

Research Update:

# Bulgaria-Based Power Producer NEK Outlook Revised To Stable On Parent's Higher Leverage; 'BB' Rating Affirmed

August 7, 2025

## Rating Action Overview

- The postponement of the Bulgarian electricity market's liberalization for households to an indefinite date and the lowering of the price caps applied to national generators' earnings raises uncertainties about the future revenue and EBITDA of state-owned company Bulgarian Energy Holding (BEH or the group), the owner of Natsionalna Elektricheska Kompania (NEK).
- In addition, we expect BEH to earmark Bulgarian lev (BGN) 1.2 billion of investments for nuclear newbuilds and to continue making high dividend distributions, resulting in a steep increase in funds from operations (FFO) to debt of about 35% in 2025-2027.
- The deterioration in BEH's financial metrics has a negative impact on its credit quality. However, offsetting this negative development is what we view as Bulgaria's enhanced capacity to support the group after Bulgaria's recent upgrade to 'BBB+'.
- We continue to consider NEK as a highly strategic subsidiary of BEH. We expect it to contribute about 20% of group EBITDA during the next two years, despite volatile earnings.
- We therefore revised the outlook on NEK to stable from positive and affirmed our 'BB' long-term issuer credit rating on NEK.
- The stable outlook reflects our view that the FFO to debt of NEK's parent, BEH, remains about 35%, with uncertainties weighting on the group's future earnings.

## Rating Action Rationale

**We revised downward our EBITDA forecast for NEK's parent BEH following Bulgaria's decision to postpone the liberalization of the electricity retail market.** This leads to weaker revenue than we expected for BEH as it implies the maintenance of a price cap on power producers who give the extra revenue from the difference between market and capped prices as compensation to the Security of the Electricity System fund (SESF).

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The SESF provides end suppliers with the difference between the market price and the fixed consumer price for households. This measure aims to mitigate the impact of market fluctuations on households while gradually moving toward full market liberalization. As a result, the earnings of BEH's hydro, thermal, and nuclear power generators are capped. We believe that uncertainties remain over whether the state will terminate the price cap in 2026, which we reflect in our base case.

The government lowered the price caps in July 2025, with earnings from nuclear generation capped at BGN120 per megawatt hour (/MWh) (BGN1 = €0.51), down from BGN150/MWh in 2024 and the first half of 2025. We expect BGN400 million-BGN600 million in annual EBITDA from nuclear generation in 2025-2027 (about 35% of BEH's total EBITDA), compared with our expectation of more than BGN1 billion in our previous base case.

We expect NEK to generate higher EBITDA of BGN250 million from 2025 compared with about BGN160 million in 2024 following the termination of its role as a public supplier for protected customers in July 2025. NEK now operates as a coordinator, balancing BEH's power production with demand from end suppliers. We don't forecast any material profit from this trading activity in NEK's future EBITDA due to the lack of a track record. Hydro power plants' earnings have been capped at BGN140/MWh since July 2025, down from BGN300/MWh in the first half of the year.

**Higher capital expenditure (capex) and dividends have led to a decline in BEH's credit measures this year, with FFO to debt averaging 35% in 2025-2027, down from about 60% in 2024.** BEH is progressing with the construction of two new nuclear units at the Kozloduy site, each with a capacity of up to 1.2 gigawatts (GW). The project schedule anticipates construction starting in 2030 and commercial operations between 2035 and 2038. BEH should make a final investment decision by year-end 2026, when we expect clarity on total capex. However, we already forecast BGN1.2 billion in capex for the project development phase in 2025 and a total of BGN2.1 billion in capex the same year. We expect capex to remain at about BGN1 billion in 2026-2027 and dividends at about BGN600 million-BGN700 million in 2025-2027. We forecast an increase in net debt to about BGN3.7 billion by 2027 from BGN1.7 billion in 2024. As a result, we consider the group credit worthiness has weakened.

**The Bulgarian government's improved propensity to support BEH offsets the deterioration in BEH's financial metrics.** On July 10, 2025, we upgraded Bulgaria to 'BBB+' on the confirmation of its accession to the Eurozone. In our view, Bulgaria's accession enhances its capacity to support BEH should it come under financial stress. We continue to believe that there is a moderately high likelihood that BEH, NEK's 100% owner, would receive support from the Bulgarian government. This is evident from a track record of state support despite the unstable domestic political situation. We observe Bulgaria providing extraordinary support to BEH's subsidiaries in the form of state guarantees, state loans, and cash capital injections. Moreover, we expect Bulgaria to extend such support extend to NEK.

In 2016, NEK received interest-free financial aid directly from the Bulgarian government. It repaid this in advance in April 2022 using its own funds and the proceeds of an intercompany loan from BEH. We expect that the government's willingness to provide support will continue, since BEH maintains its strategic importance for the country's security of energy supply and strategic energy plan. BEH is Bulgaria's leading electricity producer, generating about 58% of the nation's electricity, and the owner of the electricity and gas transmission systems.

We will, however, closely monitor political uncertainties and the evolution of the rule of law and institutional framework in Bulgaria, since these could impair both the government's willingness to

support BEH and the timeliness of such support. In addition, we will monitor the construction of the new nuclear reactors in Bulgaria and monitor the state's long-term support for them, notably through capital injections and state guarantees, as this will be critical to our view of the group's credit quality and of the likelihood of government support.

**The rating on NEK continues to depend on the supported group credit profile (GCP) because we regard NEK as a highly strategic subsidiary of BEH, its sole owner.** This reflects NEK's very important role in Bulgaria's energy system as a hydropower producer and balancing coordinator for the electricity system, as well as NEK's transformation from a loss-making operation to a contributor of close to 20% of BEH's EBITDA in 2025-2027.

NEK's leverage is significantly higher than BEH's but should gradually reduce once the retail market is liberalized. All NEK's debt is to its parent BEH, illustrating what we consider to be ongoing funding support from the parent. In 2025-2027, we expect NEK's FFO to debt to be 9% on average, compared with 35% for BEH, constraining NEK's SACP to the 'b' category. Our rating on NEK includes two notches of uplift for parental support above NEK's 'b+' SACP and we cap the rating at one notch below BEH's supported GCP.

## Outlook

The stable outlook reflects our view of NEK as a highly strategic subsidiary of BEH and our view of the group's stable credit quality. We anticipate that BEH's leverage will increase to FFO to debt of about 35% from 2025, with no new large debt-financed projects, continuously high dividend distributions, and adequate liquidity.

### Downside scenario

We would likely lower the rating on NEK if:

- BEH's creditworthiness worsens. This could follow weaker operating performance; higher leverage, such that FFO to debt remains below 30%; or lower liquidity as a result of electricity prices dropping below our forecast and the price caps persisting beyond 2025.
- We no longer saw NEK as highly strategic to BEH, for example because of operational weaknesses at its hydropower plants or a lack of support from its parent.

In both cases, we will monitor the Bulgarian government's stability and its ability to support BEH in a timely manner if needed. We will also monitor any negative intervention by the state beyond the exceptional measures that it took during the energy crisis with the continuity of price caps after 2025.

A downgrade of Bulgaria by one notch would not lead to a downgrade of NEK.

### Upside scenario

Although unlikely in the short term, a material improvement of BEH's creditworthiness could trigger an upgrade. Such improvement could come from BEH deleveraging, with FFO to debt sustainably above 40%. This could also come from greater stability of the group's profitability, clarity over the plan to liberalize the national retail market, and the development of new nuclear power plants supported by the state.

We could upgrade NEK should we start to regard it as core to BEH, possibly due to improving profitability and leverage in line with BEH's profitability and leverage and a materially higher

contribution to BEH's EBITDA. Nevertheless, we wouldn't upgrade NEK solely because we revised its SACP upward to 'bb-' or 'bb', unless the group's creditworthiness improves at the same time.

An upgrade of Bulgaria by one notch would not automatically lead to an upgrade of NEK.

## Company Description

NEK is a Bulgarian electricity producer with 2.7 GW of installed capacity at 31 hydropower stations and pump storage plants. In 2024, NEK generated 5% of Bulgaria's total electricity production. NEK also has a trading role within BEH. NEK's S&P Global Ratings-adjusted EBITDA totalled about BGN258 million in 2024.

NEK is 100% owned by BEH, Bulgaria's vertically integrated energy holding company, which itself is fully owned by the Bulgarian government through the Ministry of Energy. BEH controls electricity generation assets, with 6.3 GW of total installed capacity. In addition to NEK's hydropower, this includes nuclear and thermal power plants. BEH also controls coal mining, the electricity system, and the country's gas transmission assets. In 2024, BEH's adjusted EBITDA was BGN1.4 billion.

## Our Base-Case Scenario

### Assumptions

- Real GDP growth in Bulgaria of 2.4% in 2025, 2.7% in 2026, and 2.8% in 2027, compared with 2.8% in 2022.
- Domestic consumer price inflation of 3.3% in 2025, 3.0% in 2026, and 2.8% in 2027, compared with 2.6% in 2024.
- An unregulated power price of BGN180/MWh-BGN210/MWh in 2025-2027 and an average regulated power price of BGN120/MWh-BGN130/MWh.
- NEK's achievement of generation volumes of two terawatt hours per year in 2025-2027.
- A share of unregulated electricity sold of about 60% in 2025 and 100% in 2026 with the electricity wholesale market's liberalization from mid-2025. NEK's role as public supplier for protected consumers was abolished in July 2025.
- Termination of price caps on generators from 2026.
- Capex of BGN50 million-BGN60 million in 2025 and BGN130 million-BGN150 million in 2026-2027, reflecting necessary modernization and rehabilitation of assets.
- A 50% dividend payout ratio in 2025-2027, although we understand that the dividend policy is flexible.
- Ongoing support from BEH, such as the flexibility to renegotiate the terms of the parent's loans.

### Key metrics

#### Natsionalna Elektricheska Kompania EAD--Forecast summary

Period ending	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. BGN)	2023a	2024a	2025e	2026f	2027f

**Natsionalna Elektricheska Kompania EAD--Forecast summary**

EBITDA	201	259	260-310	270-320	200-250
Capital expenditure (capex)	21	45	40-60	100-140	150-180
Dividends	225	0	200-300	150-250	150-250
Debt	2,101	1,852	2,000-2,100	2,050-2,150	2,300-2,400
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	10.4	7.2	6.5-7.5	7.0-8.0	10.0-11.0
FFO/debt (%)	9.0	13.9	10.0-11.0	9.0-10.0	5.0-6.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. BGN--Bulgarian lev.

## Liquidity

We continue to view NEK's liquidity as adequate because we factor in continued loans from its parent, whereas NEK's stand-alone liquidity is weaker. This assessment recognizes NEK's status as a highly strategic part of BEH and the ongoing support it receives through intragroup debt-payment rescheduling. After NEK repaid its BGN1.2 billion government loan due in 2023, all of NEK's debt is to its parent, BEH. Factoring in all financing, NEK's committed liquidity sources covered its liquidity needs by only about 0.4x as of March 30, 2025.

### Principal liquidity sources

- No committed credit lines;
- Cash and cash equivalents of BGN29 million; and
- Cash FFO of about BGN215 million.

### Principal liquidity uses

- Debt maturities of about BGN235 million, comprising loans payable to BEH;
- Maintenance capex of about BGN70 million; and
- About BGN290 million in dividends.

## Environmental, Social, And Governance

Governance factors are a negative consideration in our credit rating analysis of NEK, reflecting our view of a lack of prudent risk management, historical litigation, and unfinished projects at the group level. Still, NEK is fully owned by the Bulgarian government through BEH, and its activities are closely aligned with government policy and shaped by applicable regulations.

Environmental and social factors are a relatively negative consideration, since NEK's parent BEH produces about 19% of its electricity through a coal power plant and operates a coal mine in Bulgaria. Although Bulgaria's energy plan does not plan for the total phaseout of coal before 2038, we perceive energy transition risk as high and exposure to carbon prices as material. The rest of BEH's generation fleet produces low-carbon electricity, with the Kozloduy nuclear power plant contributing about 72% of BEH's total production in 2024 and NEK's hydropower plants about 9%.

NEK also has an important social role in maintaining reliable, safe, and sustainable electricity supply. However, social factors are the key reasons for historically unsupportive regulation and NEK's accumulation of a tariff deficit.

## Rating Component Scores

### Rating Component Scores

Foreign currency issuer credit rating	BB/Stable/--
Local currency issuer credit rating	BB/Stable/--
Business risk	Weak
Country risk	Moderately high
Industry risk	Moderately high
Competitive position	Weak
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	b+

### Modifiers

Diversification/portfolio effect	Neutral/Undiversified (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Moderately negative (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	b+
Group status	Highly strategic (+2 notches)

## Related Criteria

- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

## Related Research

- [Research Update: Bulgaria Upgraded To 'BBB+' On Confirmation Of Eurozone Accession; Outlook Stable](#), July 10, 2025

- [Industry Credit Outlook Update Europe: Utilities](#), July 16, 2025
- [Research Update: Bulgaria-Based Power Producer NEK Outlook Revised To Positive On Long-Term Prospects; 'BB' Rating Affirmed](#), Sept. 4, 2024

## Ratings List

### Ratings list

#### Ratings Affirmed; Outlook Action

	To	From
<b><a href="#">Natsionalna Elektricheska Kompania EAD</a></b>		
Issuer Credit Rating	BB/Stable/--	BB/Positive/--

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