



# Pemex: more piecemeal support from the government

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**“Our proposal centred on a restructuring of Pemex into two separate companies, both still state-owned, but one upstream and one downstream.”**

**Graham Stock discusses how the Mexican government will continue to support Pemex but is not embracing radical solutions.**

## Key takeaways

- Earlier this year, we proposed a Pemex reorganisation plan to Claudia Sheinbaum’s team.
- Now President, her government’s recent announcement on the company did not break new ground, however several measures are aimed at making it more efficient.
- In the absence of more comprehensive reform, the government will continue to have to provide budgetary support for Pemex.
- Furthermore, a planned reduction of 2% of GDP in the public sector borrowing requirement should help restore Mexico’s reputation for fiscal discipline.
- We believe that sovereign support for Pemex is rock solid, and we are positioned accordingly.

President Claudia Sheinbaum, along with her energy team, last week presented an update on how the new government intends to manage its relationship with the state-owned oil company Petroleos Mexicanos (Pemex). Since before President Sheinbaum’s victory in the June elections, we had been in touch with her advisers to urge a comprehensive and sustainable re-think of the company’s role and finances. Our proposal centred on a restructuring of Pemex into two separate companies, both still state-owned, but one upstream and one downstream. The main rationale for this was to make explicit the contrast between the loss-making and inefficient refinery business, and the potential for a more profitable and dynamic exploration and production (E&P) business. Support for the former from the government would have to be justified, and so Mexico could hold a proper public debate about the merits of energy security, employment in disadvantaged regions, and other possible reasons for subsidies. Meanwhile the upstream business could operate on a more commercial basis, including possibly raising its own finance from the bond market again. We continue to advocate for such a solution in our engagement with the government, Pemex management and other stakeholders.

The announcement last week did not break significant new ground. The government maintained several of the prior administration's priorities, including the push towards refining and reaching self-sufficiency in the gasoline and diesel markets. There was no discussion of a new structure for Pemex, or a new strategic direction. We obviously view this as a missed opportunity but will continue to urge fresh thinking in this regard. More encouragingly, we heard several measures aimed at making Pemex more efficient, including a commitment to MXN50 billion of annual cost cuts, and a potentially significant simplification of its tax regime<sup>1</sup>. From 2025, Pemex will pay just a 'general' tax of 30% on oil operations and 11.63% on non-associated gas operations. The budgetary consequences should be neutral for 2025, but in theory they give Pemex greater visibility going forward, because the new duty, called "Oil Rights for Well-being", will be based mostly on oil and gas production. In practice, we suspect that the tax take will continue to be moved up and down based on cashflow constraints.

The government is still targeting production of 1.8 millions of barrels as it develops the Trion and Zama fields. The Sheinbaum administration is also still willing to embrace collaboration with the private sector in sectors including hydrocarbons, petrochemicals, fertilisers, solar/wind energy, geothermal and green hydrogen. It looks like we will have to wait for secondary legislation to see the details but at least the energy nationalism promoted by former President, Lopez Obrador, and many in the governing Morena party has not intensified.

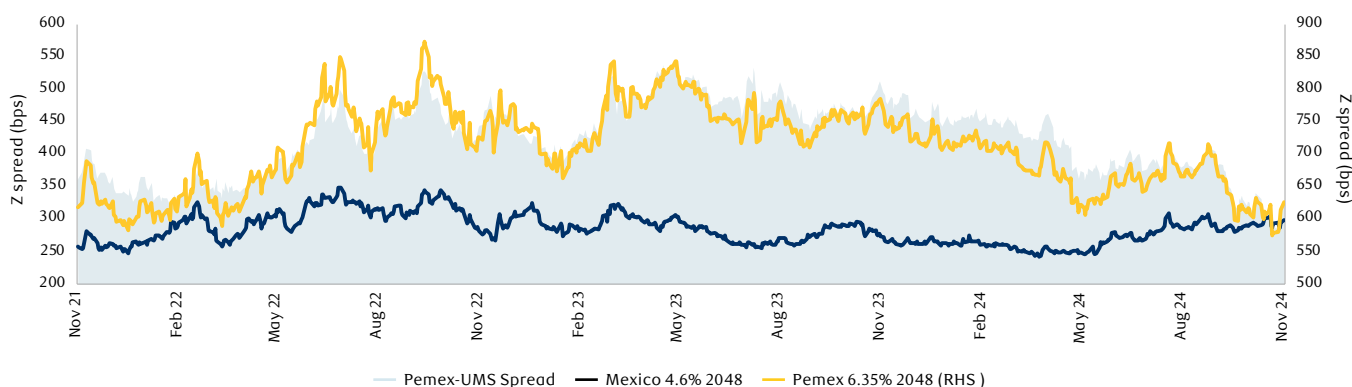
In the absence of a comprehensive reform of Pemex's structure along the lines that we have suggested, or an explicit sovereign guarantee of Pemex debt to facilitate new issuance, the government will continue to have to provide budgetary support for the company. With around USD9 billion in Pemex debt falling due in 2025, we expected at least USD6 billion to be set aside in the 2025 budget for this purpose.

In fact, the budget was presented to Congress on November 15th and included a line item of MXN136 billion for Pemex, equivalent to around USD6.7 billion at today's exchange rate<sup>2</sup>, and USD7.3 billion at the rather conservative official assumption of MXN18.7/USD<sup>3</sup>.

The other key parameter in the 2025 budget is a planned reduction of 2% of GDP in the public sector borrowing requirement from 5.9% of GDP this year to 3.9% next year. This consolidation is welcome and should go some way to restoring Mexico's reputation for fiscal discipline, although we suspect that a 2-3% assumption for real GDP growth in 2025 is too optimistic. The headwinds generated by a slowing US economy, potentially rocky relations with the US over trade, migration and security, and domestic uncertainty over the consequences of judicial reform could combine to shave as much as a point off that growth forecast and add a few tenths to the budget deficit.

We have long held the view that implicit sovereign support for Pemex is rock solid and will either persist in the form of ad hoc budgetary support, transition to a more explicit guarantee of the debt, or result in a structural reform that puts the company on a more sustainable footing. We do not see any risk that the Mexican government could walk away from its national champion in the energy sector, particularly under a Morena administration. The party's name even stands for 'National Renewal Movement'. As a result, one of our favoured trades has been to position for a narrowing of the spread between Pemex and the sovereign, either by overweighting the former and underweighting the latter in benchmarked portfolios, or with longs and shorts in total return portfolios. This has worked well, as shown by the tightening of the spread between the two over the last few months.

### The Pemex sovereign spread has narrowed



Source: RBC GAM, JPMorgan, as at November 2024.

<sup>1</sup> President's weekly press conference, 13 November 2024.  
<sup>2</sup> [Mexico to transfer \\$6.7 billion to Pemex for debt payments \(BNN Bloomberg\)](#).  
<sup>3</sup> [Mexico lowers Pemex tax burden \(SP Global\)](#).

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