MOODY'S RATINGS

Rating Action: Moody's Ratings changes outlook on Enexis to negative from stable; affirms Aa3 ratings

23 May 2025

Frankfurt am Main, May 23, 2025 -- Moody's Ratings (Moody's) has today changed Enexis Holding N.V. (Enexis)'s outlook to negative from stable. Concurrently, the Aa3 long-term issuer and senior unsecured ratings, the (P)Aa3 senior unsecured MTN program rating, the a2 Baseline Credit Assessment (BCA) and the P-1 short term issuer rating have been affirmed.

RATINGS RATIONALE

The outlook change to negative reflects that the financial metrics of Enexis are expected to decline below our guidance for the current rating over the next 12 to 18 months, i.e. funds from operations (FFO) / net debt of at least 16%, and that the path to recovery thereafter remains uncertain. The extent of any recovery of financial metrics to levels commensurate with the current rating will be dependent upon the parameters set for the next regulatory period starting in 2027, and Enexis's financial policy response thereto. The weakening in the financial profile is predominantly driven by increasing capital expenditures to accommodate the energy transition in the Netherlands and more specifically Enexis' service area.

Nevertheless, the affirmation of Enexis' ratings recognizes that to date the company and its owners have been keen to maintain a financial profile in line with the current rating and that changes to the company's earnings profile through changes to the regulatory parameters may permit them to do this within the scope of their financial capacity and requirements.

For example, a beneficial method decision by the Dutch regulator Autoriteit Consument & Markt (ACM) could lead to improving financial metrics commensurate with our current guidance. Except for the implementation of a EUR100 million dividend cap effective 2026, we currently do not take into account any additional balance sheet strengthening measures.

Furthermore, based on an announcement made by the ACM on 13 December 2024[1], a new regulatory method to set tariffs for Dutch distribution network operators starting in 2027 is currently under development. More details will only be available in the second half of 2025, but the ACM is considering changing from an allowed revenue to a cost plus approach, which would enable the network companies to recover actual costs, with a yet to be defined equity return on top. The new approach aims for a faster recognition of capital spending, which should be beneficial for Enexis.

More generally, Enexis Aa3 ratings reflect the company's (1) low business risk associated with monopoly distribution network activities, with very limited contribution from unregulated businesses; (2) the stable and transparent regulatory regime, further supported by the 2023 ruling of the Dutch Trade and Industry Appeals Tribunal (CBb) on certain parameters of the current regulatory framework; (3) the modest leverage compared with the wider European peer group; and (4) the expectation of strong support from local government shareholders and the Dutch state because of the essentiality of assets and the key role the company plays in facilitating the energy transition in its service area.

The ratings are however constrained by (1) a significant increase in capital spending requirements to support the country's energy transition; (2) comparably low WACC in comparison to the previous regulatory period, which reduces financial flexibility; (3) some stranded asset risk faced by gas networks in the context of the energy transition; and (4) uncertainty surrounding Enexis' role in the operation of the district heating infrastructure and the related yet-to-be-specified regulation.

Enexis is rated under our Government-Related Issuers methodology. Therefore, the company's Aa3 rating incorporates two-notches of uplift from its stand-alone credit quality, expressed as a BCA of a2, reflecting the strong probability of extraordinary financial support being provided by its owners, the largest of which is the Province of Noord-Brabant with a 31% shareholding, coordinated if necessary by the Government of Netherlands (Aaa stable) if this was ever needed. There is a very high default dependence between Enexis and its owners, given that the company's operations are provided within its owners' areas.

RATIONALE FOR THE NEGATIVE OUTLOOK

The outlook is negative, reflecting our expectation that the financial metrics of Enexis will drop below those appropriate for the current rating level towards the end of the current regulatory period in 2026.

The outlook could be changed to stable if it appears likely that a combination of balance sheet strengthening measures, financial policies, and / or regulatory parameters were to be implemented to maintain a financial profile commensurate with the current rating through the next regulatory period (2027-2031)

LIQUIDITY

As of year-end 2024, Enexis had cash and cash equivalents on balance sheet of around EUR46 million. Additionally, the company has access to a EUR1 billion syndicated Revolving Credit Facility (RCF), maturing in October 2029 (including extension options) as well as two committed loan facilities with the European Investment Bank (Aaa stable) in a combined amount of EUR590 million with drawdowns possible until 2026 and 2027, respectively. In April 2025, Enexis issued two EUR500 million bonds which further support liquidity.

Despite the increasing investment spending, we expect Enexis' liquidity to be strong over the next 12-18 months. This is because the company has a sizeable cash reserve (including the new bond issues in April 2025), sizeable availability of currently undrawn RCFs, and generally good access to capital markets. Nevertheless, the company will be obliged to source new debt to fund the sizeable capital expenditure program.

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

We consider a rating upgrade unlikely, taking into account the negative outlook driven by the likely weakening of Enexis' financial profile as a result of the increasing investment requirements in the context of the country's ambitious energy transition objectives.

A rating downgrade could be triggered if Enexis is likely to fail to recover and maintain the minimum credit metrics for its rating, illustrated by its funds from operations (FFO)/net debt remaining persistently below 16% and net debt/fixed assets significantly above 50%.

The Aa3 rating could also be subject to downward pressure if the credit profiles of the municipalities and provinces owning Enexis weaken significantly or our assessment of extraordinary support is lowered.

The methodologies used in these ratings were Regulated Electric and Gas Networks published in April 2022 and available at https://ratings.moodys.com/rmc-documents/386754, and Government-Related Issuers methodology published in January 2024 and available at https://ratings.moodys.com/rmc-documents/406502. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

Enexis Holding N.V. owns and manages low and medium voltage electricity and gas distribution networks in the Dutch provinces of Noord Brabant, Overijssel, Limburg, Groningen and Drenthe. The company serves approximately 3.0 million customers for electricity and 2.3 million customers with gas connections. For the year 2024, the company reported EUR2,596 million of revenues and an operating profit of EUR386 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 on https://ratings.moodys.com/rating-definitions.

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The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

REFERENCES/CITATIONS

[1] https://www.acm.nl/nl/publicaties/acm-werkt-nieuwe-reguleringsmethode-voor-netbeheerders-uit 13-Dec-2024

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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