GALP ENERGIA SGPS SA

504499777 CORPORATE

BBB ISSUER RATING
LongTerm

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings affirms the long-term rating of Galp Energia, SGPS, S.A. (Galp) at BBB, maintaining its Stable outlook.
- This rating is supported by (i) Galp's scale of operations as an integrated oil & gas company, with a strong market position in downstream activities in Portugal; supported by a diversified business model combining upstream, industrial and commercial activities, which provides partial earnings resilience across the cycle; (ii) a solid operating performance over the past few years, resulting in sound profitability margins and robust operating cash flow generation; and (iii) a disciplined financial policy consistent with the group's solid financial profile. Despite the capital-intensive nature of its activities, Galp has maintained low leverage levels, with an EthiFinance-adjusted net leverage ratio of 0.9x at end-September 2025, providing ample headroom versus its financial covenants (net leverage below 3.25x/3.75x). Additionally, buybacks remain discretionary and conditioned on balance sheet robustness. Meanwhile, dividend distribution remains commensurate with the rating level as the payout ratio has lied in the range 35-40% over the past three years and is expected to remain so over 2026-27.
- However, the rating is constrained by (i) Galp's exposure to oil price volatility, particularly through its upstream division, which remains the group's core generator of profitability; (ii) the presence of structural headwinds and a gradual long-term decline in demand for oil and gas products, which may weigh on the sector's growth prospects over time; and (iii) a concentration of earnings and cash flow, with the majority of upstream production located in Brazil, following the divestment of its upstream position in Mozambique, and a high reliance on the Iberian market (Portugal and Spain), where most of the group's sales are generated (86% in 2024).
- The oil & gas industry has high ESG risks under our methodology (sector heatmap score between 4 and 5) given its impact on the environment, resulting in a -1-notch impact on the industry's assessment. Production, refining, distribution and use of energy is a key factor in climate change today with this sector accounting for the largest part of GHG emissions. Moreover, this industry is often associated with massive pollution from extraction, production and from accidents. This results in a high impact on biodiversity. The O&G industry also involves a significant impact on communities as energy is a key element for social stability and economic development.
- In the previous rating assessment, the company's ESG score was assessed between 1 and 1.5. In FY24, Galp transitioned its non-financial reporting framework to CSRD and ESRS. Consequently, several metrics that had previously supported the quantitative ESG assessment are no longer reported in a sufficiently detailed or comparable manner, rendering the calculation of some key metrics no longer possible, which marks a step back with respect to former practices. As a result, the company's ESG score for the current analysis is now assessed between 2 and 2.5. Consequently, the previous +1/2 notch uplift over the FRP no longer applies.
- As the world progressively shifts towards cleaner energy sources, the O&G industry faces the critical challenge of balancing short-term profitability with long-term viability. Considering this, Galp's strategic approach has been to: i) focus on low-cost and low-carbon intensity upstream assets, maintaining a carbon intensity significantly below that of the industry average; ii) expand its renewables portfolio, leveraging cash generation from its integrated business model to advance selective investments in renewable generation and new energy solutions; and iii) reduce the environmental footprint of the Sines refinery through investments in energy efficiency, advanced biofuels and green hydrogen projects currently under construction. However, like most of its peers, Scope 3 emissions, closely linked to the consumption of oil products, remain the most material and structurally challenging component of Galp's emissions profile. Galp has therefore established a long-term decarbonization roadmap aiming at carbon neutrality by 2050, supported by intermediate targets for 2030.

Issuer Description

Headquartered in Portugal, Galp is an integrated Oil & Gas company, with activities spanning exploration and production (upstream), refining, and the supply of oil, gas and power products (downstream and commercial). With a distribution network of around 1.2k service stations in Iberia, Galp is the leader in the fuel retail segment in Portugal and a relevant player in Spain. The company operates the Sines refinery, one of the largest in the Iberian Peninsula, with a processing capacity of 226 thousand barrels of oil per day (bpd).

Through its upstream portfolio, Galp recorded an average working interest production of approximately 109k barrels of oil equivalent per day (kboepd) in 2024, broadly stable year-on-year. Production performance was supported by the resilience of the Brazilian assets, partly offset by the divestment of the company's stake in Area 4 (Mozambique), completed in 2024, and by the natural maturity of certain fields. In late 2024, Galp reached first oil from the Bacalhau FPSO project in Brazil, marking the start of production at the field level. This key milestone is expected to support production stability and cash generation going forward, as output ramps up with additional wells coming online through 2025.

In parallel, Galp has continued to build a renewables and low-carbon energy portfolio, strengthening its position as a solar player in Iberia. In 2024, renewable electricity generation exceeded 2 TWh, while installed renewable capacity reached around 1.7 GW at year-end, reflecting the continued deployment of solar projects and selective investments aligned with the group's energy transition strategy. In addition, Galp is advancing low-carbon industrial projects at Sines, including advanced biofuels (HVO/SAF) and green hydrogen, which are expected to progressively reduce the carbon footprint of its refining and industrial activities. Galp is listed on Euronext Lisbon, with a market capitalisation of approximately €11.5bn as of January 2025, and a free float of around 56%.

In January 2026, Galp and Moeve announced a non-binding agreement to explore a potential combination of their downstream activities in Iberia. This potential transaction has not been incorporated into our financial projections or credit metrics, given its preliminary and non-binding nature, the lack of defined perimeter, valuation and funding structure, and the fact that completion remains subject to due diligence, approvals and regulatory clearances. If executed, the transaction would affect Galp's downstream exposure, consolidation scope and business mix. However, the final impact on Galp's credit profile will depend on the structure of the transaction, the impact of indebtedness as well as any cash inflows or capital commitments. At this stage, based on preliminary disclosures, we don´t expect a significant impact from the operation, as evidenced by the Stable outlook assigned to the rating.

Over 2024, Galp generated revenues of €21.3bn, with adjusted EBITDA of €3.3bn (15.4% margin vs. 17.4% in 2023), mainly reflecting the normalisation of upstream profitability following an exceptionally strong prior year, driven by lower oil prices, reduced production levels and the divestment of its upstream position in Mozambique, while maintaining an EthiFinance Ratings-adjusted net leverage of 0.9x. For the nine months to end-September 2025, the group reported revenues of €14.5bn and adjusted EBITDA of €2.4bn (16.7% margin).

Main Financial Figures

Main financial figures. millions of EUR	FY22	FY23	FY24	FY25e	FY26e	FY27e	24vs23
Turnover	26,840	20,769	21,311	20,190	19,955	20,937	2.6%
Adj EBITDA RCA [1]	3,859	3,615	3,289	3,063	3,012	3,234	-9.0%
Adj EBITDA Margin	14.4%	17.4%	15.4%	15.2%	15.1%	15.4%	-2.0pp
Adj EBIT RCA [1]	2,346	2,470	2,387	1,845	1,760	1,932	-3.4%
EBIT Margin	8.7%	11.9%	11.2%	9.1%	8.8%	9.2%	-0.7pp
EBT	3,265	2,579	2,378	1,983	2,002	2,024	-7.8%
Total Assets	16,097	16,605	16,817	17,708	18,481	19,378	1.3%
Equity	5,116	5,329	5,637	6,118	6,602	7,108	5.8%
Adj Total Financial Debt	5,540	5,776	5,139	5,488	5,809	6,066	-11.0%
Adj Net Financial Debt	3,108	3,576	2,854	3,188	3,428	3,816	-20.2%
Equity/TFD	92.3%	92.3%	109.7%	111.5%	113.7%	117.2%	17.4pp
Adj NFD/Adj EBITDA	0.8x	1.0x	0.9x	1.0x	1.1x	1.2x	-0.1x
Adj Funds From Operations	2,542	2,223	1,707	1,694	1,652	1,642	-23.2%
Adj FFO/Adj NFD	81.8%	62.2%	59.8%	53.1%	48.2%	43.0%	-2.4pp
Adj EBITDA/Adj Interest	26.4x	16.3x	12.2x	12.3x	12.8x	13.1x	-4.1x

[1] Replacement Cost Adjustment (RCA) basis, excluding special items and the inventory effect.

Credit Rating

Credit Rating	
Business Risk Profile	**BB+**
Industry risk assessment	*B+*
Industry's ESG	*Negative*
Competitive Positioning	*BBB-*
Governance	*BBB+*
Financial Risk Profile	**A-**
Cash flow and leverage	*A-*
Solvency	*BBB+*
Company's ESG	*Neutral*
Anchor Rating	**BBB**
Modifiers	*No*
Rating	**BBB**

Rating Sensitivity

- **Long-term rating positive factors (↑)**

Galp's rating is characterised by a solid financial profile of A-. While, under our methodology, the final rating may be subject to a BBB cap depending on the assessment of the business risk profile, this cap is not applicable at the moment. However, should the financial risk profile improve, an upgrade would only occur in the event of a joint improvement in the business risk profile, which would derive from better asset diversification and a reduced reliance on upstream activities.

- **Long-term rating negative factors (↓)**

A rating downgrade could be entailed by a sustained deterioration in Galp's financial profile, which could be a consequence of a more aggressive financial policy, particularly in the case of a significant increase in its dividend payout ratio and/or considerably higher share buybacks. Additionally, a material weakening of Galp's business risk profile, including increased exposure to upstream volatility or an adverse outcome of ongoing strategic transactions, could also exert downward pressure on the rating. For the same business risk profile, an increase in the group's EthiFinance Ratings-adjusted net leverage ratio above 2.5x for a sustained period of time could entail a long-term rating downgrade to BBB-.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
    - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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