

ISSUER COMMENT

14 December 2017

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RATINGS

Bulgarian Energy Holding EAD

Long-term corporate family rating	Ba1
Outlook	Stable

Source: Moody's

KEY METRICS:

Bulgarian Energy Holding EAD

	2016	2015	2014
FFO interest cover	5.5x	6.8x	2.8x
FFO/debt	21.6%	28.8%	6.3%
RCF/debt	21.1%	28.8%	5.6%

Source: Moody's Financial Metrics

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Bulgarian Energy Holding EAD

Mandatory trading on the Bulgarian Energy Exchange is credit neutral for BEH, but positive for the industry

The newly required mandatory execution of all freely-negotiated electricity transactions through the Bulgarian Energy Exchange is credit neutral for Bulgarian Energy Holding EAD (Ba1 corporate family rating / Ba2 rating on €550 million Eurobonds due 2021), as this is only a change in the trading process and has no impact on the company's business risk. It is however positive for the Bulgarian electricity sector.

On 13 December, 2017, the Bulgarian Parliament approved amendments to the Energy Act 2003 according to which all electricity generated by installations with a capacity over five megawatts (MW), including from renewable sources, and which is available for sale at unregulated prices, should be offered through the Bulgarian Energy Exchange (IBEX). The amendments will become effective on the 1 January 2018.

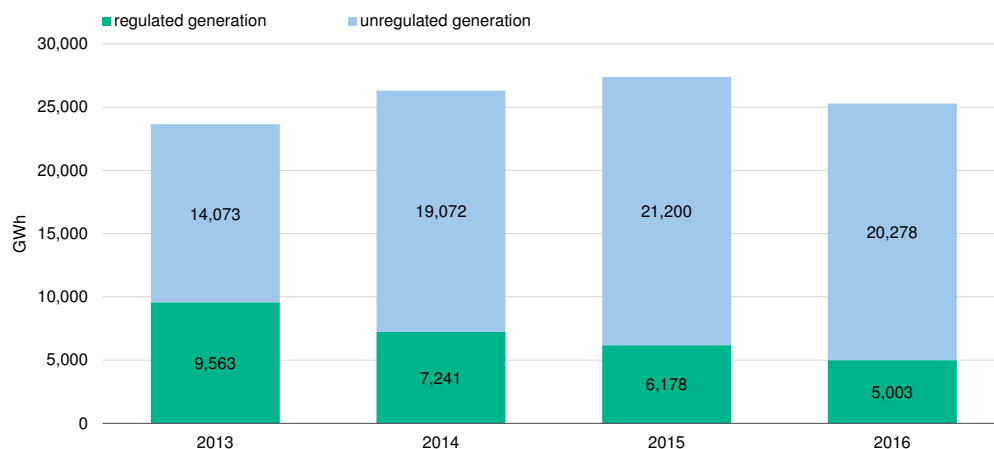
Overall, the amendments could have a positive market impact as they will increase market transparency given all transactions would be executed through a single public trading platform. Around 50% of the total generated electricity in Bulgaria, 20-25 terawatt hours, is available for sale at unregulated prices. The dominant generator, Bulgarian Energy Holding (BEH), already offered a substantial part of this through its own auction platforms, and so the impact on prices achieved should not be materially different under the new regime. From 1 January those volumes, around 80% of total BEH generation (Exhibit 1), will have to be traded only through IBEX. The resulting increased market liquidity could reduce wholesale power price volatility.

We note however that the changes were approved and will become effective in a short time frame which may lead to some implementation risks, although these should be minimal.

Exhibit 1

BEH's generated electricity

A total of all technologies - nuclear, thermal and hydro



Source: Company's consolidated financial statements; Moody's calculations

The mandatory electricity trading through the exchange will not apply to volumes designated by the regulator for sale to Natsionalna Elektrieska Kompania (NEK, a BEH 100%-owned subsidiary) at regulated prices. Such volumes mainly include the allocations of the nuclear and thermal power stations, the long-term power purchase agreements with Contour Global and AES Maritsa, as well as the annual feed-in-tariff allowance of the subsidised renewable installations. Thus, NEK's role as a counterparty for all regulated volumes, and associated risks, remain unchanged.

Bulgarian Energy Holding EAD is the incumbent 100% state owned electricity and gas utility in Bulgaria. It owns around 50% of the electricity generation facilities in the country, including the 2,000MW nuclear power plant, 2,713 MW of hydro plants, as well as a 1,620MW lignite plant, the input fuel for which is sourced at BEH-owned mining facilities. Through its subsidiary NEK, it is the single trader on the regulated wholesale power market. It also owns and operates the high voltage electricity transmission grid (15,130 km) and the gas transmission and transit networks in Bulgaria (1,700km and 945km respectively), and is also the main regulated wholesale gas supplier. In 2016, BEH group generated BGN608 million of EBITDA.

Moody's Related Research

Credit Opinion

» [Bulgarian Energy Holding EAD, August 2017](#)

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