S&P Global
Ratings

RatingsDirect®

Research Update:

Eneco Holding and Stedin Netbeheer 'A-' Ratings Affirmed After Unbundling Requirements Confirmed; Outlook Stable

Primary Credit Analyst:
Beatrice de Taisne, CFA, London (44) 20-7176-3938; beatrice.de.taisne@spglobal.com

Secondary Contact:
Alf Stenqvist, Stockholm (46) 8-440-5925; alf.stenqvist@spglobal.com

Table Of Contents

Research Update:

Eneco Holding and Stedin Netbeheer 'A-' Ratings Affirmed After Unbundling Requirements Confirmed; Outlook Stable

Overview

- On Nov. 1, 2016, the Amsterdam Court confirmed the requirement for Dutch multi-utility Eneco Holding N.V. to unbundle by January 2017.
- Eneco Holding will spin-off its non-network activities to N.V. Eneco Beheer while leaving Stedin Netbeheer B.V.--which is core to Eneco Holding--in charge of its regulated networks.
- We are therefore assessing Eneco Holding and Stedin Netbeheer as if the unbundling has already taken place as we cannot see a scenario where this would not be the case.
- The new group will have a stronger business risk profile as it will be almost entirely regulated, but will also be more leveraged.
- We are affirming our 'A-' ratings on Eneco Holding and Stedin Netbeheer.
- The outlook remains stable, reflecting our expectation that the group will maintain credit metrics in line with the ratings, namely funds from operations to debt consistently above 11%.

Rating Action

On Nov. 24, 2016, S&P Global Ratings affirmed its long-term corporate credit ratings on Dutch multi-utility Eneco Holding N.V. and Stedin Netbeheer B.V. at 'A-'. The outlook remains stable.

We also affirmed our 'A-2' short-term rating on Eneco Holding.

At the same time, we affirmed our issue ratings on Eneco Holding's unsecured debt at 'A-' and hybrid security at 'BBB'.

Rationale

The rating affirmations follow the confirmation by the Amsterdam Court that Eneco Holding must unbundle its regulated network from the rest of its activities by Jan. 31, 2017. As previously disclosed by the company, Eneco Holding and Stedin Netbeheer (the group is referred to as Eneco Holding in the rest of the report) will hold the network activities, while Eneco Beheer will operate the non-network businesses, including mainly power generation and supply and energy services.

Eneco Holding will become an almost entirely regulated company and therefore we view its business risk profile as much stronger than before the unbundling. The stability of Eneco Holding's regulated cash flow compensates for a likely higher leverage than is the case currently, with funds from operations (FFO) to debt lowering to above 12% on average over the next few years. This is a higher leverage than Eneco Holding is currently operating at, but the regulated entity would benefit from a stronger business risk profile, almost entirely comprising regulated network activities and benefiting from a strong regulatory framework. Stedin Netbeheer owns a 45,037km electricity distribution network in The Netherlands and is an efficient operator. We understand that all existing bonds will remain within the regulated group.

Eneco Holding issued a €500 million hybrid in 2014, which included a clause giving the company a call option if unbundling was forced upon the company and Eneco Holding had to dispose of the regulated networks. As the current plan is for Eneco Holding to remain owner of the regulated network, the clause would not operate and therefore there is no impact on our assessment of the equity content of the hybrid.

We base our 'A-' long-term rating on Eneco Holding on our view of the company's stand-alone credit profile, which we assess as 'a-', and our opinion that there is a moderate likelihood that its owners would provide timely and sufficient extraordinary support to the company in the event of financial distress.

Our view of a moderate likelihood of timely and sufficient extraordinary support is based on our assessment of Eneco Holding's:

- Important role, given its strategic importance to the provinces and municipality owners as the monopoly provider of gas and electricity distribution services in its license areas; and
- Limited link with the owners given the dispersed ownership structure. Eneco Holding's owners are the municipalities of Rotterdam (31.69%), The Hague (16.55%), Dordrecht (9.05%), and 52 other small local authorities, each with less than 4% ownership.

In our base case, we assume:

- Regulated activities will remain within the existing rated group;
- Public municipalities will retain their ownership in Eneco Holding;
- Eneco Holding will retain the existing debt and hybrid instrument, except for €506 million;
- Unbundling will result in some additional costs;
- Dividend policy will be based on a 50% net profit payout; and
- The call option in the hybrid is not triggered by the unbundling.

Based on these assumptions, we arrive at the following credit measures:

- FFO to debt above 12% on average on an ongoing basis; and
- Negative free operating cash flow post dividends and capital expenditure (capex).

Liquidity

The short-term corporate credit rating is 'A-2'. We assess Eneco Holding's liquidity position as adequate, reflecting our view of its currently strong liquidity position and our understanding that the company will put in place adequate financing arrangement post unbundling.

Post unbundling, we understand that Eneco Holding will have access to a facility of at least €500 million maturing in October 2018 and €500 million bridge facilities maturing in November 2017 and February 2018 which, together with an FFO of about €320 million-€350 million, should finance capex of about €400 million-€500 million annually and short-term debt of about €225 million in the first quarter of 2017.

Pre unbundling, we anticipate the following principal liquidity sources over the next 12 months:

- Access to cash and cash equivalents of approximately €239 million as of June 30, 2016;
- Access to €1.25 billion in an undrawn committed credit facility expiring in October 2018; and
- FFO of about €700 million according to our base-case scenario.

We anticipate the following principal liquidity uses over the same period:

- Capex of about €700 million annually;
- Repayment of short-term debt of approximately €225 million until the second quarter of 2018; and
- Shareholder distributions of 50% of net income.

Outlook

The stable outlook on Eneco Holding and Stedin Netbeheer reflects the group's excellent business risk profile and our expectation that Eneco Holding will maintain credit metrics in line with the rating, namely FFO to debt consistently above 11%. Strong earnings from the distribution networks support this assessment, even though we expect profitability to be affected by additional costs brought from the unbundling process.

Downside scenario

We could lower the ratings on Eneco Holding if the group's credit metrics deteriorated sustainably below the levels we consider commensurate with the ratings post unbundling. In particular, this could happen if S&P Global Ratings-adjusted FFO to debt fell below 11%. We view some profitability risks from the upcoming regulatory review and potential lower profitability in 2020 when some of the profit on smart meters may have to be returned to consumers.

Upside scenario

We consider an upgrade unlikely in the near term as the unbundling creates some potential short-term profitability risks and because of profitability constraints from 2020. This said, we would consider an upgrade if Eneco Holding maintained FFO to debt sustainably above 15%.

Ratings Score Snapshot

Eneco Holding N.V.

Corporate Credit Rating: A-/Stable/A-2

Business risk: Excellent
- Country risk: Very Low
- Industry risk: Very Low
- Competitive position: Excellent

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: a-

Modifiers
- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Liquidity: Adequate
- Financial policy: Neutral
- Management and governance: Satisfactory
- Comparable rating analysis: Neutral

Stand-alone credit profile: a-
- Sovereign rating: NR (local municipalities)
- Likelihood of government support: Moderate

NR--Not rated.

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 01, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 01, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research

- Eneco Beheer Rating On Watch Negative; Eneco Holding Rating Affirmed After Further Disclosure On Likely Unbundling Plans, Sept. 20, 2016
- Netherlands-Based Delta And Eneco Ratings Affirmed After Dutch Regulator's Announcement About Potential Unbundling Dates, Dec. 17, 2015

Ratings List

Ratings Affirmed

Eneco Holding N.V.	
Corporate Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Junior Subordinated	BBB
Commercial Paper	A-2
Stedin Netbeheer B.V.	
Corporate Credit Rating	A-/Stable/--

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of 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.