

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Ba2 rating to Bulgarian Energy Holding's new bond; outlook stable**

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10 Jun 2025

Frankfurt am Main, June 10, 2025 -- Moody's Ratings (Moody's) has today assigned a Ba2 long-term debt rating to the senior unsecured bond to be issued by Bulgarian Energy Holding EAD (BEH). 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 existing senior unsecured Eurobonds, and the ba3 Baseline Credit Assessment (BCA). The outlook remains stable.

#### RATINGS RATIONALE

The Ba2 rating assigned to the new bond 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. The proceeds from the issuance are intended to be used to repay the company's outstanding EUR600 million bond which matures on 28 June 2025, and for general corporate purposes, excluding coal-related activities.

The affirmation of the existing ratings, including the Ba1 CFR, reflects BEH's current financial flexibility and low leverage, expressed as funds from operations (FFO) to net debt of 122.7% as of year-end 2024. BEH's rating is further supported by (1) the group's low-carbon power generation mix with around 80% 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 40-50% of annual EBITDA.

The Ba1 CFR 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 our expectation of ongoing high dividends going forward; and (3) political uncertainties around the execution of Bulgaria's energy policy, e.g. as demonstrated by plans to build a new nuclear power plant and by the delays in the liberalization of domestic electricity and gas markets.

On 7 May 2025, the National Assembly adopted two bills to the Energy Act, which led to another indefinite postponement of the full market liberalization for retail customers until effective competition between suppliers is achieved and the transition to market-based prices for household customers is established. Nevertheless, the role of BEH's subsidiary Natsionalna Elektrieska Kompania EAD as public supplier, under which it is obliged to buy and sell electricity at regulated prices, will be abolished effective 1 July 2025. The abolishment of the public supplier role will (1) enable BEH to sell its generated electricity at market prices rather than at lower regulated prices; and (2) reduce the state's tariff interventions, which is a positive development for the stability of Bulgaria's electricity market.

BEH falls under our Government-related Issuers methodology due to its 100% ownership by the Government of Bulgaria (Baa1 stable). Accordingly, and based on our view of high default dependence and high support from the government 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 BGN3,706 million at year-end 2024, of which BGN2,727 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 currently high, capital spending plans and sizeable expected dividend distribution have the potential to strain liquidity. Additional external financing will be required if capital expenditures are executed as currently forecasted or if spending for the new nuclear power plant project ramps up.

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. This is mitigated by the company's government ownership, which facilitates access to external funding if required. In addition, the state budget contains provisions for equity injections to support BEH's capex.

## STRUCTURAL CONSIDERATIONS

The Ba2 rating of the senior unsecured Eurobonds is one notch below the Ba1 CFR, which 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%.

## 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 published in May 2025 and available at <https://ratings.moodys.com/rmc-documents/443641>. 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 around 40% of the country's generation capacity, owns and operates the electricity and gas transmissions networks and is the public supplier of gas in the country. Bulgarian Energy Holding is 100% owned by the Government of Bulgaria. In 2024, Bulgarian Energy Holding reported consolidated total revenues of BGN8,841 million (EUR4,521 million) and EBITDA of BGN1,389 million (EUR710 million).

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