



RATING ACTION COMMENTARY

Fitch Upgrades BEH's Senior Unsecured Rating to 'BB' on UCO Resolution

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Fitch Ratings - Warsaw - 10 May 2021: Fitch Ratings has upgraded Bulgarian Energy Holding EAD's (BEH) senior unsecured rating to 'BB' from 'BB-' and assigned a Recovery Rating of 'RR4' to this debt class. BEH's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) have been affirmed at 'BB' with a Positive Outlook, while the Standalone Credit Profile (SCP) remains at 'b+'. The ratings have been removed from Under Criteria Observation (UCO).

The upgrade reflects application of Fitch's updated Corporates Recovery Ratings and Instrument Ratings (CRR&IR) Criteria to BEH's senior unsecured rating, which was placed, together with the IDRs and the SCP, on UCO following the publication of the updated criteria on 9 April 2021.

KEY RATING DRIVERS

Criteria Update: The updated CRR&IR criteria have eliminated the threshold of prior-ranking debt-to- EBITDA of 2.0x-2.5x in assessing structural subordination of debtholders at the parent level for issuers rated non-investment grade. Consequently, BEH's senior unsecured rating is upgraded to the same level as the 'BB' IDR and the previous notching-down by one level to 'BB-' was eliminated.

Debt at Subsidiaries to Decrease: We estimate that at end-2020 around 40% of Fitch-adjusted debt was taken at the parent level, with the remaining 60% at subsidiaries.

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unsecured rating with the IDR, as was the case until 2019.

For the Key Rating Drivers, Key Assumptions, Derivation Summary, Liquidity and Debt Structure of BEH's ratings, see: 'Fitch Revises Bulgarian Energy Holding's Outlook to Positive on Sovereign Action', dated 26 February 2021, and '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 (BBB/Positive)
- 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
- 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

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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 fairly 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, and is relevant to the rating in combination with other factors, in particular high capex and a volatile regulatory framework.

BEH also has 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	RECOVERY	PRIOR
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Energy Holding EAD	IDR					Outlook Positive
	LC LT IDR	BB Rating	Outlook Positive	Affirmed		BB Rating Outlook Positive
● senior unsecured	LT	BB		Upgrade	RR4	BB-

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APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Corporate Rating Criteria \(pub. 21 Dec 2020\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\)
\(including rating assumption sensitivity\)](#)

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](#)

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ENDORSEMENT STATUS

Bulgarian Energy Holding EAD

EU Issued, UK Endorsed

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Corporate Finance: Leveraged Finance Europe Bulgaria

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