

CREDIT OPINION

1 September 2017

Update

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Parpública - Participações Públicas (SGPS) SA – Ba1 Positive

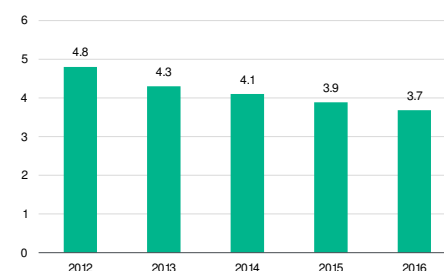
Update following outlook change to positive from stable

Summary

Parpública, Participações Públicas (SGPS) SA is fully owned by the government and benefits from the strong financial, strategic and management control exerted by the latter as well as the legal obligation of government to honour Parpública's obligations as long as the state remains the sole owner, reflected by the track record of government support. These strengths balance Parpública's credit challenges, which includes its high debt level, although on a declining trend, against shrinking income given that the main corporate holdings have been privatised.

Exhibit 1

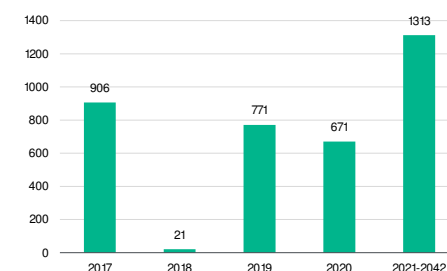
Parpública's financial obligations are on a declining trend
 Debt, EUR bn



Source: Annual Report 2016, Moody's Investors Service

Exhibit 2

Galp convertible bond is the main maturity in 2017
 Debt repayment schedule, EUR mln



Source: Annual Report 2016, Moody's Investors Service

Credit strengths

- » Government's ownership and strong financial, strategic and management control
- » Track record of financial support from the government
- » Legal obligation of the government to honour Parpública's obligations

Credit challenges

- » High debt level, although on a declining trend against shrinking income
- » Some uncertainty over the future role of the company given that main corporate holdings have been privatized

Rating outlook

The outlook on the rating is positive, in line with the outlook on the rating of the Government of Portugal (Ba1 positive).

Factors that could lead to an upgrade

Given the close linkage to the sovereign rating, Parpública would be upgraded in case of an upgrade of the Portuguese government's bond rating.

Factors that could lead to a downgrade

The positive outlook signals that the rating is unlikely to move down over the next 12-18 months. However, given the close linkage to the sovereign rating, the outlook could be stabilised in case of moving the outlook to stable on the Portuguese government's bond rating. Furthermore, evidence that the provision of financial support from the government would not be forthcoming if needed would be negative for the rating.

Key indicators

Parpública-Participações Públicas (SGPS) S.A. [1]	2012	2013	2014	2015	2016
Total Assets (EUR bn)	8.4	8.3	7.8	8.0	8.2
Total Liabilities (EUR bn)	5.8	5.2	5.3	4.5	4.4
Total Equity (EUR bn)	2.5	3.1	2.6	3.5	3.8
Financial Debt (EUR bn)	4.8	4.3	4.1	3.9	3.7
Dividend Income (EUR m)	297	136	85	60	85
Privatisation Proceeds (EUR m)	664	544	61	14	9
Debt Interest and Other Charges (EUR m)	261	235	229	195	185
EBITDA (EUR m)	724	812	-231	790	279
Net Profit/Loss (EUR m)	463	585	-462	595	94

(1) Data refers to year end

Source: Moody's Investors Service

Detailed credit considerations

On 1 September 2017, we changed the outlook on Parpública's Ba1 rating to positive from stable, and affirmed the rating at Ba1. This follows a related rating action on the Government of Portugal given the very close relationship and linkages between Parpública and the state. More specifically, Moody's considers the following factors:

1. Parpública is 100% owned by the state. Parpública implements government policies with respect to the privatisation of state-owned companies. Parpública also manages the Republic of Portugal's real-estate assets. As sole owner, the government exerts significant financial, strategic and management control over the company, e.g. it appoints the members of the management board and the audit committee. The Minister of Finance performs the rights of the state, in the position of company shareholder.
2. There is a strong track record and evidence of government financial support. During Portugal's economic adjustment programme 2011-2014, the government redirected a syndicated bank loan to Parpública so that the company could repay a bond maturity in December 2012 (€1 billion). The Portuguese government also provided a guarantee for part of the company's Commercial Paper programme in the past. Since 1 January 2015, Parpública's debt is consolidated within the general government and all financing needs of the company are covered through the state budget. In 2016, the state injected additional capital of around €290 million, although this still leaves paid-in capital of around €338 million, below its stipulated level of €2 billion.
3. Although the state does not explicitly guarantee Parpública's financial obligations, there is a strong legal basis for the state's liability. According to the Portuguese Companies Code, the state is liable for Parpública's obligations as long as the company is 100% state owned (Articles 501-503). Payment from government can be claimed 30 days after a missed payment by Parpública.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Parpública Participações Públicas SGPS, S.A. (Portuguese State Agency, "Parpública") is an industrial holding entity domiciled in Lisbon, Portugal. We do not publish a baseline credit assessment (BCA) for Parpública.

Recent developments

Over the past few years, Parpública privatised the state's stakes in several of the state's largest holdings, including stakes in energy companies Energias de Portugal S.A. (EDP, Baa3 stable) and Redes Energéticas Nacionais, SGPS S.A. (REN, Baa3 stable), airport operator ANA as well as the post office CTT. Given the privatisation of Parpública's largest (and most profitable) holdings over the recent past, Parpública's underlying financial position remains challenging: in the past, its key revenue source was its share in the privatisation proceeds (historically 10%, with 90% going to the state), which has essentially evaporated. Also, in the past Parpública was compensated with the transfer of other assets from government, e.g. in 2013 through the transfer of 100% of the postal company CTT, which is no longer the case. As an alternative source of revenue, the company plans to use its existing capabilities to create competence service centres specialising in economic, legal and financial expertise to support other public entities.

In 2016, Parpública sold to the State its Parcaixa SGPS S.A. participation (worth €500 million) to be transferred to Caixa Geral de Depósitos S.A. (B1 stable/B1 stable, b2), as part of the bank's recapitalization plan. In addition, the country's flagship airline TAP operation was concluded this year, with the Portuguese state now retaining a 50% stake. This follows the government's decision to reverse the sale of the state's 61% stake to private investors initiated by the previous government. The other main holdings are real estate and the company's 81% stake in water company Águas de Portugal (AdP).

The main revenue source is now dividends from Parpública's portfolio companies and to a lesser extent privatization proceeds. Overall, combined revenues from these sources of around €94mn in 2016 is significantly lower than previous years and below the €961 million in 2012, and compares to debt financing costs of €185 million in 2016 (2015: €195 million). However, while privatization proceeds declined slightly to €9 million in 2016, dividend income increased to €85 million from €60 million a year before (+42% year-on-year), driven by the strong financial and operational performance in the majority of its shareholdings (mainly AdP, Galp Energia and Imprensa Nacional Casa da Moeda, SA.) and GALP Energia SGPS, SA.'s share price which led to an increase in the value of Parpública's participation.

Overall, the company achieved a net profit in 2016 of around €94 million, higher than in 2015 (€84 million) on a comparable basis, after deducting the positive impact of the sale of the majority of TAP's capital in the amount of €511 million.

At the same time, Parpública's debt load is on a declining trend, standing at €3.7 billion at the end of 2016, around 5% lower than a year earlier and compared to a peak of over €5 billion at the end of 2011. GALP bonds worth €900mn are due on 28 September 2017, with the repayments covered by allocations in the budget and proceeds from the sale of Parcaixa, after which the next significant debt repayment is not until 2019.

Moody's related publications

- » **Issuer in-Depth:** [Government of Portugal, Annual Credit Analysis](#), 18 May 2017
- » **Country Statistics:** [Portugal, Government of](#), 13 June 2017
- » **Rating Methodology:** [Sovereign Bond Ratings](#), 22 December 2016

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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