MOODY'S RATINGS

Rating Action: Moody's Ratings upgrades EPIF to Baa3; affirms eustream and SPP-distribucia at Ba1 and Baa2, outlooks stable

29 Nov 2024

Frankfurt am Main, November 29, 2024 -- Moody's Ratings (Moody's) has today upgraded the senior unsecured debt ratings of EP Infrastructure, a.s. (EPIF) to Baa3 from Ba2. At the same time we have assigned to EPIF a Baa3 long-term issuer rating and withdrawn its Ba1 corporate family rating (CFR) and its Ba1-PD probability of default rating. The outlook was changed to stable from positive.

We have also affirmed the long-term Ba1 CFR, the Ba1-PD probability of default rating and the Ba1 senior unsecured debt rating of eustream, a.s. (eustream) as well as the Ba1 rating of the backed senior unsecured notes issued by SPP Infrastructure Financing B.V. and guaranteed by eustream. The outlook for both issuers remains stable.

Finally, we have affirmed the Baa2 senior unsecured debt and long-term issuer ratings of SPP-distribúcia, a.s. (SPP-distribucia). The outlook remains stable.

RATINGS RATIONALE

eustream

Today's rating action follows EPIF's announcements in September 2024 that (1) eustream accumulated an unrestricted cash position in excess of €500 million, thanks to an undisrupted receipt of capacity payments to date; and (2) the funds will be used to repay the forthcoming €500 million bond maturity in February 2025[1], accounting for around half of eustream's gross debt. This development is in line with our base case scenario, and reduces the company's reliance on potential support from its parent company SPP Infrastructure, a.s. (SPP-Infrastructure). As a result, we expect eustream to report net debt/EBITDA of around 1.2x in 2024.

The rating affirmation further reflects our expectation that the business risk profile of eustream will improve from 2025 onwards. This is because the transmission tariffs that apply to capacity bookings other than under the existing Russian transit contract (which accounts for around half of eustream's capacity until 2028) will rise significantly from January 2025. Tariffs in Slovakia (Government of Slovakia, A2 Negative) are calculated using a cost-plus methodology, adjusted by a secondary benchmark alignment to tariffs in other EU member states

However, the rating affirmation also reflects the ongoing uncertainty around eustream's future gas flows and therefore earnings profile, given the risk that gas flows and capacity payments from the Russian shipper could cease, particularly after December 2024 when the Russo-Ukrainian gas transit contract expires. While we estimate that higher tariffs would allow to replace revenues from the Russian counterparty partially, albeit with more predictable cash flows of better credit quality, visibility into the timing and extent of alternative gas flows is currently limited. The rating affirmation nonetheless factors in the central location of eustream's pipelines in Europe, which have good interconnections with neighboring countries and therefore should enable the company to capture some alternative bookings.

SPP-distribucia

The rating affirmation reflects that the credit quality of the company continues to be supported by (1) its position as a quasi-monopoly provider of gas distribution services in Slovakia; (2) a fairly supportive regulatory framework; and (3) its strong cash flow generation, coupled with low investment requirements, which results in strong credit metrics, with funds from operations (FFO)/net debt of 168% for the financial year that ended 31 July 2024.

At the same time, SPP-distribucia's rating remains constrained by the potential need to provide financial support to eustream, its sister company within the SPP-Infrastructure group.

EPIF

Today's rating action follows the announcement by EPIF that it has signed a new €400 million committed revolving credit facility (RCF) with a three-year tenor, which will replace a current RCF of equivalent size, maturing in January 2025[2]. The signing of this new facility strengthens EPIF's liquidity profile, which in turn supports the assignment of the Baa3 long-term issuer rating.

The rating action also reflects that we expect EPIF to continue to exhibit credit metrics consistent with a Baa3 rating on a sustained basis, including proportional net debt/proportional EBITDA below 3.5x and FFO/net debt on a fully consolidated basis (as per IFRS reporting) above 30% in a scenario where Russian gas continues to flow. As of 30 June 2024, EPIF reported proportional leverage of 2.6x and consolidated FFO/net debt of 48% (both LTM-based) as a result of a higher EBITDA driven by the normalization of the gas transit business. The Baa3 rating nonetheless further factors in our expectation that, in a scenario where gas flows and capacity payments from the Russian shipper cease, EPIF will manage its financial profile in a prudent manner in order to maintain credit quality.

More generally, EPIF's Baa3 rating is underpinned by (1) the strong business risk profiles of its regulated monopoly energy distribution activities and quasi-monopoly heating infrastructure, which generate relatively stable and predictable cash flow; and (2) its diversified business model characterized by a mix of activities including gas transit, gas distribution and electricity distribution networks in Slovakia, as well as district heating in Czech Republic (Government of Czech Republic, Aa3 Stable) and gas storage. At the same time, the ratings remain constrained by (1) the reliance of EPIF on dividend flows from its operating subsidiaries; (2) a high level of debt at the holding company; and (3) the remaining, albeit diminished, exposure of eustream to the risk of a cessation of Russian gas flows.

The upgrade of the senior unsecured debt ratings to Baa3 from Ba2 factors in that around 70% of the overall group's gross debt (on the basis of proportional consolidation) is located at the holding company level; a proportion that we expect will remain at or above that level going forward. In our view, this level of holding company debt, together with (1) eustream's stronger balance sheet and improved liquidity, allowing for the bond repayment in 2025 from its own funds, and (2) some diversification with three core cash flow generating entities, reduces the risk of structural subordination for EPIF's creditors.

RATIONALE FOR STABLE OUTLOOK

eustream

The stable outlook reflects our expectation that eustream can withstand a potential halt in Russian gas shipments and capacity payments in the context of higher tariffs applicable from 2025. It also reflects our expectation of parental support in case of need.

SPP-distribucia

The stable outlook on SPP-distribucia reflects the stable outlook on eustream, given the credit linkages between the two companies. It also reflects the company's very strong credit metrics.

EPIF

The stable outlook reflects our expectation that EPIF will maintain proportional net debt/proportional EBITDA below 3.5x and FFO/net debt on a fully consolidated basis (as per IFRS reporting) above 30%. This ratio guidance could be revised if the group's earnings mix evolves, notably if Russian capacity payments cease.

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

An upgrade of eustream's ratings is contingent upon clarity around the company's future gas flow and earnings profile after December 2024, when the Russo-Ukrainian gas transit contract matures. eustream's ratings could be downgraded if the Russian capacity payments stopped and were not sufficiently compensated by alternative gas contracts or support from the SPP-Infrastructure group, or both.

SPP-distribucia

SPP-distribucia's ratings could be upgraded if there was a significant strengthening of the credit quality of the wider SPP-Infrastructure group, including eustream. SPP-distribucia's ratings could be downgraded in case of (1) a material adverse regulatory development; (2) a significant deterioration in the credit quality of eustream; or (3) the company's FFO/debt ratio were to fall below 25% on a sustained basis.

EPIF

Upward rating pressure is not anticipated over the medium term, given EPIF's current financial policy. EPIF's ratings could be downgraded if its leverage (proportional net debt/proportional EBITDA) exceeds 3.5x or FFO/net debt on a fully consolidated basis (per IFRS reporting) falls below 30% on a sustained basis. The ratings could also be downgraded if EPIF were to relax its financial policy materially without a commensurate strengthening of its earning mix.

PRINCIPAL METHODOLOGIES

The principal methodology used in rating EP Infrastructure, a.s. and SPP-distribucia, a.s. was Regulated Electric and Gas Networks published in April 2022 and available at https://ratings.moodys.com/rmc-documents/386754 . The principal methodology used in rating eustream, a.s. and SPP Infrastructure Financing B.V. was Natural Gas Pipelines published in April 2024 and available at https://ratings.moodys.com/rmc-documents/420000. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

eustream, a.s., is the owner and operator of the natural gas transmission and transit pipeline that runs through Slovakia. For the twelve months that ended 31 January 2024, the company reported EUR252 million of revenues.

SPP-distribúcia, a.s. is the monopoly provider of regulated gas distribution services in Slovakia. In the financial year 2023/24 the company reported EUR477 million of revenues.

EP Infrastructure, a.s. is a Czech holding company with shareholdings in core Slovak gas and electricity infrastructure, including (1) eustream, a.s.; (2) SPP-distribúcia, a.s.; and (3) Stredoslovenska Energetika group. The group also holds stakes in regional gas storage entities SPP Storage, NAFTA, NAFTA Speicher and Pozagas, as well as a number of district heating infrastructure providers in the Czech Republic.

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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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REFERENCES/CITATIONS

[1] https://www.epinfrastructure.cz/wp-content/uploads/EPIF_H1-

2024_Results_Presentation.pdf 04-Sep-2024

[2] https://www.epinfrastructure.cz/en/tiskove-zpravy/ep-infrastructure-signs-a-new-facility-agreement-with-a-club-of-international-banks/ 08-Nov-2024

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Jan Jurgensen
Asst Vice President - Analyst
Infrastructure Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Paul Marty
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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