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Research Update:

Eneco Beheer Rating On Watch Negative; Eneco Holding Rating Affirmed After Further Disclosure On Likely Unbundling Plans

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Overview

- Dutch multi-utility Eneco Holding N.V. has announced how it plans to implement unbundling, if forced to do so in January 2017, by spinning-off its non-network activities to N.V. Eneco Beheer while leaving Stedin Netbeheer B.V. (Stedin Netbeheer)--which is core to Eneco Holding--in charge of its regulated networks.
- Post spin-off, we anticipate that our rating on the regulated part of the business (Eneco Holding) would remain commensurate with the existing rating, however, we are likely to downgrade Eneco Beheer to 'BBB+'.
- We are therefore placing our 'A-' long-term corporate credit rating on Eneco Beheer on CreditWatch with negative implications, affirming our 'A-' long-term corporate credit rating on Eneco Holding at 'A-', and assigning our 'A-' long-term corporate credit rating to Stedin Netbeheer.
- The negative CreditWatch placement on Eneco Beheer reflects that although we understand that unbundling is almost certain at this stage, there is still a chance that the Court of Amsterdam might overrule the unbundling obligation at the end of October and Eneco Holding would not have to proceed with the separation. The outlook on Eneco Holding and Stedin Netbeheer is stable.

Rating Action

On Sept. 20, 2016, S&P Global Ratings affirmed its long- and short-term corporate credit ratings on Dutch multi-utility Eneco Holding N.V. at 'A-/A-2'. We also affirmed our issue ratings on Eneco Holding's unsecured debt at 'A-' and hybrid security at 'BBB'. The outlook remains stable.

At the same time, we placed our 'A-' long-term corporate credit rating on N.V. Eneco Beheer on CreditWatch with negative implications, while affirming our short-term 'A-2' rating.

Finally, we assigned our 'A-' long-term corporate credit rating to Stedin Netbeheer B.V. (Stedin Netbeheer). The outlook is stable.

Rationale

The affirmation of the ratings on Eneco Holding and the new rating assigned to Stedin Netbeheer follow the company's disclosure of how it plans to unbundle

its regulated network from the rest of its activities by Jan. 31, 2017, if it is forced to do so. This plan is based on the separation of the businesses into two entities, with Eneco Holding and Stedin Netbeheer holding the network activities, and Eneco Beheer operating the non-network businesses, including mainly power generation and supply and energy services.

We estimate that the regulated group--composed of Eneco Holding and Stedin Netbeheer--would have an excellent business risk profile and would maintain a significant financial risk profile with funds from operations (FFO) to debt at 11%-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 benefiting from a strong regulatory framework. We will benchmark the credit metrics on Eneco Holding and Stedin Netbeheer on the low volatility table post-unbundling. Stedin Netbeheer owns a 45,037 km electricity distribution network in The Netherlands and is an efficient operator. We understand that all existing bonds will remain within the regulated group.

We believe that the unregulated group, which will be owned by Eneco Beheer, will have a satisfactory business risk profile, benefiting from the majority of its EBITDA being generated by a portfolio of renewable energy in supportive jurisdictions, as well as district heating and cooling activities. This compensates, to some extent, for the competitive supply and energy services activities and the group's limited size compared to European peers. We anticipate that Eneco Beheer should be able to maintain a modest financial risk profile based on an FFO-to-debt ratio of above 50%, which would be commensurate with a 'BBB+' rating, as we would benchmark the credit metrics on the standard volatility table.

The Court of Amsterdam still plans to issue its final ruling on Oct. 25, 2016. Although there is little chance that the ruling will be favorable to Eneco Holding, we believe there is still a small degree of uncertainty over whether unbundling will go ahead, given the legal precedents over the past 10 years on the unbundling issue. This is why we still align the ratings on Eneco Beheer with Eneco Holding's group credit profile, but have placed the long-term rating on CreditWatch with negative implications pending the court ruling. The CreditWatch placement reflects the likelihood that we could downgrade Eneco Beheer to 'BBB+' should the transaction go ahead.

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.

Liquidity

The short-term corporate credit rating is 'A-2'. We assess Eneco Holding's liquidity position as strong, reflecting our view that the company's liquidity resources will exceed its funding needs by 1.5x over the next 12 months and by 1.0x over the next 24 months.

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:

- Capital spending (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 current performance of the group and our view that the proposed transaction will not result in any change to our existing 'A-' long-term ratings. The outlook reflects that Eneco Holding and Stedin Netbeheer will maintain a FFO-to-debt ratio clearly above 11% on a sustainable basis after the unbundling.

Downside scenario

Pre-unbundling, we could lower the ratings on Eneco Holding if we expected its credit metrics to deteriorate below the levels we consider commensurate with the ratings for an extended period of time. In particular, this could happen if we expected the adjusted FFO-to-debt ratio to fall consistently below 25%. This could be caused by a substantial debt-financed acquisition or a significant increase in Eneco Holding's capex or shareholder distributions.

Post-unbundling, we see a remote risk of a downgrade of Eneco Holding and Stedin Netbeheer given the group's investment plan and earnings visibility. However, if we expect FFO to debt to fall below 11% on a sustainable basis, on the back of unfavorable regulatory changes or a more-aggressive financial policy, we could take a negative rating action.

Upside scenario

We consider an upgrade of Eneco Holding and Stedin Netbeheer unlikely as long as current uncertainties surrounding unbundling remain.

CreditWatch

The negative CreditWatch placement on Eneco Beheer reflects our view that the unregulated group is likely to be rated one notch lower if Eneco Holding is forced to unbundle. Based on the management statement, we don't expect a downgrade of more than one notch as we understand the unregulated group will sustain FFO to debt above 50% on a long-term basis. We expect to resolve the CreditWatch placement once the Court of Amsterdam has issued its final hearing at the end of October 2016.

Ratings Score Snapshot

Eneco Holding N.V.

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

Business risk: Strong

- Country risk: Very low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact) Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: a-
- Likelihood of government support: Moderate

Related Criteria And Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Industrials: Key Credit Factors For The Unregulated Power And Gas Industry , March 28, 2014

- Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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. 1, 2010
- 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
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

New Rating; Outlook Action

Stedin Netbeheer B.V.		
Corporate Credit Rating		A-/Stable/--

Ratings Affirmed; CreditWatch Action

	To	From
N.V. Eneco Beheer		
Corporate Credit Rating	A-/Watch Neg/A-2	A-/Stable/A-2

Ratings Affirmed

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

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