s strategy for coping with a prolonged downturn. The review will assess cash flow and credit metrics under our latest price assumptions, liquidity profile, debt maturity profile and financing needs, capital spending requirements, and relative rating positioning. For the refining joint ventures, which are 50% indirectly owned by Royal Dutch Shell but operate as standalone entities, the review is less driven by commodity price risk impacts, and instead will focus on their strategic importance and the degree of uplift derived from shareholder support, and whether the notching of their ratings needs to be adjusted in the event Royal Dutch Shell is downgraded.

Moody’s expects to conclude a majority of the reviews by the end of the first quarter.

List of affected ratings:

On Review for Downgrade:

..Issuer: EBN B.V.

.... Issuer Rating, Placed on Review for Downgrade, currently Aaa

....Senior Unsecured Medium-Term Note Program, Placed on Review for Downgrade, currently (P)Aaa

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Aaa
Issuer: Statoil ASA
....BACKED Senior Unsecured Medium-Term Note Program, Placed on Review for Downgrade, currently (P)Aa2
....BACKED Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Aa2
....Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Aa2
....BACKED Senior Unsecured Shelf, Placed on Review for Downgrade, currently (P)Aa2
Issuer: Total Capital
....BACKED Senior Unsecured Medium-Term Note Program, Placed on Review for Downgrade, currently (P)Aa1
....BACKED Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Aa1
....BACKED Senior Unsecured Shelf, Placed on Review for Downgrade, currently (P)Aa1
Issuer: Total Capital Canada Ltd.
....BACKED Senior Unsecured Medium-Term Note Program, Placed on Review for Downgrade, currently (P)Aa1
....BACKED Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Aa1
Issuer: Total Capital International
....BACKED Senior Unsecured Medium-Term Note Program, Placed on Review for Downgrade, currently (P)Aa1
....BACKED Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Aa1
Issuer: TOTAL S.A.
....Junior Subordinated Regular Bond/Debenture, Placed on Review for Downgrade, currently Aa3
....Senior Unsecured Conv./Exch. Bond/Debenture, Placed on Review for Downgrade, currently Aa1
....Senior Unsecured Medium-Term Note Program, Placed on Review for Downgrade, currently (P)Aa1
....Senior Unsecured Shelf, Placed on Review for Downgrade, currently (P)Aa1
.BACKED Senior Unsecured Revenue Bonds supported by Total S.A., Placed on Review for Downgrade, currently Aa1
Issuer: Royal Dutch Shell Plc
....Issuer Rating, Placed on Review for Downgrade, currently Aa1
....Senior Unsecured Medium-Term Note Program, Placed on Review for Downgrade, currently (P)Aa1
Issuer: Shell Energy North America (US), L.P.
....Issuer Rating, Placed on Review for Downgrade, currently A2
Issuer: Shell Finance (Netherlands) B.V.
....Issuer Rating, Placed on Review for Downgrade, currently Aa1
Issuer: Shell International Finance B.V.
....BACKED Senior Unsecured Medium-Term Note Program, Placed on Review for Downgrade, currently (P)Aa1
....BACKED Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Aa1
Issuer: Shell Oil Company
....Issuer Rating, Placed on Review for Downgrade, currently Aa2
BACKED Revenue Bonds supported by Shell Oil Company, Placed on Review for Downgrade, currently Aa2

BACKED Senior Unsecured Revenue Bonds supported by Shell Oil Company, Placed on Review for Downgrade, currently Aa2

Issuer: Deer Park Refining Limited Partnership

BACKED Senior Unsecured Commercial Paper, Placed on Review for Downgrade, currently P-1

BACKED Senior Unsecured Revenue Bonds supported by Deer Park Refining Limited Partnership, Placed on Review for Downgrade, currently A2

BACKED Senior Unsecured Revenue Bonds supported by Deer Park Refining Limited Partnership, Placed on Review for Downgrade, currently P-1

Issuer: Motiva Enterprises LLC

Senior Unsecured Commercial Paper, Placed on Review for Downgrade, currently P-1

Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently A2

BACKED Senior Unsecured Revenue Bonds supported by Motiva Enterprises LLC, Placed on Review for Downgrade, currently A2

BACKED Senior Unsecured Revenue Bonds supported by Motiva Enterprises LLC, Placed on Review for Downgrade, currently P-1

Affirmations:

Issuer: EBN B.V.

Senior Unsecured Commercial Paper, Affirmed P-1

Issuer: Statoil ASA

Senior Unsecured Commercial Paper, Affirmed P-1

BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)P-1

Issuer: Total Capital

BACKED Senior Unsecured Commercial Paper, Affirmed P-1

BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)P-1

Issuer: Total Capital Canada Ltd.

BACKED Senior Unsecured Commercial Paper, Affirmed P-1

BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)P-1

Issuer: Total Capital International

BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)P-1

Issuer: TOTAL S.A.

Senior Unsecured Commercial Paper, Affirmed P-1

Senior Unsecured Medium-Term Note Program, Affirmed (P)P-1

BACKED Senior Unsecured Revenue Bonds supported by Total S.A., Affirmed P-1

BACKED Senior Unsecured Revenue Bonds supported by Total S.A., Affirmed VMIG 1

Issuer: Royal Dutch Shell Plc
...Senior Unsecured Commercial Paper, Affirmed P-1
..Issuer: Shell International Finance B.V.
...BACKED Senior Unsecured Commercial Paper, Affirmed P-1
...BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)P-1
..Issuer: Shell Oil Company
...BACKED Revenue Bonds supported by Shell Oil Company, Affirmed VMIG 1
...BACKED Senior Unsecured Revenue Bonds supported by Shell Oil Company, Affirmed VMIG 1

Outlook Actions:
..Issuer: EBN B.V.
....Outlook, Changed To Rating Under Review From Stable
..Issuer: Statoil ASA
....Outlook, Changed To Rating Under Review From Stable
..Issuer: Total Capital
....Outlook, Changed To Rating Under Review From Stable
..Issuer: Total Capital Canada Ltd.
....Outlook, Changed To Rating Under Review From Stable
..Issuer: Total Capital International
....Outlook, Changed To Rating Under Review From Stable
..Issuer: TOTAL S.A.
....Outlook, Changed To Rating Under Review From Stable
..Issuer: Royal Dutch Shell Plc
....Outlook, Changed To Rating Under Review From Negative
..Issuer: Shell Energy North America (US), L.P.
....Outlook, Changed To Rating Under Review From Stable
..Issuer: Shell Finance (Netherlands) B.V.
....Outlook, Changed To Rating Under Review From Negative
..Issuer: Shell International Finance B.V.
....Outlook, Changed To Rating Under Review From Negative
..Issuer: Shell Oil Company
....Outlook, Changed To Rating Under Review From Negative
..Issuer: Deer Park Refining Limited Partnership
....Outlook, Changed To Rating Under Review From Stable
..Issuer: Motiva Enterprises LLC
The principal methodology used in rating Royal Dutch Shell Plc, Shell Oil Company, Shell Energy North America (US), L.P., Shell Finance (Netherlands) B.V., Shell International Finance B.V., Statoil ASA, TOTAL S.A, Total Capital, Total Capital Canada Ltd. and Total Capital International was Global Integrated Oil & Gas Industry published in April 2014.

The principal methodology used in rating EBN B.V was Global Independent Exploration and Production Industry published in December 2011.

The principal methodology used in rating Motiva Enterprises LLC and Deer Park Refining Limited Partnership was Refining and Marketing Industry published in August 2015.

Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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