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Research Update:

Dutch Energy Distribution Network Operator Enexis Holding N.V. Assigned 'A-1' Short-Term Rating

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

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Overview

- Enexis Holding N.V. is a monopoly owner and operator of regulated electricity and gas distribution regional networks in The Netherlands.
- We are assigning Enexis Holding an 'A-1' short-term rating at the company's request.

Rating Action

On Dec. 13, 2016, S&P Global Ratings assigned its 'A-1' short-term corporate credit rating to Enexis Holding N.V.

Rationale

The existing 'A+' long-term corporate credit rating on Enexis Holding and on its subsidiary Enexis B.V. (jointly Enexis) is unchanged. We base our 'A-1' short-term rating on the long-term rating on the company, combined with its strong liquidity assessment.

Liquidity

We view Enexis' liquidity as strong, supported by our view that liquidity sources will exceed funding needs by over 1.5x in the next 12 months.

We anticipate the company will have liquidity sources over the 12 months from June 30, 2016, of about €1.25 billion, including:

- Unrestricted cash and short-term marketable securities of close to €107 million.
- Access to an undrawn €600 million committed credit facility, €55.5 million expiring in June 2020, and €545.5 million expiring in June 2021.
- Annual funds from operations (FFO) of about €550 million.

We anticipate the company will have liquidity uses over the same period of €800 million, including:

- Our estimate of about €600 million in fixed capital expenditure, to pay for smart meter rollout.
- Debt maturities and dividend payments of almost €100 million each over the next 12 months.

Covenant Analysis

Enexis currently has no financial covenants on its debt or committed revolving

credit facility.

Outlook

Our outlook on Enexis is stable. We expect Enexis to sustain S&P Global Ratings-adjusted FFO to debt of about 23%-24% in 2016-2018 as it continues to lower its cost of debt. This should mitigate the declining weighted-average cost of capital used by the regulator to determine tariffs.

Downside scenario

We could lower the ratings if we expected FFO to debt to decline and remain below 18%. In our view, this is unlikely, but could occur either through further distribution network consolidation or a debt-financed extraordinary dividend.

Upside scenario

We could raise the ratings if we deemed it likely that Enexis could sustain adjusted FFO to debt comfortably above 23% with no deterioration in business risk. This could result from an increase in return on capital allowed or a change in management's financial policy.

Ratings Score Snapshot

Corporate Credit Rating: A+/Stable/A-1

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Excellent

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: a+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: 'a+'

- Likelihood of government support: Moderate (no impact)

RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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