EthiFinance Ratings

GALP ENERGIA SGPS SA

504499777 CORPORATE

BBB ISSUER RATING
Long term

OUTLOOK
Stable

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Contacts

Lead analyst
Ana Vico Gutiérrez
ana.vico@ethifinance.com

Committee chair
Marc Pierron
marc.pierron@ethifinance.com

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 strong market share in downstream activity in Portugal; (ii) Galp's positive operating performance in the past few years leading to sound profitability margins and strong cash flow generation; and (iii) a financial policy in line with the company's solid financial profile. Despite the capital-intensive nature of its activities, Galp has been able to maintain a low net leverage ratio, which stood at 1x at end-September 2024, thus complying with the covenant of a net leverage ratio below 3.25x/3.75x. Galp makes distributions to its shareholders, through two mechanisms: i) share buybacks (€350m completed in FY24 following the €500m executed in FY23), and ii) dividend distributions (€591m in 2023, compared to €665m in 2022, of which €169m has been distributed to non-controlling interests, mostly attributed to Sinopec), as long as its reported net leverage ratio is in line with the dividend policy (NFD/EBITDA must be below 1x).
- However, the rating is constrained by (i) Galp's exposure to oil price volatility, particularly in the Upstream division (core generator of profitability of the group); (ii) the expected decline in demand for oil & gas products in the years ahead; and (iii) the group's low geographic diversification, as the majority of its upstream assets are located in Brazil (accentuated by the sale of its exploration & production assets in Angola and the recent 10% stake in Mozambique) and given that most of its sales (84% in 2023) are generated in Portugal and Spain. Also, in line with our methodology, Galp's final rating is capped at BBB due to an assessment of the Business Risk Profile at BB+.
- 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 also 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.
- Our assessment of the company's ESG policy is slightly positive (company ESG score of between 1 and 1.5), as the company has a favorable ESG score (72/100), which results in a 1/2 notch increase over the FRP. 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 & low carbon intensity upstream assets, with a portfolio carbon intensity of 9.1kgCO2/barrel of oil equivalent (boe), below the industry average of 17.8kgCO2/boe (according to IOGP 2022); ii) expand its renewables portfolio by taking advantage of the supportive oil & gas price environment to accelerate investment; and iii) lower the environmental footprint of the Sines refinery through investments in energy efficiency, expanding biofuel production and green hydrogen. Like most of its peers, Galp has established a decarbonisation roadmap to be carbon-neutral by 2050 and is on track to achieve its 2030 targets (with 2017 as a base year). These include the reduction of its overall scope 1 & 2 emissions and production carbon intensity by 40% (-30% and -19%, respectively, in 2023 vs 2017) as well as all downstream sales carbon intensity (scope 1, 2 and 3) by 20% (-4% in 2023 vs 2017). However, most important for Galp is its scope 3 emissions and consumption of oil products, which will be difficult to reduce. Regarding social criteria, we highlight the increasing number of hours of training per employee and the appropriate share of women in the company, who make up almost half of the workforce, while in terms of governance, we emphasize the separation of the roles of CEO and Chair of the Board and, on the other side, the tight share of independent members inside the board.

Issuer Description

Headquartered in Portugal, Galp is an integrated Oil & Gas company, with its activities ranging from exploration & production (upstream) to refining and supplying oil & gas products (downstream). With a distribution network of c.1.4k service stations in Iberia, Galp is the leader in the fuel retail segment in Portugal and a significant player in Spain. The company also operates the Sines refinery, one of the largest in the Iberian Peninsula, with a capacity to process 226k barrels of oil per day (bpd). Through its upstream assets, Galp produced around 109k bpd in the twelve months to end-September 2024. This was impacted by a 10% YoY decline in production from the 10% stake in Mozambique and a 5% YoY reduction of Brazil's production, due to the impact of maintenance activities (planned and unplanned) and field maturity. More recently, Galp has been building a renewable energy portfolio and has developed an important position as a solar player in Iberia, with 2.1TWh of energy generated in 2023, and an installed capacity in operation of 1.5GW at end-September 2024. Galp is listed on Euronext Lisbon with a market cap of around €11.5bn (at market close on January 21st, 2025), and around 59% of Galp's stock is free float.

Over 2023 Galp generated revenues of €20.8bn, with adjusted EBITDA of €3.8bn (18.4% margin vs. 14.4% in 2022, due to lower oil prices) and an EthiFinance Ratings-adjusted net leverage of 0.9x. For the nine months to end-September 2024, the group reported revenues of €16.4bn, and adjusted EBITDA of €2.6bn (15.9% margin).

Main Financial Figures

Main financial figures. Millions of €.	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	26,840	20,769	21,329	20,109	21,245	-22.6%
Adj EBITDA RCA [1]	3,859	3,826	3,329	3,018	3,332	-0.9%
Adj EBITDA Margin	14.4%	18.4%	15.6%	15.0%	15.7%	4.0pp
Adj EBIT RCA [1]	2,346	2,466	1,859	1,588	1,875	5.1%
EBIT Margin	8.7%	11.9%	8.7%	7.9%	8.8%	3.1pp
EBT	2,200	2,244	2,025	1,793	2,096	2.0%
Total Assets	16,097	16,605	16,495	16,174	16,123	3.2%
Equity	5,116	5,329	5,916	6,230	6,570	4.2%
Adj Total Financial Debt	5,540	5,776	5,313	4,823	4,296	4.3%
Adj Net Financial Debt	3,108	3,576	3,178	2,902	2,573	15.1%
Equity/TFD	92.3%	92.3%	111.4%	129.2%	152.9%	-0.1pp
Adj NFD/Adj EBITDA	0.8x	0.9x	1.0x	1.0x	0.8x	0.1x
Adj Funds From Operations	2,581	2,280	2,522	2,384	2,564	-11.7%
Adj FFO/Adj NFD	83.0%	63.8%	79.3%	82.2%	99.6%	-19.3pp
Adj EBITDA/Adj Interest	26.4x	17.2x	16.5x	18.6x	22.7x	-9.2x

[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	*Positive*
Anchor Rating	**BBB**
Modifiers	*No*
Rating	**BBB**

Rating Sensitivity

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

Galp's rating already incorporates its solid financial profile and we view an upgrade based on this criterion as unlikely. Consequently, a rating upgrade could be triggered by a combination of better assets diversification in terms of geographic concentration and lower dependence on its Upstream division, currently Galp's core generator of profit, which is significantly exposed to oil price volatility and declining long-term growth drivers. For the same financial risk profile, an improvement of its business risk profile to BBB- would result in the final rating no longer being capped at BBB and therefore entail a long-term rating upgrade to BBB+.

- **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. 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.