RatingsDirect®

Summary:

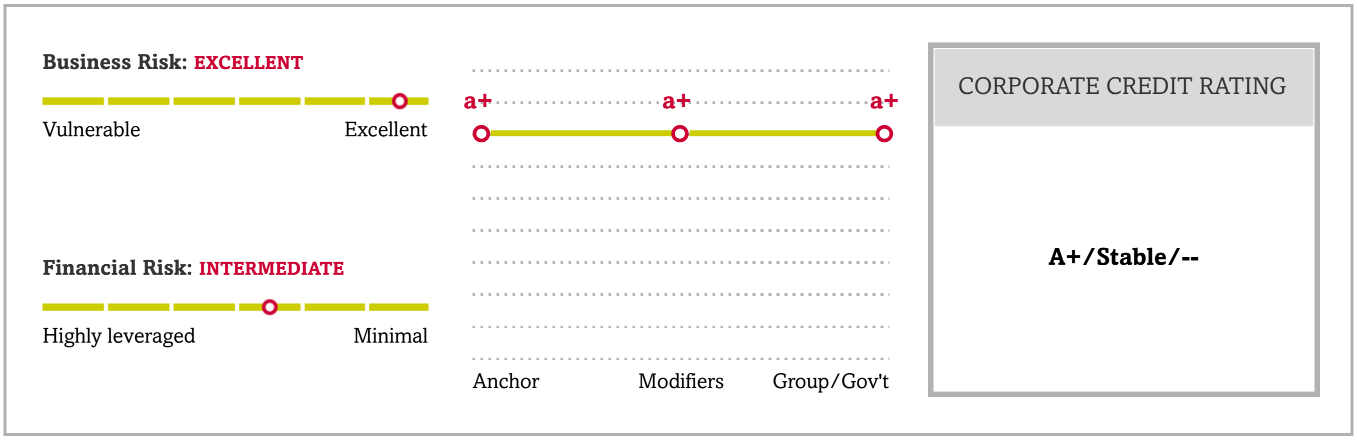
Enexis Holding N.V.

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

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

Table Of Contents

Summary:
Enexis Holding N.V.



Rationale

Business Risk	Financial Risk
• Monopoly owner and operator of the second-largest regional electricity and gas distribution networks in The Netherlands. • Relatively stable and predictable earnings from regulated and low-risk business. • Exposure to periodic regulatory reset risk, with the next regulatory period starting on Jan. 1, 2017.	• Predictable free cash flow generation from the regulated electricity and gas distribution networks during a regulatory period. • Lower return on capital in the current regulatory period which will sustainably constrain Enexis' financial profile from 2016. • Sizable capital expenditure (capex) program and risk that investments could increase above our base-case projections due to acquisitions.

Outlook

Standard & Poor's Ratings Services' outlook on Dutch electricity and gas distribution network company Enexis Holding N.V. and its subsidiary Enexis B.V. (jointly Enexis) is stable. This reflects our opinion that Enexis will be able to sustain adjusted funds from operations (FFO) to debt of above 20% in 2015-2018. Underpinning this opinion are our assumptions that we will continue to assess Enexis' business risk profile as "excellent," despite the final resolution for the 2014-2016 tariff, published by the Dutch Ministry of Economic Affairs and the Dutch regulator (ACM) which, in our view, will weigh on the company's expected profitability.

Downside scenario

We could lower the ratings if we believe that the company's FFO to debt declined and remained below 18%, a level we would no longer consider commensurate with an "intermediate" financial risk profile. In our view, this could occur either through further sector consolidation in the Netherlands or through an extraordinary dividend distribution.

Upside scenario

Given the regulated tariffs through 2016 and the company's capex program and dividend policy, we believe the potential for a positive rating action is limited. With this in mind, we could raise the ratings if we deemed it likely that Enexis could sustain adjusted FFO to debt of about 25%, all else remaining equal.

Standard & Poor's Base-Case Scenario

Assumptions

- Flat revenues over 2014-2016;
- Average EBITDA margin slightly below 50% over 2015-2018;
- Cumulative capex exceeding €1.0 billion (this amount excludes the cost of the asset swap with Alliander N.V.) over 2015-2016;
- Dividend payments based on a 50% payout ratio;
- Financial cost of asset swap with Alliander will affect the ratio of discretionary cash flow to debt in 2016; and
- Financial risk profile to weaken from 2016 owing to lower return on capital in the new regulatory framework.

Key Metrics

	2014a	2015f	2016f
FFO/debt (%)	34.4	28	21
DCF/debt (%)	5.0	(4.2)	(23.3)
EBITDA margin (%)	54	c. 50	c. 50

FFO--Funds from operations. DCF--Discretionary cash flow. a--Actual. f--Forecast.

Business Risk

Enexis has a natural monopoly in its license areas, low-risk regulated electricity and gas distribution network businesses, and high-quality network assets. All of these factors feed into the high end of our "excellent" business risk profile assessment. The assessment also factors in good visibility of the regulatory framework within the three-year period.

Nevertheless, we believe that regulatory tariff reset risk is significant for the Dutch distribution network operator, as demonstrated by the final determination of the Dutch regulator ACM in 2014. The ACM set relatively ambitious efficiency targets for the 2014-2016 period, but at the same time lowered the weighted average cost of capital (real pre-tax) to 3.6% from 6.2%, which we believe is among the lowest in Europe. In our base-case scenario, we expect Enexis' profitability, which we mainly measure using return on capital, to decline to below 6% from 2016, from an average 8% in 2012-2013.

Financial Risk

Our "intermediate" financial risk profile assessment reflects our view that Enexis' Standard & Poor's-adjusted ratio of FFO to debt will decline to below 23% (but stay above 20%) on a sustainable basis from 2016, while material investments, necessary to upgrade and maintain the security and the reliability of the power and gas distribution grids in Enexis' service area, will lead to negative discretionary cash flow generation. This is in line with Enexis' peers.

We base our analysis of Enexis' financial risk profile on our low volatility table as defined by our criteria, given Enexis' high share of regulated revenue.

Liquidity

We assess Enexis' liquidity as "strong" as defined in our criteria, supported by our view that Enexis' liquidity sources will exceed its funding needs by over 1.5x in the next 12 months. Furthermore, Enexis has well-established and solid relationships with banks, generally high standing in the credit markets, and typically very prudent risk management.

Principal Liquidity Sources	Principal Liquidity Uses
We estimate that Enexis' liquidity sources over the next 12 months will exceed €1.3 billion, as of June 30, 2015, including: • Unrestricted cash and short-term marketable securities of close to €200 million; • Access to an undrawn €600 million committed credit facility expiring in June 2020; and • Annual FFO of about €500 million.	For the same period, we estimate that liquidity uses will be €600 million, including: • Almost no short-term maturities; • Capex averaging €450 million; and • Dividend payments based on a 50% payout ratio.

Covenant Analysis

Enexis currently has no covenants on its debt or committed revolving credit facility.

Government Influence

As stipulated by the Dutch Independent Network Operation Act, electricity and gas distribution network operators in the Netherlands must be publicly owned. As such, we rate Enexis using our government-related entity (GRE) methodology. The 'A+' rating on Enexis is based on the company's stand-alone credit profile, which Standard & Poor's assesses at 'a+', and on our opinion that there is a "moderate" likelihood that Enexis' owners would provide timely and sufficient extraordinary support in the event of financial distress. In accordance with our criteria for GRE, we base our assessment on Enexis':

- "Important" role, given Enexis' 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.

Rating Above The Sovereign

We have analyzed the credit quality of Enexis' shareholders and have found that they do not constrain Enexis' ratings.

Ratings Score Snapshot

Corporate Credit Rating

A+/Stable/--

Business risk: Excellent

- **Country risk:** 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:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a+

- **Likelihood of government support:** Moderate (no impact)

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research

- Ratings On Four Dutch Issuers Affirmed; UCO Identifier Removed, Sept. 23, 2015
- Distribution Grid Operators Enexis Holding And Alliander Ratings Unchanged After The Announced Swap Of Regional Networks, March 26, 2015

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-

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