

MOODY'S

RATINGS

Rating Action: Moody's Ratings changes outlook on Bulgarian Energy Holding to stable from positive; affirms Ba1/Ba2 ratings

27 Nov 2024

Frankfurt am Main, November 27, 2024 -- Moody's Ratings (Moody's) has today changed Bulgarian Energy Holding EAD (BEH)'s outlook to stable from positive. Concurrently, we have affirmed the long-term corporate family rating (CFR) of Ba1, the probability of default rating of Ba1-PD, the Ba2 ratings of the senior unsecured eurobonds and the ba3 Baseline Credit Assessment (BCA).

RATINGS RATIONALE

The change in outlook to stable reflects the uncertainties stemming from the planned addition of two new nuclear power plant (NPP) units at the existing Kozloduy site. The construction of new NPP units would raise significantly the risk profile of BEH given the execution risks associated with such a large and complex project. Nuclear power plants under construction in Europe have been experiencing substantial delays and cost overruns. In addition, the project's total expected investment of more than USD14 billion has the potential to significantly weigh on the company's financial metrics, depending on the final financing structure and potential support from the Government of Bulgaria (Baa1 stable).

In November 2024, BEH's subsidiary Nuclear Power Plant Kozloduy (NPPK) signed an agreement with a consortium comprising WEC US Holdings Ltd. and South-Korean Hyundai Engineering & Construction Co. Ltd. to build two new units at the existing NPPK site, increasing its current 2,000 megawatts (MW) nuclear generation capacity by an additional 2,200 MW.[1] The USD350 million engineering and design contract aims to prepare the final investment decision, expected to be made in the second half of 2025, while more specific details on the financing structure are also expected at that time.

So far, the Export-Import Bank of the United States has signed a letter of intention to provide financing of up to USD8 billion. The Export-Import Bank of Korea also intends to provide a similar amount. We also expect that the Bulgarian government could

provide additional support in form of equity, state loans or guarantees, due to the economic importance of the project and the very large investment compared to the size of the company. Construction is currently set to begin in 2026, which would in turn cause a significant rise in BEH's capital expenditures. Capital outflows would remain elevated until 2034 and 2036 respectively, the planned commercial operation dates for the two new units.

The rating affirmation reflects BEH's current financial flexibility and low leverage, expressed as funds from operations (FFO) to net debt of around 248.1% as of year-end 2023. BEH's rating is further supported by (1) the group's low-carbon power generation mix with around 75% of output stemming from nuclear and hydropower plants; and (2) its ownership of strategic parts of the domestic energy infrastructure, such as the gas and electricity transmission grids, which are regulated and contribute on average around 35% of annual EBITDA.

The rating remains constrained by (1) limited earnings visibility as a result of evolving energy markets and short regulatory periods; (2) sizeable cash extractions by the government to fund domestic energy cost subsidies via the Electricity System Security Fund (SESF) and an extraordinarily high dividend in 2023; and (3) political uncertainties around the execution of Bulgaria's energy policy, e.g. as demonstrated by the delays in the liberalization of domestic electricity and gas markets, currently scheduled for July 2025. The implementation of the full market liberalization by end of 2025 is a requirement under Bulgaria's National Recovery and Resilience Plan (NRRP), in order for the country to receive certain grants from the European Commission. A fully liberalized market would (1) enable BEH to sell its generated electricity at market prices rather than lower regulated prices; and (2) reduce the state's price interventions, which would in turn be a positive development for Bulgaria's market framework.

BEH falls under our Government-Related Issuers methodology due to its 100% ownership by the Government of Bulgaria. Accordingly, and based on our view of high default dependence and high support in case of financial distress, BEH's Ba1 CFR incorporates two notches of uplift from its BCA of ba3. The high support was evidenced in 2022 by the government granting a state loan to BEH's subsidiary Bulgargaz, the monopoly gas supplier in Bulgaria, for a total amount of BGN800 million to secure the company's liquidity after the cessation of Russian gas supply. Furthermore, we expect that the government will provide some support in relation to the financing of the new nuclear power plant project if it goes ahead.

LIQUIDITY

BEH's liquidity is underpinned by its sizeable position of cash and cash equivalents of BGN3,890 million at year-end 2023, of which BGN3,097 million are unrestricted. The next material debt maturities are the EUR600 million eurobond in June 2025 and the BGN800 million government loan provided to Bulgargaz, due in August 2025. Although cash holdings are sufficient to cover those repayments, we expect the

company to refinance the eurobond in the first quarter of 2025. Additional external financing will be required, if capital expenditures for the nuclear power plant project start to accelerate from 2026.

Generally, we assess BEH's stand-alone liquidity management as weak. This is because BEH relies almost exclusively on its cash and cash equivalents and internally generated cash flows for its liquidity management, which is centralized at the parent company level. As liquidity back-up lines only exist in the form of small overdraft facilities on subsidiary level, the company is exposed to market disruption risk.

STRUCTURAL CONSIDERATIONS

The Ba2 rating of the senior unsecured eurobonds is one notch below the Ba1 CFR and reflects a degree of structural subordination of noteholders to the significant amount of debt at BEH's subsidiaries.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects our expectation that BEH will maintain FFO/net debt above 25% at least over the next 24 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the BCA is currently unlikely due to the uncertainties related to the new nuclear power plant project. Nevertheless, an upgrade of the company's BCA would likely result in a rating upgrade. The ratings could be further upgraded if the rating of the Government of Bulgaria was upgraded.

Downward pressure on the BCA could occur if BEH's FFO/net debt were to decline persistently below 25% as a result of, but not limited to, (1) high capital expenditures; (2) cash distributions above expectations, either via dividends or extraordinary payments to the SESF; or (3) adverse regulatory changes. The ratings could be downgraded if BEH were to go ahead with the construction of new nuclear plants and that the risks associated with such project were not sufficiently mitigated by support provided by the Bulgarian government. Downward pressure on the ratings could also develop if we were to reassess our estimate of high support from the Bulgarian government.

The methodologies used in these ratings were Unregulated Utilities and Unregulated Power Companies published in December 2023 and available at <https://ratings.moodys.com/rmc-documents/412151>, and Government-Related Issuers methodology published in January 2024 and available at <https://ratings.moodys.com/rmc-documents/406502>. Alternatively, please see the Rating Methodologies page on <https://ratings.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 EAD is 100% owned by the Government of Bulgaria. In 2023, Bulgarian Energy Holding EAD reported consolidated total revenues of BGN11,523 million (EUR5,891 million) and EBITDA of BGN2,229 million (EUR1,139 million).

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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 on <https://ratings.moodys.com/rating-definitions>.

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REFERENCES/CITATIONS

[1] <https://www.government.bg/en/Press-center/News/Prime-Minister-Dimitar-Glavchev-Today-we-build-on-Bulgaria%E2%80%99s-50-year-experience-in-nuclear-power-plant-operation> 04-Nov-2024

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