

10 JUN 2025

## Fitch Rates Bulgarian Energy Holding's Planned Bonds 'BB+(EXP)'

Fitch Ratings - Warsaw - 10 Jun 2025: Fitch Ratings has assigned Bulgarian Energy Holding EAD's euro-denominated bonds an expected senior unsecured rating of 'BB+(EXP)'. The bonds' rating is at the same level as BEH's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'BB+', which has a Stable Outlook, as they will constitute senior, unsubordinated, unconditional and unsecured obligations of the group.

BEH's Long-Term IDRs reflect a one-notch uplift from its 'bb' Standalone Credit Profile (SCP) for support from the Bulgarian sovereign (BBB/Positive), based on our "Government-Related Entities Rating Criteria" (GRE criteria).

The assignment of the final rating is contingent on the receipt of final documents conforming to information already reviewed.

### Key Rating Drivers

**New Bond Leverage-Neutral:** The bond issue is neutral to BEH's leverage but improves the group's liquidity profile. BEH intends to use the net proceeds from the bonds to repay its EUR600 million bonds due in June 2025 and for general corporate purposes, excluding coal-related activities. The bond documentation includes a negative pledge, a change-of-control put option, redemption at the issuer's option for tax reasons and cross-default to any indebtedness of the issuer or any of its material subsidiaries with a EUR25 million threshold.

**Nuclear Project to Raise Leverage:** We assume BEH's leverage will rise when the main construction phase of two new nuclear units (up to 1,200MW each) starts in 2029, unless considerable support is provided for this project by the Bulgarian state, for example through capital injections. BEH has started preparatory works for the plants' construction, following the Bulgarian National Assembly's approval at end-2023. Commissioning is likely in 2035-2038. The final investment decision is likely to be made in mid-2026, following the engineering contract signed in November 2024 with a consortium of Westinghouse and Hyundai Engineering.

**Benefits of Liberalisation:** From July 2025, generators within BEH Group will sell all their production on the free market. We therefore expect better performance of the nuclear power plant, Kozloduy, which was previously selling 25% of its production at unfavourable regulated prices. From July 2025, the subsidiary NEK will no longer act as a public supplier but will focus its operations on electricity generation from hydro power plants, which should translate into better profitability.

**Normalised EBITDA:** We expect EBITDA to normalise at BGN1.1 billion in 2025, from BGN1.5 billion in 2024 and after the peak of BGN4.6 billion in 2022, and remain broadly flat in the medium term. EBITDA will be supported by electricity and gas transmission and transit, and electricity production sold at market prices following liberalisation, but will be affected by its underperforming coal mining business and its thermal power plant.

**Rising Regulated Income:** We expect EBITDA contribution from regulated gas and electricity transmission and transit to increase under our rating case to about 65% over 2025-2028, from 43% in 2023. In particular, strategic investments enabled subsidiary, Bulgartransgaz, to significantly increase gas transited volumes by 20% in 2024 to 175TWh and improve its results, with reported EBITDA of about BGN725 million.

**Reduced Profitability at Thermal Plant:** Fitch expects profitability at BEH's thermal power plant to be increasingly influenced by neighbouring energy markets. The plants may face challenges in fully covering production costs in the medium term due to the energy transition and normalisation of energy prices. In 2024 its adjusted EBITDA amounted to BGN28 million (BGN207 million in 2023) and Fitch projects a limited contribution thereafter.

**Weak Results at Lignite Mine:** Fitch expects BEH's coal mine to report negative EBITDA over the medium term due to reduced volumes sold to thermal power plants in Maritsa-East. EBITDA was a negative BGN170 million in 2024, driven by a 29% decrease in coal sales volumes.

**Moderate Leverage Before 2029 Spike:** We expect BEH's funds from operations (FFO) net leverage to increase in 2025 to 3.6x, from 1.1x in 2024, and stabilise in 2026-2028. Leverage could increase from 2029 when nuclear project construction is likely to start. This is based on our expectations of average capex of BGN1 billion annually in 2025-2028, with an additional BGN1.2 billion capex in 2025 for preparatory works at the nuclear project. Fitch assumed a 100% dividend payout ratio from BEH's consolidated accounts from 2025.

**One-Notch Uplift for Support:** We have 'Strong Expectations' of state support for BEH under our GRE criteria, backed by an overall support score of 25 points out of a maximum 60, resulting in a one-notch uplift for the IDR from the SCP.

**Responsibility to Support:** Fitch assesses decision-making and oversight as 'Very Strong' because the Bulgarian state is BEH's ultimate shareholder (100% of shares), approves its strategy and business plan, and tightly controls BEH's operations. We view the precedents of support as 'Strong', based on the government's guarantees for 12.1% of BEH's debt at end-2024 (expected at around 10%-15% under Fitch's rating case), preferential state loans (also for covering working-capital needs), and regulatory support.

**Incentive to Support:** We assess the preservation of government policy role as 'Strong', given BEH's crucial role in the security of gas supply in Bulgaria, implementing the state's strategy to diversify gas supplies to Bulgaria, and key role in the national green energy transformation, partly through the new nuclear plants. Fitch does not expect material contagion risk, as a default by BEH should not have material implications for the government's ability to issue new debt or its cost of debt, particularly in

view of the group's low debt amount.

## Peer Analysis

BEH's integrated business structure and strategic position in the domestic market make it comparable with some of its central European peers, such as MVM Zrt. (BBB/Stable) and PGE Polska Grupa Energetyczna S.A. (BBB/Stable). The gradually rising share of EBITDA from the regulated network business makes BEH more comparable with these peers, increasing its cash flow predictability and counterbalancing the higher merchant exposure of its generation assets following the liberalisation of the Bulgarian energy market.

The liberalisation, along with integration with neighbouring countries' energy markets, should improve transparency and limit potential market interference. However, BEH is a negative outlier in the peer group in corporate governance.

BEH's rating includes a one-notch uplift from its SCP to reflect links with the sovereign, which is not the case for MVM or PGE.

## Key Assumptions

- Market liberalisation, with the elimination of production quotas for nuclear and thermal power plants and abolition of NEK's role as a public supplier from 1 July 2025; further retail market liberalisation postponed beyond the previously planned 1 January 2026
- Price caps for electricity generators until end-2025, with no major contributions paid by BEH's generating companies in view of their selling prices remaining below the respective price caps
- Group EBITDA averaging BGN1.3 billion a year over 2025-2028
- Total capex of BGN5.1 billion over 2025-2028
- Dividends at 100% of net income during 2025-2028

## RATING SENSITIVITIES

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- Weaker SCP, for example due to FFO net leverage exceeding 4.5x on a sustained basis, increased regulatory and political risk, or insufficient liquidity
- Weaker links with the Bulgarian state

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- Stronger SCP due to FFO net leverage falling below 3.5x on a sustained basis, and supported by an internal corresponding leverage target, lower regulatory and political risk, higher earnings predictability, and better corporate governance

- Adequate visibility of the funding structure of the new nuclear power units
- Further tangible government support to BEH, such as additional state guarantees materially increasing the share of state-guaranteed debt, or cash injections, which would link BEH's credit profile more closely with Bulgaria's stronger credit profile
- Upgrade of Bulgaria's IDR by two notches

## Liquidity and Debt Structure

At end-2024, BEH had unrestricted cash and equivalents of BGN3,103 million, against BGN2,117 million of Fitch-projected negative FCF in the next 12 months, EUR600 million bonds due in June 2025 (equivalent to about BGN 1,173 million), and a BGN800 million state loan maturing in August 2025.

BEH aims to refinance the maturing bonds with the planned new bonds but has secured a bridge loan of EUR600 million as a contingency in case of any delay with the bond issue. Fitch expects the maturity of the BGN800 million state loan to be extended beyond 2025, given the close relations between the state and BEH.

## Issuer Profile

BEH is a 100% state-owned, integrated utility operating in Bulgaria. It is involved in electricity generation, electricity transmission, public supply of electricity, gas transmission and transit, public supply of gas and lignite mining.

## Date of Relevant Committee

14 March 2025

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

## ESG Considerations

BEH has an ESG Relevance Score of '4' for Group Structure due to a fairly complex group structure, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

BEH has an ESG Relevance Score of '4' for Financial Transparency due to a qualified audit opinion and

lower financial transparency than EU peers', which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Bulgarian Energy Holding EAD			

ENTITY/DEBT	RATING	RECOVERY	PRIOR
• senior unsecured <sup>LT</sup>	BB+(EXP)	Expected Rating	RR4

#### RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	◐	

#### Applicable Criteria

[Corporate Rating Criteria \(pub.06 Dec 2024\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.02 Aug 2024\) \(including rating assumption sensitivity\)](#)

[Government-Related Entities Rating Criteria \(pub.09 Jul 2024\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub.06 Dec 2024\)](#)

#### Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

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