MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Prime-1 short term issuer rating to Enexis Holding N.V.

Global Credit Research - 06 Dec 2016

London, 06 December 2016 -- Moody's Investors Service has today assigned a Prime-1 (P-1) short term issuer rating to Enexis Holding N.V. (Enexis).

The P-1 rating is in line with Enexis's existing Aa3 long-term issuer and senior unsecured ratings. The ratings reflect Moody's view that Enexis's medium-term financial profile will continue to position the company well within the agency's guidance for its current rating. It takes into account Moody's assessment of the new regulatory settlement for the period 2017-2021, as well as the company's investment requirements with respect to completing its mandatory smart meter roll out. The outlook is stable.

RATINGS RATIONALE

Enexis's Aa3/P-1 ratings reflect the low business risk of its domestic electricity and gas distribution operations, which generate more than 90% of its earnings and cash flows, supported by a well-defined and transparent Dutch regulatory framework. The company has historically maintained a conservative financial position; however, Moody's anticipates some decline in its financial metrics over the new regulatory period as allowed returns fall.

The next regulatory period will run from January 2017 to December 2021 and allowed revenues will continue to decline following a cut in allowed returns, which is itself a reflection of the lower interest rate environment. The weighted average cost of capital (WACC) for network companies will gradually reduce from 4.1% to 3.0% (pre-tax) in real terms over the five years to 2021, compared with a 6.2%-3.6% reduction in the current period.

Enexis exhibits a strong financial profile, with modest financial leverage, at around 30% of net debt/ fixed assets over the past five years, when compared with the wider European peer group of energy network companies. Over the medium term, Moody's expects that Enexis's metrics will weaken with lower regulatory returns, as well as slightly increased investment requirements from the roll out of smart meters. In addition, Enexis paid EUR359 million to its closest peer networks Alliander N.V. (Aa2 stable) in relation to the asset swap executed between the two parties, which will increase its indebtedness from FYE 2016.

Moody's forecasts that Enexis will maintain funds from operations (FFO)/net debt in the low to mid-twenties in percentage terms and net debt/fixed assets below 40% in the medium term. The conservative financial profile is also supported by a comparably modest dividend policy, with a payout ratio of 50%, with an implicit commitment to shareholders to maintain absolute dividend levels around EUR100 million on a best efforts basis.

The Aa3 rating also incorporates a two-notch uplift from Enexis's standalone credit quality, reflecting the likelihood of extraordinary financial support being provided by its owners, and ultimately the Dutch government, if required.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Enexis will continue to derive most of its revenues and cash flows from low-risk regulated activities and maintain a financial profile in line with the minimum guidance for the current ratings.

WHAT COULD CHANGE THE RATING -- UP/DOWN

An upgrade of the Aa3 rating is considered unlikely at this time, taking into account (1) the latest regulatory settlement with allowed returns falling; (2) the ongoing capital requirements with additional smart metering investments; and (3) the expected weakening of Enexis's financial profile as a result of net payment to peer network operator Alliander N.V. under an asset swap transaction.

For Enexis to maintain its current standalone credit quality, expressed as a baseline credit assessment of a2, Moody's would expect the company to exhibit on a sustainable basis the following minimum credit metrics: an FFO/net debt ratio in the mid to high teens, and leverage on the basis of net debt/fixed assets no higher than the low fifties in percentage terms. The final rating of Aa3 could also be subject to downward pressure if Moody's assessment of the credit quality of the government of the Netherlands and the associated credit risk of the municipalities and provinces owning Enexis weakens, or Moody's view of extraordinary support changes.

The methodologies used in this rating were Regulated Electric and Gas Networks published in November 2014, and Government-Related Issuers published in October 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Enexis Holding N.V. is a holding company of Enexis B.V., which owns and manages the gas and electricity distribution networks in several Dutch regions, covering around 30% of the country. Enexis B.V. generates more than 95% of the group's revenue and represents 99% of group assets and liabilities. It operates around 136,500 km of electricity cable and 46,200 km of gas pipelines, delivering electricity to approximately 2.7 million customers and gas to 2.28 million customers.

Enexis is fully owned by Dutch provinces and municipalities, with the largest shareholders being the provinces of Noord Brabant (31%), Overijssel (19%), Limburg (16%), Groningen (6%) and Drenthe (2%). The remaining 26% stake is owned by one other small province and approximately 113 municipalities where Enexis provides its network services.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Stefanie Voelz
VP - Senior Credit Officer
Infrastructure Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Neil Griffiths-Lambeth

Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454