



Moody's Investors Service

Credit Opinion: Cyprus Organization Storage Mng. Oil Prod.

Global Credit Research - 07 Dec 2009

Cyprus

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Aa3

Contacts

Analyst	Phone
Paul Marty/London	44.20.7772.5454
Francois Lauras/London	
David G. Staples/London	

Key Indicators

Cyprus Organization Storage Mng. Oil Prod.

	Dec-06	Dec-05
EBIT / Avg. Book Capitalization	12.7%	45.2%
EBIT / Interest Expense	2.5x	6.1x
Debt / Book Capitalization	86.6%	81.2%
EBIT Margin	69.1%	75.1%
RCF / Net Debt	12.2%	44.9%
Debt / EBITDA	6.6x	2.7x

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Company Profile

Cyprus Organisation for the Storage and Management of Oil Stocks ("KODAP") is a public law entity and is the entity responsible for maintaining compulsory strategic reserves of petroleum products in Cyprus (rated Aa3 with stable outlook) in accordance with EU regulations. KODAP does not own its storage capacity and currently leases capacity in the Larnaca terminal in Cyprus and at the Elefsis and Corinth refineries in Greece. In addition, KODAP is considering the option of building its own storage capacity in Cyprus over the medium-term. At November 2009, KODAP held approximately 221,000 tonnes of oil products, of which around 40% is stored in Cyprus and the remaining in Greece.

KODAP was created in February 2004 under the provisions of the Law 149(I)2003 as amended in April 2004 and April 2005 which adopted the EU Directive 68/414/EC as amended by the EU Directive 98/93/EC. Under those laws, KODAP was granted the mandate to directly fulfill the obligations of Cyprus vis-à-vis the EU with regards to the maintenance of stocks of oil and oil products so that the minimum national stocks are secured in accordance with the law. Compulsory oil products reserves are currently set at 90 days of sales/consumption of oil products in accordance with EU regulations. By law, all companies importing oil products in Cyprus - both distributors and consumers - must be members of KODAP and pay it monthly subscriptions. KODAP's largest members include the Electricity Authority of Cyprus (EAC), which is the state-owned electricity producer, ExxonMobil and Hellenic Petroleum, which together represent around 70% of subscriptions.

Rating Rationale

Due to its status of public law entity and specific charter, Moody's regards KODAP as a government related issuer (GRI). KODAP's rating is aligned with the Aa3 rating of the government of Cyprus and reflects the application of Moody's joint-default analysis for GRIs which combines (i) the entity's baseline credit assessment, (ii) the credit risk of the supporting government, (iii) the default dependence between the GRI and the government and (iv) the likelihood of government support.

The baseline credit assessment of 4 (on a scale of 1 to 21, where 1 represents the lowest risk) is aligned with the rating of the Government of Cyprus and reflects its residual guarantee. Indeed, although the State does not grant an explicit guarantee to KODAP's liabilities, it assumes residual responsibility for any liability at liquidation, which can only be decided by Order of the Council of Ministers. At the same time, Moody's notes that, by law, only KODAP's members are responsible for the entity's financial sustainability and the timely repayment of its debt through the subscription-based system.

High dependence reflects (i) the fact that KODAP derives 100% of its revenues from domestic sources and (ii) KODAP's operational and financial proximity to the government.

High support reflects the fact that KODAP is a key instrument for the Cypriot government's compliance with EU regulations relating to national stocks of oil and oil products. This is underpinned by (i) KODAP's status as a Cypriot "public law entity" that cannot be privatised under existing legislation, and (ii) the clear and specific framework established by law under which KODAP operates and is supported. KODAP has no share capital and is supervised by the Ministry of Commerce, Industry and Tourism. The Board of Directors consists of nine members: a chairman and five directors are appointed by the Council of Ministers including a representative of the Ministries of (i) Commerce, Industry and Tourism, (ii) Finance, (iii) Communication and Works and (iv) Interior as well as (v) the EAC, whilst three directors are elected by the General Meeting of members which comprises representatives of KODAP's member companies. KODAP's Board of Directors (i) approves the annual budget, which is then submitted to the Ministry and voted by the parliament thus becoming a law, (ii) determines the level of subscriptions which are published in the Official Cypriot Gazette, (iii) has the power to borrow or refinance its existing debt after approval of both the Minister of Commerce, Industry and Tourism and the Minister of Finance. Also, according to the law, any surplus generated from the sale of oil stocks is to be used for the repayment of KODAP's debt.

Financial Profile

KODAP is a non-profit making organization, hence its credit metrics do not drive ratings. KODAP is funded through the collection of the monthly subscriptions that it receives from its members. These subscriptions are designed to cover all the costs of the company, including (i) operational costs (e.g. storage and maintenance of compulsory reserves), (ii) administrative costs (e.g. salaries), (iii) depreciation and (iv) financing costs, which comprise both interest and capital repayments on the two amortizing loans (of EUR60 million and EUR45 million, respectively) contracted to finance the constitution of the reserves. In the event of a shortfall, the government can order an increase in members' subscriptions to cover such deficit.

All oil products importers in Cyprus are required by law to pay those subscriptions and failure to do so is a criminal offence which can result in prosecution by the State. In the event of any delay in payments from any of its members, an interest penalty of 700 basis points over the official Cypriot interest rate is charged for the duration of the delay. Furthermore a fine equal to twice the amount of unpaid subscriptions can be levied in case of non-payment. Since KODAP's creation, no default under this obligation has occurred. So far, only once did a company pay late its subscriptions; however Moody's understands this was due to an administrative error.

Liquidity

Moody's views KODAP's liquidity profile as strong given that the subscription-based funding system covers debt amortization and interest payment. Prudent budgets have led to date to surpluses and a positive cash balance. Liquidity is thus supported by around EUR22 million of cash available at 30 November 2009.

Structural Considerations

KODAP's bank loans are secured on (i) the petroleum products inventory which represent most of the entity's assets, (ii) the insurance rights and benefits contracted by KODAP or the storage owners which would be due to KODAP in case of an incident or loss of KODAP's inventory and (iii) the revenues approved by annual budgets for the purpose of servicing finance cost and capital repayment of the loan. Despite those pledges, given that by law the Cyprus government undertakes responsibility for KODAP's residual liabilities in case of liquidation, Moody's does not notch KODAP's issuer rating. Therefore if KODAP was to issue senior debt on an unsecured basis, this debt would be rated at the same level as the issuer rating.

Rating Outlook

The outlook is stable, reflecting the stable outlook on the ratings of the Government of Cyprus..

Drivers of Rating Change

Moody's does not assume any changes to KODAP's status, including the level of government supervision, legal status and funding system. Therefore given high support and dependence assumptions, KODAP's rating and outlook will move in sync with the ratings and outlook of the Government of Cyprus.



Moody's Investors Service

CREDIT RATINGS ARE MIS'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

© Copyright 2009, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."