

Rating Action: Moody's affirms Bulgarian Energy Holding's Ba1/Ba2 ratings; outlook stable

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Frankfurt am Main, December 09, 2020 -- Moody's Investors Service ("Moody's") today has affirmed Bulgarian Energy Holding EAD's (BEH) long-term corporate family rating of Ba1, the probability of default rating of Ba1-PD, and the senior unsecured debt ratings of Ba2. The outlook on the ratings remains stable.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

The rating action reflects Moody's view that BEH's standalone credit profile, expressed as a Baseline Credit Assessment (BCA) of b1, is benefitting from Bulgaria's migration to liberalized electricity and gas markets, given the group's favourable electricity generation profile and dominant position as gas supplier. Planned investments, primarily in gas infrastructure, will weaken BEH's leverage metrics over the coming years, but this is mitigated by a high probability of support from the company's sole owner, the Government of Bulgaria (Baa1 stable), leading to an overall final rating of Ba1.

Key drivers of the company's BCA include the group's low-carbon power generation mix with around 75% of output stemming from nuclear and hydropower plants and its ownership of strategic parts of the domestic energy infrastructure, such as the gas and electricity transmission grids, which are regulated and contribute at least 30% of annual EBITDA. In addition, BEH's financial flexibility has improved, following gradual reform steps of the regulated electricity and gas markets, in combination with moderate capital expenditures over the last years and dividend restraint by its owner.

However, the BCA is constrained by BEH's volatile earnings profile and low cash flow visibility which are largely caused by an unsettled regulatory regime; by uncertainties with regard to the implementation of the full liberalisation of the Bulgarian electricity market and its effects on the group's earnings; and by weak liquidity management. BEH relies almost exclusively on 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 at subsidiary level, the company is exposed to market disruption risk.

BEH currently displays financial flexibility and low leverage, expressed as funds from operations (FFO) to net debt, which in 2019 amounted to around 31%. Moody's anticipates a temporary weakening of the leverage metrics over the next years as a result of two major gas infrastructure projects, the Balkan Stream pipeline connecting Bulgaria's borders with Turkey and Serbia, as well as the IGB interconnector with Greece, but expects metrics to remain commensurate with BEH's current BCA and ratings.

BEH falls under Moody's Government-Related Issuers Methodology due to its 100% ownership by the Government of Bulgaria (Baa1 stable). Accordingly, and based on Moody's view of high default dependence and high support in case of financial distress, BEH's rating incorporates three notches of uplift from its BCA of b1.

RATIONALE FOR THE STABLE OUTLOOK

The outlook is stable, reflecting Moody's view that BEH generally benefits from the liberalization of Bulgaria's wholesale energy markets, reflected in an improved credit profile, expressed as BCA of b1. This is partly offset by the uncertainties with regard to the implementation timeline and eventual design of the fully liberalised markets in which BEH operates. Moody's expects that the company will be able to maintain a financial profile, expressed as FFO/debt, commensurate with its BCA in the high teens in percentage terms on a sustained basis, notwithstanding a temporary weakening over the next 2 years, owing to larger investment projects. A one-notch downgrade or upgrade of the BCA may not necessarily result in a change in the final rating.

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

The rating could be upgraded if (1) the market liberalization process is completed and proves to remain

beneficial for BEH; and (2) the credit quality and Moody's support expectations of the Government of Bulgaria remain at least unchanged.

Downward pressure on the BCA could occur if BEH's financial profile were to deteriorate persistently below guidance as a result of, but not limited to, (1) adverse changes in the operating environment, including a significant delay in the completion of the market liberalization process; or (2) negative regulatory changes, or both. Downward pressure on the final rating may develop if (1) Moody's was to reassess the estimate of high support from the Bulgarian government, or (2) the government's rating was to be downgraded.

A corporate family rating is an opinion of the BEH group's ability to honor its financial obligations and is assigned to BEH as if it had a single class of debt and a single consolidated legal structure. The Ba2 senior unsecured rating of BEH's outstanding senior bonds is one notch below the rating level of BEH's CFR and reflects a degree of structural subordination of noteholders to the claims of other BEH group creditors.

LIST OF AFFECTED RATINGS

Affirmations:

- ..Issuer: Bulgarian Energy Holding EAD
- Probability of Default Rating, Affirmed Ba1-PD
- Corporate Family Rating, Affirmed Ba1
-Senior Unsecured Regular Bond/Debenture, Affirmed Ba2

Outlook Actions:

- ..Issuer: Bulgarian Energy Holding EAD
-Outlook, Remains Stable

The methodologies used in these ratings were Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1066389, and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207. Alternatively, please see the Rating Methodologies page on www.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 is 100% owned by the Government of Bulgaria. For the six months ended 30 June 2020, Bulgarian Energy Holding reported consolidated total revenues of BGN2,788 million (around EUR1,425 million) and EBITDA of BGN532 million (around EUR272 million).

REGULATORY DISCLOSURES

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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