MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time A1 issuer rating to Saudi Aramco; stable outlook

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London, 01 April 2019 -- Moody's Investors Service ("Moody's") has today assigned a first-time A1 long-term issuer rating to Saudi Arabian Oil Company (Saudi Aramco) and a provisional (P) A1 rating to Saudi Aramco's Global Medium Term Note (GMTN) programme. The outlook is stable.

"Saudi Aramco has many characteristics of a Aaa-rated corporate, with minimal debt relative to cash flows, large scale of production, market leadership and access in Saudi Arabia to one of the world's largest hydrocarbon reserves. These features position it favourably against the strongest oil and gas companies that Moody's rates," said Rehan Akbar, a Vice President - Senior Credit Officer at Moody's.

"The final rating is however constrained by the government of Saudi Arabia's A1 rating because of the close interlinkages between the sovereign and the company".

RATINGS RATIONALE

Saudi Aramco benefits from a very large operational scale, significant downstream integration and strong financial flexibility given its low cost structure and robust balance sheet. This provides considerable credit resilience through oil price cycles. The company is the world's largest oil supplier and has exclusive access to nearly all of Saudi Arabia's vast hydrocarbon resources, which are one of the world's largest proven oil and gas reserves.

The company's balance sheet leverage has been conservatively managed with Moody's-adjusted debt/book capitalization of 14.7% as of year-end 2018. This compares favourably against levels of the highest rated industry peers such as Exxon Mobil Corporation (Aaa stable) and Chevron Corporation (Aa2 positive) which both had debt/book capitalization ratios of 18.4% as of year-end 2018. Royal Dutch Shell Plc (Aa2 stable) and Total S.A. (Aa3 positive) had ratios of 33.5% and 43.2% respectively for the last twelve months ending 30 September 2018. Saudi Aramco has a long-standing track record of maintaining minimal leverage and high profitability, and as of year-end 2018, Moody's-adjusted debt/EBITDA stood at 0.2x while EBITDA margin was 63.7%.

In 2018, the company produced 10.3 million bbl/day of crude oil (including blended condensate) relative to its maximum sustainable capacity of 12 million bbl/day. Considerations on crude production volumes include supply cut commitments by the government of Saudi Arabia (A1 stable; A1 foreign currency ceiling) with OPEC and non-OPEC members in order to balance the oil market. About 38% of the crude oil production in 2018 was consumed by Saudi Aramco's downstream business. Investment in the downstream sector is a key strategic focus for the company as it is a means to secure end markets for its oil production and capture value across the hydrocarbon chain. Moody's therefore anticipates that the company will continue to heavily spend in the refining and petrochemical business.

The proposed acquisition of a 70% equity interest in Saudi Basic Industries Corporation (SABIC, A1 stable) from the Public Investment Fund (PIF), one of the government's sovereign wealth funds, is an extension of Saudi Aramco's strategy to expand its footprint in chemicals. On 27 March 2019, Saudi Aramco announced the signing of a share purchase agreement to acquire the 70% stake in SABIC for $69.1 billion. This acquisition will strengthen the company's business profile given that downstream assets typically provide countercyclical cash flow benefits. Saudi Aramco's substantial cash flow generation capacity and financial flexibility will enable the company to fund the SABIC acquisition without the need to materially leverage-up its balance sheet even under weak oil price scenarios. The cash consideration will be paid to PIF in installments up until 2021, funded primarily through Saudi Aramco's cash balances and operating cash flows and complemented by some external debt.

Saudi Aramco has an extremely strong liquidity position. As of year-end 2018, the company had $48.8 billion of cash relative to $27 billion of reported group debt. Of the $46.8 billion of group bank facilities, about $25.5 billion remains available and includes $12.7 billion of undrawn revolving credit facilities. In 2018 when the average Brent price was $71/bbl, the company reported cash flow from operations (net of taxes and royalties) of $121 billion, undertook $35.1 billion in capital spending and paid $58.2 billion in dividends. In comparison, the average Brent price in 2017 was $54/bbl and led to reported cash flow from operations of $89 billion, with $32.5 billion in capital spending and $50.4 billion in dividend payments.

In Moody's view, credit linkages to the government of Saudi Arabia are significant, and results in the decision to constrain Saudi Aramco's rating to that of the government. The company is wholly-owned by the state and is expected to remain largely under government ownership even after any potential IPO in the future. While there is a clear track record of Saudi Aramco having been run as a commercially independent company, the government's budget is highly reliant upon contributions from Saudi Aramco in the form of royalties, taxes and dividends. Government expenditures in return drive activity in the wider economy. The oil sector also comprises a substantial portion of Saudi Arabia's GDP and dominates its exports. The company's profitability is mainly driven by its upstream operations, which are based domestically. The combined impact of these characteristics causes Moody's to view Saudi

Aramco as being closely linked to the same credit strengths and risks as the sovereign.

Given the government ownership and its strategic importance to Saudi Arabia, Moody's has classified Saudi Aramco as a Government-Related Issuer (GRI). Moody's GRI assumptions include (1) 'very high' interdependence between the government and Saudi Aramco; and (2) 'very high' likelihood of extraordinary support being provided to the company from the government if ever required. The company's A1 rating incorporates a baseline credit assessment (BCA) - a measure of standalone credit quality - of a1 which is in itself constrained by the sovereign rating because of the company's close linkages with the government of Saudi Arabia. It is difficult to decouple these linkages given that Saudi Arabia's A1 rating is underpinned by the strength and contributions of Saudi Aramco.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Saudi Aramco's credit profile will remain robust despite the volatility of crude oil prices. The interlinkages between Saudi Arabia and the company imply that a change in rating outlook on the government of Saudi Arabia would be mirrored on Saudi Aramco's rating outlook.

WHAT COULD CHANGE THE RATING UP/DOWN

Saudi Aramco's rating is constrained by the rating of the government of Saudi Arabia given the broad credit linkages between the two. Excluding credit linkage considerations with the sovereign, Moody's sees the company's fundamental profile as being significantly stronger than an A1 rating and therefore an upgrade of the sovereign rating would likely lead to an upgrade of Saudi Aramco's rating if it maintains its prudent financial policies.

Negative pressure on the sovereign rating will lead to negative pressure on Saudi Aramco's rating. A downgrade of Saudi Aramco's rating in the absence of rating pressure on the sovereign is highly unlikely given Moody's current view of the fundamental strength of the company.

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Global Integrated Oil & Gas Industry published in October 2016 and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Headquartered in Dhahran, Saudi Arabia, Saudi Arabian Oil Company is the state-owned national oil company of the Kingdom of Saudi Arabia and is the world's largest oil producer. The company has exclusive rights - subject to limited exceptions - to explore, develop and refine Saudi Arabia's hydrocarbon resources.

Saudi Aramco's upstream assets are located in Saudi Arabia while its downstream assets are located both in the Kingdom and overseas. Saudi Aramco under its 60 year concession term has access to proven oil and gas reserves of 256.9 billion barrel of oil equivalent (boe) and its total hydrocarbon production in 2018 stood at 13.6 million boe/day. The company had equity share refining capacity of 3.1 million bbl/day and equity share chemical production capacity of 16.8 million tonnes/year. This will increase to 3.7 million bbl/day and 20.8 million tonnes/year respectively once both the Jazan and PRefChem integrated refinery and petrochemical projects complete by the end of 2019. In 2018, the company reported $355.9 billion in revenue and other income related to sales and $111.1 billion in net income.

The Local Market analyst for these ratings is Rehan Akbar, +971 (423) 795-65.

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