

**Rating Action: Moody's assigns Ba2 rating to Bulgarian Energy Holding's senior unsecured bonds**

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12 Jul 2021

Frankfurt am Main, July 12, 2021 -- Moody's Investors Service ("Moody's") has today assigned a Ba2 long-term debt rating to the senior unsecured bonds to be issued by Bulgarian Energy Holding EAD (BEH). BEH's outlook is stable.

**RATINGS RATIONALE**

The Ba2 rating assigned to the new bonds is in line with that of the existing bonds of BEH, reflecting their senior unsecured ranking. The issuance amount is expected to be EUR600 million but execution is subject to market conditions. Moody's expects the proceeds of the issuance to be largely used to repay the company's outstanding EUR550 million bond which matures on 2 August 2021.

BEH has a corporate family rating of Ba1, which is underpinned by growing income from the liberalized power market, given its competitive generation mix featuring high output from low-variable cost nuclear and hydro power; by significant earnings from regulated electricity and gas grid operations; and by a history of relatively low investment expenditures and dividend restraint from BEH's 100% owner, the Government of Bulgaria (Baa1 stable). Consequently, the company's credit metrics are currently strong, but Moody's expects leverage to increase, caused by high gas infrastructure spending.

Limiting factors for BEH's rating include an evolving regulatory regime, marked by a lack of predictability of cash flows; little transparency regarding the path to full liberalization of the Bulgarian power market; and the near exclusive reliance on operating cash flows as a funding source, reflecting the absence of sound liquidity management.

BEH's rating incorporates the company's Baseline Credit Assessment (BCA) of b1 and Moody's view of a high default dependence and high support by its owner in case of financial distress, given that the company is in charge of important domestic energy infrastructure. Notwithstanding Moody's support assumption, the rating agency views BEH as exposed to risks from political interventions and adverse regulation.

**RATIONALE FOR THE STABLE OUTLOOK**

The outlook is stable, reflecting Moody's view that BEH generally benefits from the liberalization of Bulgaria's wholesale energy markets, reflected in an improved credit profile, expressed as BCA of b1. This is partly offset by the uncertainties with regard to the implementation timeline and eventual design of the fully liberalised markets in which BEH operates. Moody's expects that the company will be able to maintain a financial profile, expressed as Funds from operations (FFO)/debt, commensurate with its BCA in the high teens in percentage terms on a sustained basis, notwithstanding a temporary weakening over the next 2 years, owing to larger investment projects. A one-notch downgrade or upgrade of the BCA may not necessarily result in a change in the final rating.

**FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING**

The rating could be upgraded if (1) the market liberalization process is completed and proves to remain beneficial for BEH; and (2) the credit quality and Moody's support expectations of the Government of Bulgaria remain at least unchanged.

Downward pressure on the BCA could occur if BEH's financial profile were to deteriorate persistently below guidance as a result of, but not limited to, (1) adverse changes in the operating environment, including a significant delay in the completion of the market liberalization process; or (2) negative regulatory changes, or both. Downward pressure on the final rating may develop if (1) Moody's was to reassess the estimate of high support from the Bulgarian government, or (2) the government's rating was to be downgraded.

A corporate family rating (CFR) is an opinion of the BEH group's ability to honor its financial obligations and is assigned to BEH as if it had a single class of debt and a single consolidated legal structure. The Ba2 senior

unsecured rating of BEH's outstanding senior bonds is one notch below the rating level of BEH's CFR and reflects a degree of structural subordination of noteholders to the claims of other BEH group creditors.

The methodologies used in this rating were Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1066389](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1066389), and Government-Related Issuers Methodology published in February 2020 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1186207](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

Headquartered in Sofia, Bulgarian Energy Holding EAD is the holding company of the largest utility group in Bulgaria. The group owns more than 50% of the country's generation capacity, owns and operates the electricity and gas transmissions networks and is sole importer and main supplier of gas in the country. Bulgarian Energy Holding is 100% owned by the Government of Bulgaria. For the financial year 2020, Bulgarian Energy Holding reported consolidated total revenues of BGN5,596 million (around EUR2,860 million) and EBITDA of BGN898 million (around EUR459 million).

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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