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Summary:
Enexis Holding N.V.

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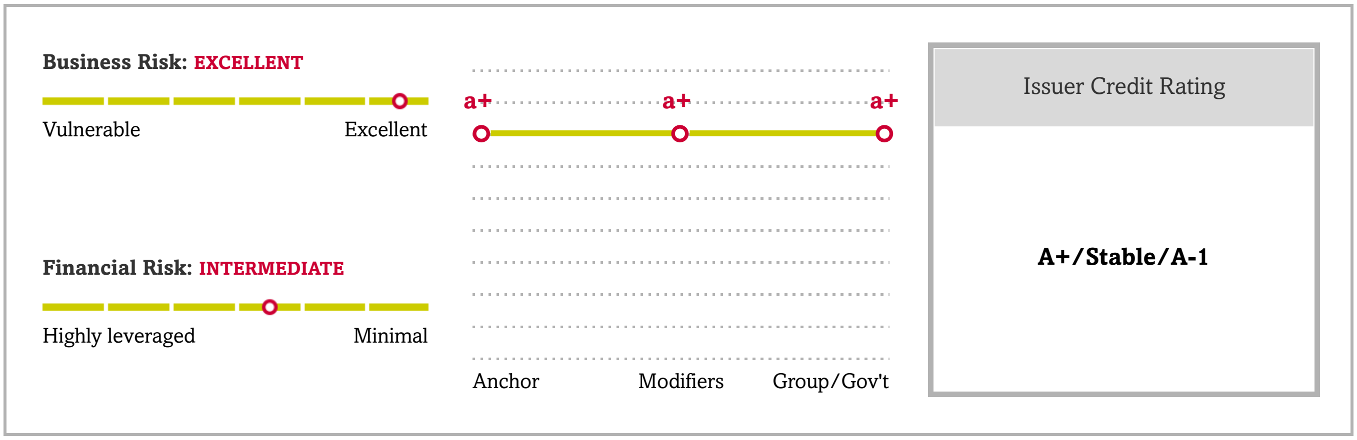

Credit Highlights

Key Strengths	Key Risks
Low-risk regulated operating environment for its electricity and gas distribution network and high-quality assets.	Intensive capital expenditure (capex) program will result in negative free operating cash flow (FOCF) over the next two to three years.
Expanding regulatory asset base, supported by energy transition plan in the Netherlands.	Funds from operations (FFO) to debt decreasing to about 21%-23% over the next years, but still well above our 18% threshold for current rating.
Stable and predictable earnings supported by transparent regulatory framework.	Decreasing regulatory working average cost of capital (WACC) over the 2017-2021 period may put pressure on revenues.

Energy transition in the Netherlands is supportive of Enexis' business model.

We believe that Enexis is well positioned to seize opportunities stemming from the Dutch government's aim to increase renewable energy to 16% of total sources by 2023. For example, we think it will not only take advantage of its existing infrastructure, but will also continue developing its grid network by integrating some solar and wind projects related to the Dutch electricity grid.

We expect pressure on revenues from a decline in regulatory WACC will be offset.

Although a lower regulatory returns will likely put pressure on Enexis' revenues, we believe this will be alleviated by a larger regulatory asset base (RAB) resulting from network deployment under the energy transition phase and cost efficiencies.

Outlook: Stable

The stable outlook on Enexis reflects our expectation that the company will post FFO to debt levels within the 21%-23% range over the next two years. Although Enexis has incremental debt needs due to an intensive capex program as part of the Dutch government's energy transition plan, the company's financial headroom should be sufficient to maintain this ratio above the 18% threshold for the rating. We also expect that the effects of a declining regulatory WACC over the 2017-2021 regulatory period will be manageable for the company due to further operating efficiencies. Although taking effect in the new regulatory period, a higher RAB should also contribute in mitigating these effects over the medium term.

Downside scenario

We could downgrade Enexis if FFO to debt were to decline and remain below 18%. We believe this is unlikely in the short term, given the company's headroom, but could occur through further distribution network consolidation or a higher-than-expected increase in debt and shareholder distributions.

Upside scenario

We could raise the rating if we thought 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.

Our Base-Case Scenario

Assumptions

- Regulatory WACC of 3.8% decreasing to 3.5% in 2019 and to 3.0% by the end of regulatory period due to reduced cost of debt.
- A 3.0% revenue increase for 2018 due to a 2.9% customer tariff increase for electricity and a 0.8% tariff increase for gas. A full-year consolidation of Weert, the gas and electricity network acquired from Stedin in 2017, and an increase in the connection points in Enexis' existing servicing area should also contribute to higher revenues. In addition, we forecast revenue growth of 4% in 2019 mainly due to higher sufferance tax compensation and positive corrections on transport costs.
- Profitability supported by Enexis cost cutting and operating efficiency measures, but also from synergies stemming from Weert and Endinet integration. We forecast an EBITDA margin at about 49% in 2018 and 50% in 2019.
- We expect Enexis net capex will increase to €645 million in 2018 and €688 million in 2019, to the larger extent related to wind and solar projects grids on land within the Dutch energy transition context.
- Resulting from higher capex, we forecast higher financing needs over our forecast scenario. We also forecast that the company will refinance maturities as they come due.
- Weighted average cost of debt to decreasing by about 30-35 basis points in 2019 due to the refinancing of a 7.2% €350 million shareholder loan at more competitive rates.
- A ratio of equity to debt plus equity above 61% in 2018, declining to close to 60.5% in 2019 on incremental debt.
- A dividend payout ratio of 50% on an annual basis.

Key Metrics

	2017a	2018e	2019e
Debt to EBITDA (x)*	3.30	3.3-3.5	3.3-3.5
FFO to debt (%)*	24.50	21-23	21-23
FFO interest cover (x)*	11.10	9-11	10-12
DCF to debt (%)*	(1.50)	(5-7)	(5-7)
Debt to debt + equity (%)*	37.70	38-40	39-41

*S&P Global Ratings' adjusted figures. a--Actual. e—Estimate. FFO--Funds from operations. DCF--Discretionary cash flow.

Base-Case Projections

Enexis should have sufficient headroom for debt to FFO, despite incremental debt issuance.

Enexis will issue incremental debt over the next few years in order to finance capex related to wind and solar projects on land under the Dutch energy transition. Due to this factor, we believe that the company's FFO to debt will trend toward around 21%-23% over the next two years. Despite this, we believe that the company will continue to have a comfortable headroom under this credit metric, since we believe it will remain well above our 18% threshold for the current rating level.

Increase in capex will result in negative FOCF over the next two to three years.

We forecast capex will increase by about 25% in 2018 compared with 2017, and 7% in 2019 compared with 2018, mostly due to investments in Enexis' electricity network because of wind and solar power generation projects. We expect this, in addition to ongoing smart meter related capex, will result in negative FOCF of about €70 million-€75 million for each year.

Company Description

Enexis Holding N.V. engages in the installation, maintenance, operation and development of distribution grids for electricity and gas in the Netherlands. Through its main subsidiary, Enexis Netbeheer B.V., the group's electricity grid covers 139,100 kilometers (km) with 2.8 million connection points while its gas grid covers 46,400 km with 2.3 million connection points, making it the second-largest Dutch distribution system operator (DSO), only behind Alliander. Through its network, the company provides electricity to 2.8 million customers and gas to 2.3 million in the Dutch provinces of Groningen, Drenthe, Overijssel, Noord-Brabant, and Limburg.

Business Risk: Excellent

The low-risk regulated operating environment for the Enexis' electricity and gas network business, and its high-quality assets support its competitive position. We assume that the company will continue to generate more than 95% of its EBITDA from regulated activities under our base-case scenario, although we understand that Enexis may explore the possibility of participating in district heating infrastructure over the next few years.

In our view, Enexis business risk profile is supported by the concentration of the company's operations under the Dutch regulatory framework, which in our view is characterized by a high degree of regulatory stability, well-developed tariff-setting procedures, moderate financial stability, and low risk of political interference. We believe these factors result in favorable cost recovery combined with low volatility of earnings and cash flows for Enexis.

We expect Enexis will continue to focus on energy transition and optimizing its grid management. We believe that the company's aim to improve technology and increasing efficiency will continue to improve its cost structure, leaving some room for margin improvement.

The energy transition in the Netherlands is supportive of Enexis business model. Dutch government targets an increase in the share renewable energy sources as percentage of total to 16% in 2023 from 6% in 2017. To that end, there are a number of wind and solar projects under development in the Netherlands. In response to that, Enexis is scaling up its network. We believe that Enexis is a key player under the Dutch energy transition context and that current investments related to these projects will provide additional support to its existing competitive position through a larger RAB.

Peer comparison

Table 1

Enexis Holding N.V. -- Peer Comparison					
Industry Sector: Electric					
	Enexis Holding N.V.	**Alliander N.V.**	**N.V. Nederlandse Gasunie**	**TenneT Holding B.V.**	**Stedin Holding N.V.**
Rating as of Nov. 15, 2018	A+/Stable/A-1	AA-/Stable/A-1+	AA-/Stable/A-1+	A-/Stable/A-2	A-/Stable/A-2
	--Average of past three fiscal years--				**--2017 fiscal year--**
(Mil. €)					
Revenues	1,369.8	1,622.3	1,548.2	3,221.0	1,194.0
EBITDA	702.1	616.3	1,076.2	1,233.2	495.5
Funds from operations (FFO)	558.1	500.5	849.7	896.3	371.9
Net income from cont. oper.	212.4	168.7	332.0	224.0	89.0
Cash flow from operations	559.0	462.1	802.0	1,039.1	579.9
Capital expenditures	488.9	546.7	302.5	2,009.7	499.0
Free operating cash flow	70.1	(84.5)	499.5	(970.6)	80.9
Discretionary cash flow	(45.8)	(197.2)	231.5	(1,235.1)	(12.1)
Cash and short-term investments	228.3	84.3	156.6	71.7	72.7
Debt	2,222.9	1,959.7	4,181.2	7,662.1	3,046.3
Equity	3,706.6	3,583.0	5,772.6	4,539.0	2,332.5
Adjusted ratios					
EBITDA margin (%)	51.3	38.0	69.5	38.3	41.5
Return on capital (%)	6.1	5.3	7.4	4.9	3.2
EBITDA interest coverage (x)	8.4	9.1	7.7	6.3	5.2
FFO cash int. cov. (X)	8.9	8.4	7.3	6.9	5.5
Debt/EBITDA (x)	3.2	3.2	3.9	6.2	6.1
FFO/debt (%)	25.1	25.5	20.3	11.7	12.2
Cash flow from operations/debt (%)	25.1	23.6	19.2	13.6	19.0
Free operating cash flow/debt (%)	3.2	(4.3)	11.9	(12.7)	2.7
Discretionary cash flow/debt (%)	(2.1)	(10.1)	5.5	(16.1)	(0.4)

*We only include fiscal year 2017 for Stedin as its financial figures from 2016 and before are not representative.

Financial Risk: Intermediate

Although we expect Enexis' credit metrics will slightly deteriorate due to a lower regulatory WACC, and an intensive capex program coupled with incremental debt, we believe that the company has a comfortable headroom since its FFO to debt will remain consistently in the 21%-23% range, which is above our 18% threshold for the current rating.

We understand Enexis' capex will be mostly linked to wind and solar projects on land within the Dutch energy transition context, and that the rest will be destined for gas pipeline replacement in addition to an ongoing smart meter roll-out program. We expect capital expenses will result in negative FOCF until 2020, when we expect capex related to network deployment as well as to smart meters will moderate. However, these investments will result in a larger RAB by 2020, which will in turn translate into higher allowed revenues for future years and contribute to mitigate a lower regulated WACC, in our opinion.

A lower regulatory WACC to weigh on revenues

In the Netherlands, the regulatory WACC provides the DSOs a return on their RAB. Over the current regulatory period, the WACC (real pre-tax) is set to decline to 3.0% by end-2021 from 4.04% in 2017 due to reduced cost of debt.

The regulatory WACC multiplies the RAB, and then is added to depreciation and operating expenses (opex) to set average efficient costs. These costs constitute the basis for future allowed revenues. Therefore, all other things equal, we expect a lower WACC to put some pressure on Enexis' revenues for future periods. In our opinion, a 2.9% and 0.8% increase in electricity and gas customer tariffs, respectively, will partially mitigate these pressures for 2018, and higher sufferance tax compensation alongside continued operating efficiencies will do so in 2019. In addition, we expect that a higher RAB resulting from network deployment under the energy transition phase will also contribute to alleviating the impact of a lower regulatory return, although this won't take fully effect until the next regulatory period.

For further detail on tariff-setting procedures, please refer to "Why Do We View The Dutch Electricity And Gas Networks Regulatory Framework As Supportive?," published March 2, 2016, on RatingsDirect.

Shareholder loan refinancing

Enexis outstanding 7.2% €350 million tranche D shareholder loan is due in September 2019. We expect the company will refinance this loan with new debt at better interest rates, and that this, together with ongoing debt portfolio management, should decrease interest expense by about €6 million-€9 million on yearly basis, according to our estimates. We believe this is supportive for the company's FFO generation amid an environment with higher efficiency ratios and decreasing regulatory WACC.

Financial summary

Table 2

Enexis Holding N.V. -- Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Revenues	1,380.0	1,376.0	1,353.4	1,402.1	1,385.7
EBITDA	699.0	701.0	706.3	758.3	736.8
Funds from operations (FFO)	563.6	557.7	552.9	578.5	586.7
Net income from continuing operations	207.0	207.0	223.1	265.5	239.1
Cash flow from operations	582.6	550.8	543.7	600.0	507.0
Capital expenditures	514.0	521.2	431.6	396.1	398.3
Free operating cash flow	68.6	29.6	112.1	203.9	108.7
Discretionary cash flow	(35.4)	(81.4)	(20.7)	84.4	(5.8)

Table 2

Enexis Holding N.V. -- Financial Summary (cont.)

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Cash and short-term investments	286.0	198.0	201.0	206.3	200.0
Debt	2,302.5	2,203.0	2,163.0	1,657.9	1,737.4
Equity	3,808.0	3,704.0	3,607.7	3,516.7	3,370.1
Adjusted ratios					
EBITDA margin (%)	50.7	50.9	52.2	54.1	53.2
Return on capital (%)	5.5	5.8	7.1	8.3	8.3
EBITDA interest coverage (x)	10.4	8.6	7.0	8.7	6.9
FFO cash int. cov. (x)	11.1	8.3	8.0	8.3	6.5
Debt/EBITDA (x)	3.3	3.1	3.1	2.2	2.4
FFO/debt (%)	24.5	25.3	25.6	34.9	33.8
Cash flow from operations/debt (%)	25.3	25.0	25.1	36.2	29.2
Free operating cash flow/debt (%)	3.0	1.3	5.2	12.3	6.3
Discretionary cash flow/debt (%)	(1.5)	(3.7)	(1.0)	5.1	(0.3)

Liquidity: Adequate

We continue to assess Enexis liquidity as adequate based on our expectation that the company's sources will exceed its uses by more than 1.1x over the 12 months starting June 30, 2018, and because we believe that the company could withstand the stress of a 10% drop in EBITDA.

Our assessment also considers Enexis' qualitative factors such as its generally high standing in credit markets demonstrated by its diverse sources of funding, and its typically very prudent risk management.

Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash and short-term marketable securities of €63 million as of June 30, 2018. • Access to an undrawn committed revolving credit facility of €600 million maturing beyond 2020. • Projected cash FFO of €570 million-€585 million s. • Working capital inflows of about €5 million-€15 million.	• Commercial paper and short-term debt maturities of about €210 million. • Capex of €650 million-€670 million. • Dividend distributions of €110 million-€120 million.

Ratings Score Snapshot

Issuer 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:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Issue Ratings--Subordination Risk Analysis

Capital structure

Enexis reported debt as of June 30, 2018, was €2.64 billion, out of which €1.8 billion correspond to Euro medium-term notes, €350 million to the tranche D of the company's convertible shareholder loan, and the rest is a mix of Euro commercial paper and bank loans.

Analytical conclusions

We rate Enexis' debt at the same level as the issuer credit rating level, reflecting our view that debt at subsidiaries is immaterial and represents no subordination risk that could result in material credit disadvantage to bondholders.

Reconciliation

Table 3

Reconciliation Of Enexis Holding N.V. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2017--					
Enexis Holding N.V. reported amounts						
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**
Reported	2,487.0	684.0	339.0	61.0	684.0	557.0
S&P Global Ratings' adjustments						
Interest expense (reported)	--	--	--	--	(61.0)	--
Interest income (reported)	--	--	--	--	2.0	--
Current tax expense (reported)	--	--	--	--	(70.0)	--
Operating leases	87.5	32.0	6.4	6.4	25.6	25.6
Surplus cash	(286.0)	--	--	--	--	--
Dividends received from equity investments	--	1.0	--	--	1.0	--
Non-operating income (expense)	--	--	(1.0)	--	--	--
Debt - Fair value adjustments	14.0	--	--	--	--	--
EBITDA - Other	--	(18.0)	(18.0)	--	(18.0)	--
D&A - Other	--	--	18.0	--	--	--
Total adjustments	(184.5)	15.0	5.4	6.4	(120.4)	25.6
S&P Global Ratings' adjusted amounts						
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	2,302.5	699.0	344.4	67.4	563.6	582.6

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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 - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, 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: Management And Governance Credit Factors For Corporate Entities And Insurers,

Nov. 13, 2012

- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Why Do We View The Dutch Electricity And Gas Networks Regulatory Framework As Supportive?, March 2, 2016

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-