

Bulgarian Energy Holding EAD (/gws/en/esp/issr/92151696)**Fitch Places Bulgarian Energy Holding on Rating Watch Positive**

Fitch Ratings-Warsaw/London-13 December 2017: Fitch Ratings has placed Bulgarian Energy Holding EAD's (BEH) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) and foreign currency senior unsecured rating of 'BB-' on Rating Watch Positive (RWP).

The rating action follows publication of Fitch's new proposed criteria as an Exposure Draft (ED) on 27 November 2017, entitled "Government-Related Entities Rating Criteria", and upgrade of Bulgaria's Long-Term Foreign- and Local-Currency IDRs to 'BBB'/Stable from 'BBB-'/Positive on 1 December 2017.

We plan to resolve the RWP within the next six months upon finalisation of the ED period and reassessment of the company's links with the Bulgarian state and BEH's standalone credit profile.

KEY RATING DRIVERS

Links with the State: Fitch currently rates BEH at 'BB-', which includes a one-notch uplift from its standalone credit profile of 'B+' for strong links with the Bulgarian state. If the final criteria are substantially similar to the ED, the notching will increase from one to two notches, provided that BEH's IDRs would not exceed the cap of the Bulgarian IDRs less three notches. With the upgrade of Bulgaria's IDRs to 'BBB' from 'BBB-', the cap for BEH's IDRs moved to 'BB' from 'BB-'. Consequently, BEH's ratings will likely increase to 'BB' from 'BB-' upon finalisation of the new criteria, as reflected in the RWP.

DERIVATION SUMMARY

BEH has a dominant position in the Bulgarian gas and electricity market through its ownership of most of country's power generation assets (including a nuclear power plant, lignite-fired and hydro power plants), the largest mining company, the country's electricity transmission network, gas transmission and transit networks and through its position as the public supplier of both electricity and gas in Bulgaria.

BEH's integrated business structure and strategic position in the domestic market makes it comparable to some of central European peers like CEZ (A-/Negative) and PGE Polska Grupa Energetyczna (PGE, BBB+/Stable). However, BEH operates in a more volatile and less transparent regulatory environment.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Final Government-Related Entities Rating Criteria not materially different from the released ED
- Natsionalna Elektricheska Kompania (NEK), BEH's subsidiary, having positive EBITDA over the five year projection as a key driver of BEH's improved profitability
- Forthcoming tangible state support in case of tight liquidity

RATING SENSITIVITIES

Developments that May, Individually or Collectively, Lead to Positive Rating Action

- Final Government-Related Entities Rating Criteria not being materially different from the released ED
- Further tangible government support, such as additional state guarantees materially increasing the share of state-guaranteed debt or cash injections, which would more tightly link BEH's credit profile with Bulgaria's stronger credit profile
- Upgrade of the sovereign rating, which would increase the cap for BEH's ratings

Developments that May, Individually or Collectively, Lead to Negative Rating Action

- Weaker links with the Bulgarian state
- Weaker standalone credit profile, eg. due to funds from operations (FFO) adjusted net leverage exceeding 5x on a sustained basis or insufficient liquidity
- Sustained increase in prior-ranking debt to above 2x EBITDA, which would be negative for the senior unsecured rating of BEH
- Downgrade of the sovereign rating, which would decrease the cap for BEH's ratings

LIQUIDITY

Adequate Liquidity: At end-September 2017 BEH had BGN1,186 million of unrestricted cash against short-term financial liabilities of BGN147 million. In addition, in November 2018 the EUR500 million (BGN980 million) Eurobond will become due. We expect BEH to refinance the Eurobond during 2018, well ahead of the maturity date.

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Summary of Financial Statement Adjustments - No atypical adjustments

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria

Corporate Rating Criteria (pub. 07 Aug 2017) (<https://www.fitchratings.com/site/re/901296>)

Exposure Draft: Government-Related Entities Rating Criteria (pub. 27 Nov 2017) (<https://www.fitchratings.com/site/re/899535>)

Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016) (<https://www.fitchratings.com/site/re/886557>)

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