Summary:
Enexis Holding N.V.

Primary Credit Analyst:
Karin Erlander, London (44) 20-7176-3584; karin_erlander@standardandpoors.com

Secondary Contact:
Mark J Davidson, London (44) 20-7176-6306; mark_j_davidson@standardandpoors.com

Table Of Contents

Summary:
Enexis Holding N.V.

Credit Rating:	A+/Positive/--

Rationale

The ratings on Dutch electricity and gas distribution network company Enexis Holding N.V. and its subsidiary Enexis B.V. (jointly Enexis) reflect Standard & Poor's Ratings Services' view of the company's "excellent" business risk profile and "intermediate" financial risk profile.

Our assessment of Enexis' business risk profile as "excellent" reflects its natural monopoly status in its license areas, its low-risk regulated electricity and gas distribution network businesses, and its high quality network assets. The majority of Enexis' activities, including its electricity and gas tariffs, are regulated by the Dutch Ministry of Economic Affairs and the Dutch regulator, Energiekamer. These strengths are partly offset by the regulatory tariff reset risk every third year (the next regulatory period starts on Jan. 1, 2014); exposure to incentive-based regulation that can impose challenging efficiency requirements; and the potential for further consolidation in the Dutch energy network sector, in which we anticipate Enexis would take an active part.

The "intermediate" financial risk profile continues to reflect Enexis' stable and predictable operating cash flow, our view that Enexis' credit metrics have strengthened due to tariff increases for the 2011-2013 regulatory period, and the company's well-spread maturity profile. It also takes into account a sizable capital expenditure (capex) program of about €850 million over 2012 and 2013, and the risk that investments could increase above our base-case projections due to acquisitions or higher-than-anticipated investments in smart meters.

The 'A+' rating on Enexis is based on the company's stand-alone credit profile, which we assess at 'a+', and on our opinion that there is a "moderate" likelihood that its owners would provide timely and sufficient extraordinary support in the event of financial distress. In accordance with our criteria for government-related entities, our view of a "moderate" likelihood of extraordinary support is based on our assessment of Enexis':

- "Important" role, given its strategic importance to its province and municipality owners, as the monopoly provider of gas and electricity distribution services in its license areas; and
- "Limited" link to its owners, given the dispersed ownership structure. Enexis' owners are the provinces of Noord Brabant (31%), Overijssel (19%), Limburg (16%), Groningen (6%), and Drenthe (2%), as well as other provinces and 116 municipalities in the region.

S&P base-case operating scenario

We project that Enexis' revenues, including the potential acquisition of N.V. Rendo, the owner and operator of a gas and electricity distribution network in the north of The Netherlands, will increase by an average of 5% per year through 2013, and that the company's EBITDA margin will remain about 51%. We anticipate that revenue growth, excluding any acquisitions, will then decline because we believe that the regulator is likely to impose stricter efficiency

1041506 | 300978253

requirements on the Dutch network sector in the next regulatory period from Jan. 1, 2014.

We believe that Enexis will be able to sustain the level of earnings achieved in 2011 and the first half of 2012, when the Standard & Poor's adjusted EBITDA rose by 13% to €674 million and by 1% to €351 million respectively, and the EBITDA margin remained solid at 51%. This is because of the approved regulated tariffs through 2013 and the company's ongoing cost-saving program.

Revenues are also likely to increase as a result of the consolidation of the Dutch gas distribution network operator Intergas that Enexis acquired in May 2011.

S&P base-case cash flow and capital-structure scenario

We believe that Enexis's credit metrics will remain largely unchanged in 2012 and 2013 compared with 2011, when its Standard & Poor's-adjusted funds from operations (FFO)-to-debt ratio was 33%. While debt has increased following the issuance of two bonds this year, we net off the accumulated cash remaining after the redemption of a bond such that the credit metrics are left unchanged. The €300 million 10-year bond issued in January was used to refinance the €450 million bond that fell due in September, with the remainder covered with Enexis' existing cash. Enexis issued a €500 million eight-year bond in November, thereby reducing the refinancing risk relating to the €500 million shareholder loan that falls due in September 2014, but which Enexis has the option to repay one year prior to maturity.

Whether Enexis' credit metrics will remain at these levels after 2013 depends to a large extent on the tariff set from Jan. 1, 2014, which we will have more clarity about when the regulator publishes its draft decision during the first half of 2013.

It also depends on the scope and timing of further acquisitions. While we include the Rendo acquisition in our projections for 2013, it is uncertain when, or even if, this acquisition will be closed. We believe that Enexis will continue to participate in the consolidation of the distribution network sector in The Netherlands. In our opinion, however, uncertainties remain about the timing and we therefore believe that investment likely will be more spread out over time, thereby limiting the near-term effect on the company's credit metrics. Therefore we believe Enexis will be able to sustain Standard & Poor's-adjusted FFO to debt of more than 20% over the next few years. However, whether Enexis can sustain credit metrics warranting an upgrade remains to be seen.

Liquidity

We assess Enexis' liquidity position as "strong" as defined in our criteria, supported by our view that Enexis' liquidity sources will exceed its funding needs by well over 1.5x in the next 12 months.

As of Sept. 30, 2012, we estimate that Enexis' liquidity sources over the next 12 months will exceed €1 billion under our base-case scenario. These include:

- Unrestricted cash and short-term marketable securities of close to €100 million.
- Access to an undrawn €450 million committed credit facility expiring in 2015. We believe that Enexis will maintain substantial headroom under the financial covenants in its credit facility documentation.
- Annual FFO of about €550 million.

We estimate that Enexis' liquidity needs--excluding potential cash outflows linked to sector consolidation--will be close to €600 million in the 12 months to Sept. 30, 2013, including:

- Working capital of about €20 million.
- Capex of close to €450 million.
- Dividend payments of about €125 million.

Enexis' liquidity profile is further supported by the issuance of a €500 million eight-year bond in November 2012, while the next debt maturity does not fall due until September 2014.

We also consider that Enexis has the ability to absorb high-impact, low-probability events, with limited need for financing, that the company has a well-established and solid relationship with its core banks, a generally high standing in the credit markets, and that it has very prudent financial risk management. This view is supported by the two bond issues that Enexis launched in 2012. Positively, Enexis successfully terminated the last of its cross-border leases (CBLs) in September 2012. Enexis no longer has any CBLs linked to its distribution networks and has thereby removed the risk of early termination and related cash outflows.

Outlook

The positive outlook reflects our view that Enexis will continue to report solid cash flow coverage of debt metrics through 2013, due to pre-approved regulatory tariffs and ongoing cost savings, and that the strengthening of credit metrics could continue through the next regulatory period from Jan. 1, 2014.

We would consider a one-notch upgrade to 'AA-' if we assess that the company's financial risk profile is likely to have strengthened on a sustainable basis, particularly if the company is able to sustain adjusted FFO to debt of about 25%, while maintaining an unchanged business risk profile. This would largely depend on the tariff set for the next regulatory period from Jan. 1, 2014.

However, we would likely revise the outlook to stable if we believe that the company is likely to recapitalize its balance sheet to be in line with its publicly-stated minimum FFO-to-debt ratio requirement of 20%. Such a recapitalization could, in our view, occur either through further sector consolidation in The Netherlands, an extraordinary dividend distribution, or negative regulatory intervention.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 17, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Additional Contact:

Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com