FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms ORLEN S.A. at 'BBB+'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 03 Mar 2025: Fitch Ratings has affirmed ORLEN S.A.'s (Orlen) Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BBB+'. The Outlook is Stable.

The affirmation reflects ORLEN's strong credit profile supported by the large scale of its operations, and business diversification including a presence in the utilities sector, which generates more stable cash flows than its oil and gas upstream and downstream operations.

The rating is underpinned by a public commitment to a conservative net debt/EBITDA, excluding project finance and non-recourse debt, of no more than 2.0x. We expect Fitch-adjusted EBITDA net leverage to rise to 2.2x in 2027 from 0.3x at end-2024, due to a ramp up in capex as well as partial inclusion of non-recourse debt in our forecasts. ORLEN's commitment to an increasing dividend is counterbalanced by flexibility in its growth capex and M&As under its updated business strategy.

KEY RATING DRIVERS

Capex to Accelerate: Under its updated strategy announced in January 2025, ORLEN will undertake sizable capex until 2030 in its decarbonisation and gas supply business, distribution network, and green projects in the downstream segment. The strategy guides to an average capex of around PLN42 billion a year for 2025-2030. However, the group maintains high flexibility in its plans, as average regulatory and maintenance capex is expected to be no higher than PLN15 billion a year till 2030. In Fitch's view, final investments will depend on cash generation and compliance with its financial policy thresholds.

Execution Risk: In December 2024, ORLEN ceased the development of its Olefiny III petrochemical complex in Płock due to expectations of substantial cost overruns and issues with the initial project design. The project is expected to be scaled back and completed no earlier than 2030 instead of 2027 while its cost may increase to around PLN34 billion, including financing costs, from an initial estimate of PLN13.5 billion. ORLEN has spent around PLN13 billion to date, and under its revised structure the project is expected to replace the ageing Olefiny II infrastructure and to produce around 700,000 tonnes of ethylene annually.

Fitch understands from management that ORLEN is committed to undertaking future large projects via partnerships, with a preference for fixed-price and turnkey structures. Nevertheless, such ventures entail execution risk, especially given still the unstable global political environment affecting supply chains and high inflation.

Updated Financial Policy: ORLEN targets net debt/EBITDA of no more than 2.0x, excluding project finance and non-recourse debt, compared with 2.0x-2.5x previously. Guaranteed dividends have increased to PLN4.5 from PLN4.3 per share and are expected to rise annually by PLN0.15, with an option for additional distributions of up to 25% of operating cash flow less financing expense. Dividends declared in 2025 rose to PLN6 per share (around PLN7 billion) and we believe that while ORLEN has a fixed minimum dividend, the group will remain within rating sensitivities due to alternative levers to conserve cash.

Baltic Power Project Finance Consolidated: ORLEN plans to fund a large portion of key capex projects via project finance (PF) loans. The largest PF loans are currently for combined-cycle gas turbines (CCGT) in Ostrołęka and Baltic Power, a 1.2GW offshore wind farm developed jointly with Northland Power. We view Baltic Power and future offshore projects as strategic for ORLEN under its new strategy and we include its 51% share in Baltic Power's capex, debt and EBITDA in our forecasts. We fully consolidate PF loans for CCGT Ostroleka on the assumption it will be difficult for ORLEN to withdraw from these projects.

Petrochemical Continues to Underperform: ORLEN's petrochemical segment continued to generate negative EBITDA in 2024 due to lower margins for key products such as olefins, polyolefins, aromatics, PVC and PTA amid a broader chemical industry slowdown. We expect the challenging environment for petrochemicals to persist in 2025, with earnings close to break-even followed by only a modest recovery starting from 2026 and remaining below mid-cycle levels in 2027-2028.

Increasing Contribution of Utilities: ORLEN plans to increase its renewable power installed capacity (solar and wind) up to 9GW by 2030 from 1.3GW currently and expand its CCGT installed capacity to 4.3GW from 1.8GW in 2024, while gradually withdrawing from coal-fired power generation. ORLEN's fully consolidated subsidiary Energa S.A. (BBB+/Stable) is nearing the completion of the CCGT projects in Ostroleka and Grudziadz where installed capacity of 1.3GW is expected to contribute to earnings from 2026. Baltic Power is expected to be completed in 2026 and we assume new renewable projects in the medium term.

Rating on a Standalone Basis: ORLEN is 49.9% owned by the State Treasury of Poland (A-/Stable). We view decision- making and oversight as 'Strong' and preservation of government policy role as 'Strong'. This results in an overall assessment of 15 points out of a maximum 60, leading to standalone rating approach, which is in line with Fitch's approach for the majority of EU-based corporate issuers.

DERIVATION SUMMARY

ORLEN's closest peers are Repsol, S.A. (BBB+/Stable) and OMV AG (A-/Stable). ORLEN's upstream production of around 208kboe/d during 2024 was lower than Repsol's consolidated production (excluding joint ventures and affiliates) of 391kboe/d and OMV's total production of 340kboe/d. ORLEN has a similar refining capacity to Repsol, but a substantially larger capacity than that of OMV.

Compared with its peers, ORLEN is significantly more diversified into the energy business and benefits from a stable base of cash flows derived from regulated and utility activities that provide greater cash flow predictability than Repsol and OMV.

KEY ASSUMPTIONS

Brent crude oil price of USD70/bbl in 2025, USD65/bbl in 2026, USD65/bbl in 2027 and USD60/bbl in 2028

Capex, including Baltic Power, of PLN41 billion in 2025, PLN41 billion in 2026, PLN38 billion in 2027 and PLN32 billion in 2028

Acquisitions totaling PLN2 billion for 2025-2026

Dividends of around PLN7 billion in 2025, and on average PLN6.1 billion a year in 2026-2028 each year

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- EBITDA net leverage above 2.5x on a sustained basis

- Higher-than-expected variability of cash flows

- An aggressive financial policy with higher-than-expected dividend payments or debt-funded acquisitions

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Rating upside is limited unless its business profile significantly strengthens with a larger scale of operations and greater geographical diversification, combined with lower execution risk in shifting the business towards lower-emission technologies

-EBITDA net leverage below 1.5x on a sustained basis

LIQUIDITY AND DEBT STRUCTURE

At end-2024, ORLEN reported an unrestricted cash balance of PLN9.6 billion compared with current debt of around PLN3.1 billion. It had a PLN10 billion revolving credit facility (RCF) for the acquisition of PGNIG, which expires in 2026 and, in 4Q24, it arranged a further EUR2 billion (around PLN8.2 billion) RCF expiring in 2029.

ISSUER PROFILE

ORLEN is one of the largest integrated companies in central Europe with diversification into the oil and gas upstream and downstream segments, gas supply and distribution, energy generation, and petrochemical production.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
ORLEN S.A.	LT IDR	BBB+	Affirmed	BBB+
	ST IDR	F2	Affirmed	F2
	LC LT IDR	BBB+	Affirmed	BBB+
	LC ST IDR	F2	Affirmed	F2
	Natl LT	AA+(pol)	Affirmed	AA+(pol)
senior unsecured	LT	BBB+	Affirmed	BBB+
senior unsecured	Natl LT	AA+(pol)	Affirmed	AA+(pol)

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Government-Related Entities Rating Criteria (pub. 09 Jul 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 06 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 06 Dec 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

ORLEN S.A.	EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating s

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SOLICITATION STATUS

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