



RATING ACTION COMMENTARY

Fitch Revises Bulgarian Energy Holding's Outlook to Positive on Sovereign Action

Fri 26 Feb, 2021 - 11:30 AM ET

Fitch Ratings - Warsaw - 26 Feb 2021: Fitch Ratings has revised the Outlook on Bulgarian Energy Holding EAD's (BEH) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to Positive from Stable and affirmed them at 'BB', while the senior unsecured rating was affirmed at 'BB-'.

The revision of the Outlook is driven by the recent revision of the Outlook on Bulgaria's IDR to Positive from Stable (see 'Fitch Revises Bulgaria's Outlook to Positive; Affirms at BBB', dated 19 February 2021).

KEY RATING DRIVERS

Upgrade to Follow Sovereign's: BEH's IDR reflects its Standalone Credit Profile (SCP) of 'b+', which is notched up twice for strong links with its sole owner, the Bulgarian state, to arrive at the 'BB' IDR.

However, the current support score for BEH of 17.5, calculated under Fitch's Government-Related Entities Rating Criteria, would allow for a three-notch uplift to its SCP if not constrained by a cap defined as the sovereign rating minus three notches. Therefore, if Bulgaria were upgraded to 'BBB+', the cap for BEH's ratings would increase to 'BB+' from

'BB' and BEH's ratings would be upgraded to an IDR of 'BB+' and senior unsecured of 'BB', assuming other factors unchanged. This possibility is reflected in the Positive Outlook on BEH's IDR.

For the Key Rating Drivers, Key Assumptions, Derivation Summary, Liquidity and Debt Structure applied to BEH's ratings, see: 'Fitch Affirms Bulgarian Energy Holding at 'BB'; Stable Outlook', dated 22 December 2020.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Upgrade of Bulgaria's ratings
- Further tangible government support to BEH, 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
- Stronger SCP due to funds from operations (FFO) net leverage falling below 4x on a sustained basis, lower regulatory and political risk, higher earnings predictability, and better corporate governance

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Negative action on Bulgaria's rating
- Weaker links with the Bulgarian state
- Weaker SCP, e.g. due to FFO net leverage exceeding 6x on a sustained basis, escalation of regulatory and political risk, or insufficient liquidity

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in

a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

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.

ESG CONSIDERATIONS

BEH has scores of 4 for "Group Structure" and "Financial Transparency" to reflect a relatively complex group structure, a qualified audit opinion and lower financial transparency than EU peers'. This ESG constraint has a negative impact on BEH's SCP in combination with other factors, in particular high capex and a volatile regulatory framework.

BEH has also some exposure to carbon intensive generation via its lignite-fired power plant. However, the fuel mix is diversified with most of electricity generated from nuclear and hydro sources, therefore the scores for "GHG Emissions & Air Quality" and "Energy Management" are at 3.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Feedback

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
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ENTITY/DEBT	RATING			PRIOR
Bulgarian Energy Holding EAD	LT IDR	BB Rating Outlook Positive	Affirmed	BB Rating Outlook Stable
	LC LT IDR	BB Rating Outlook Positive	Affirmed	BB Rating Outlook Stable
● senior unsecured	LT	BB-	Affirmed	BB-

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Corporates Notching and Recovery Ratings Criteria \(pub. 14 Oct 2019\) \(including rating assumption sensitivity\)](#)[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)[Corporate Rating Criteria \(pub. 21 Dec 2020\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Bulgarian Energy Holding EAD

EU Issued, UK Endorsed

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