Update: Enexis Holding N.V.

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(Editor's note: This article was corrected on Jan. 4, 2023, to reflect our updated forecast in the outlook section.)

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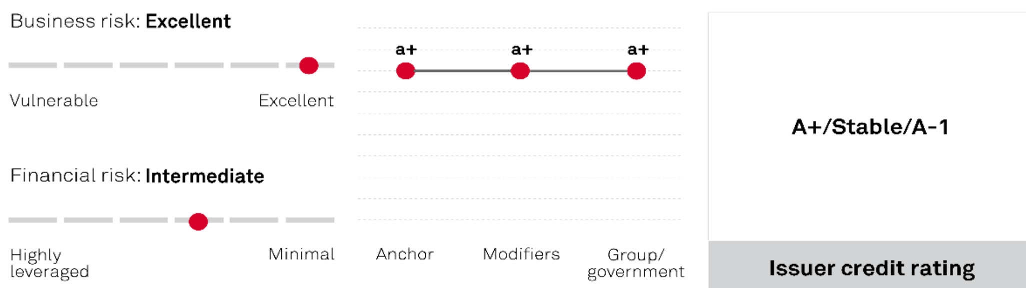
Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
Second-largest gas and electricity distributor in the Netherlands, with a monopoly over the regions it operates in and adjusted EBITDA of €732 million in 2021.	Large capital expenditure (capex) program on its electricity grid (averaging €1.2 billion per year over 2022-2024), which will increase external funding needs and deteriorate metrics.
Majority of EBITDA from purely regulated activities, with a high degree of stability and predictability.	Capex and operating expenditure (opex) inflation and higher cost of funding are weighing on cash flow, partially mitigated by regulatory returns over 2022-2026 that are indexed to inflation and interest rates with a lag of two years.
Supportive five-year Dutch regulatory framework; new period started 2022, with the regulator allowing	Technically skilled workforce to deal with the increasing workload and delays in supply chains

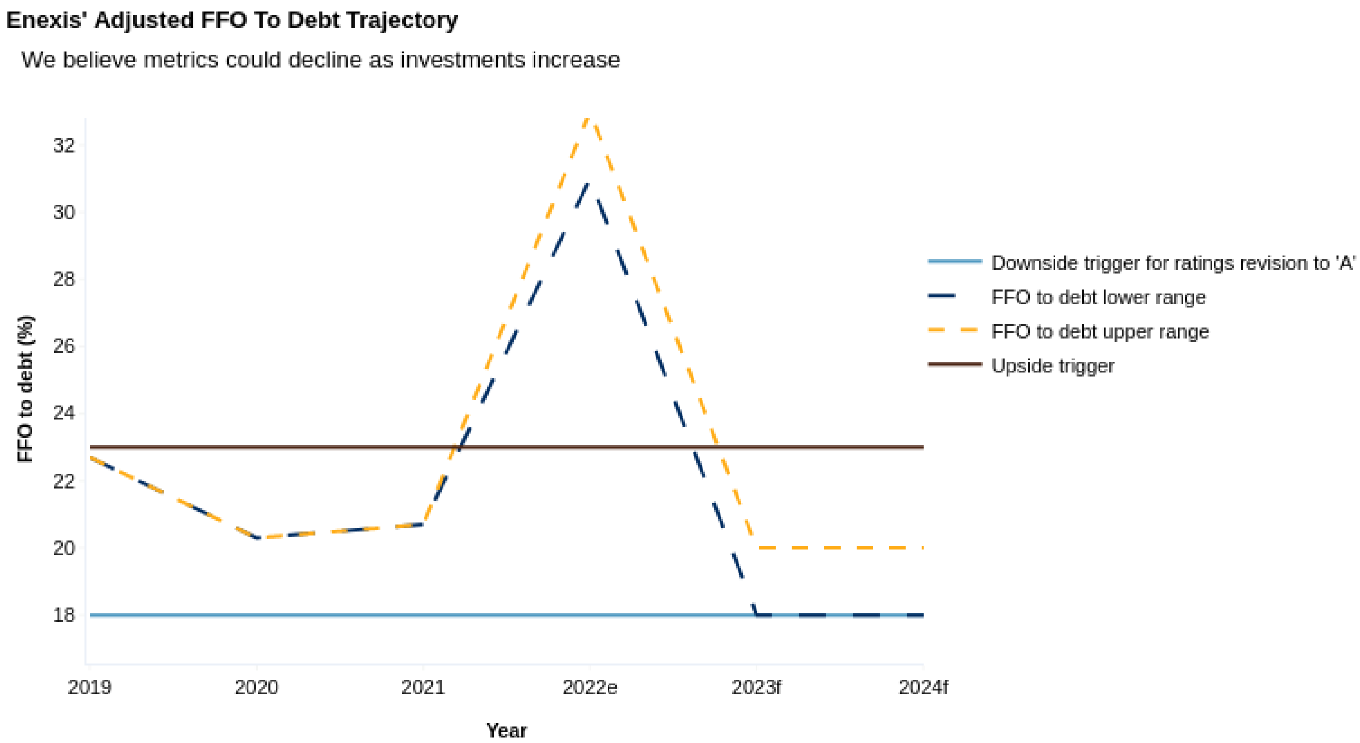
anticipated recovery of extra energy costs for 2022 and 2023.

Track record of supportive financial policy with contained dividend distributions and proven shareholder actions, like the 2022 sale of Fudura's noncore activities, support credit metrics.

remain key operating challenges of the energy transition.

S&P Global Ratings believes the Dutch regulatory framework protects Enexis Holding N.V. (Enexis)' regulated electricity and gas network activities from the spike in energy costs for grid losses as well as rising interest rates and cost inflation. During the 2022-2026 regulatory period, remuneration will cover--with a two-year lag--most of the difference in energy costs, and rising risk-free rates and cost of debt, while part of the impact of inflation is included in the update of the electricity weighted-average cost of capital (WACC). Notably, it is anticipated that the high cost increase expected in 2023 from unhedged grid losses will be partly mitigated by the recovery of these costs in the next regulatory period, with expected annual 2023 EBITDA already comprising the recovery of 75% of the difference in 2022 grid losses and 50% of 2023. In our updated base-case scenario, we assume the post calculation of electricity and gas grid losses for 2022 and 2023 will be recovered in full over 2024-2026 and we expect that 2024-2026 costs will also be compensated in full. Congestion management costs will be fully compensated at least up to year-end 2023. The 2022-2026 regulatory period initially showed a significant decline in the nominal pre-tax WACC to 2.78% by year-end 2026 from 2.95% in 2022 for gas and power distribution. However, this is mitigated by the regulation allowing WACC ex-post adjustments for rising interest rates in both cost of equity and cost of debt with a lag of two years, meaning in 2024 WACC will be adjusted for rising yields in 2022. The revised nominal pre-tax WACC assumption will rise to 4.8% in 2026 from 2.9% in 2022. In addition, the regulatory WACC for electricity is calculated as real WACC plus 50% of inflation expectations, while the nominal WACC for gas fully includes a 12% higher inflation rate in 2023.

We forecast rapid deleveraging in 2022 following the disposal of Fudura's noncore energy services for €1.3 billion, with funds from operations (FFO) to debt reaching close to 32% after 21% in 2021. Based on the company's track record of prudent financial policy, we assume most of the proceeds will be kept on the balance sheet. However, we expect FFO to debt to return to 18%-19% in 2023-2024, owing to a material acceleration of capex on the electricity grid. We forecast investments will rapidly accelerate to about €1.2 billion in 2023 from €762 million in 2021, about one-third of this rise being fueled by cost inflation and the rest supported by increased demand for infrastructure deployment to facilitate the energy transition. Workforce and raw material shortages will be key challenges for capex implementation. We now expect Enexis to fund its capex needs over 2022-2024 thanks to the Fudura sale proceeds and €550 million-€650 million of annual operating cash flows. We do not forecast any Dutch government financial support or additional remedy measures from Enexis' shareholders. We still view positively the Dutch government's publicly stated willingness to participate in funding grid companies' investment plans, including those of Enexis, and we now expect a decision to be taken in first-half 2023 (see "Dutch Government's Willingness To Support Is Mildly Credit Positive For Energy Distributors," published July 25, 2022, on RatingsDirect).



e--Estimate. f--Forecast. FFO--Funds from operations. Source: S&P Global Ratings.

Outlook

The stable outlook on Enexis reflects our expectation that the company will post average FFO to debt levels above 18% in 2023 and 2024, after spiking to about 30% in 2022 due to the exceptional cash-in of the Fudura sale. Although Enexis has incremental debt needs due to an intensive capex program as part of the Dutch government's energy transition plan, we expect the company to maintain some financial headroom above the 18% threshold for the current rating. In 2023 we also expect to gain clarity on the timing and magnitude of financial support from the Dutch government, as already outlined in the framework agreement for capital requirements published Nov. 25, 2022, between the state and Dutch distribution system operators (DSOs). We expect that the effects of higher energy costs will be manageable for Enexis in the long term, thanks to the hedging in place and cost recovery throughout the regulatory framework.

Downside scenario

We would downgrade Enexis if the company's FFO to debt were to decline and remain below 18%. It could stem from:

- A higher-than-expected increase in debt and shareholder distributions or decrease in operating margins resulting from higher-than-expected price volatility;

Coupled with:

- Less willingness from the Dutch government to support the company; or;
- Any material delay in state support implementation without additional remedy measures from Enexis' shareholders.

Upside scenario

Given the substantial investment needs in the coming decade to support the energy transition in the Netherlands, we see rating upside as remote. 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

- Real GDP growth in the Netherlands of 4.3% in 2022, 0.2% in 2023, and 2.1% in 2024 (see "Economic Outlook Eurozone Q4 2022: Crunch Time," published Sept. 26, 2022). We expect a limited impact from the economic situation on Enexis' activities, due to its majority-regulated nature.
- Sustained inflation levels, with consumer price index (CPI) growth at 11.1% in 2022, 5.4% in 2023, and 1.1% in 2024. The Dutch regulatory framework allows for yearly indexation of tariffs to inflation.
- Revenue growth of about 2% in 2022 and 19% in 2023, mainly due to advance grid losses compensation and a 12% inflation increase in 2023. Our 2024 revenue growth forecast of 7% is further supported by higher WACC adjusted with the rise in interest rates.
- Over the new regulatory period 2022-2026, WACC corrections in inflation, efficiency targets, transportation costs, and sufferance taxes result in electricity and gas tariff increases.
- Allowed cost of debt was initially reduced for the 2022-2026 period but is now rising over 2024-2026 thanks to the subsequent calculation of the regulatory parameter.
- To date the expected grid losses for 2023 are fully covered. Approximately 60% for 2024-2026 was already covered before the surge in energy prices last year. As per our previous base case, energy prices for grid losses were completely hedged for 2022 and only 60% hedged thereafter and the rise will have a material impact on 2023 EBITDA. However, we incorporate upside from extra remuneration of commodity prices in the current regulatory period of €60 million-€170 million over 2023-2026.
- Net capex averaging €1 billion per year over 2022-2024. This compares with an average of €600 million per year over 2015-2021. Enexis is projected to have increasing capex needs starting 2023, from about €750 million in 2022 to close to €1.2 billion in 2024.
- Increased investments should lead to an expanding regulatory asset base over the 2022-2026 regulatory period, partially mitigating inflationary pressure on capex and opex.
- A dividend payout ratio of 50% on an annual basis and €100 million in exceptional dividends following the Fudura sale.
- No financial support from the Dutch government and no additional remedy measures from Enexis' shareholders. We acknowledge that the Dutch government has expressed a willingness to provide support, however, we expect Enexis will have limited need for external support before the next decade and will fund its capex plan via its own cash flow until 2030.

Key metrics

Enexis Holding N.V.--Key Metrics*

Mil. €	2020a	2021a	2022e	2023f	2024f
EBITDA	622.0	732.0	700-750	550-600	700-750
Capital expenditure	737.5	762.6	700-800	1,000-1,100	1,100-1,200
Free operating cash flow (FOCF)	(127.2)	(148.8)	(150)-(100)	(550)-(500)	(600)-(550)
Dividends	105.8	80.2	0-100	100-200	0-100

Discretionary cash flow (DCF)	(233.0)	(229.0)	(250)-(150)	(750)-(650)	(650)-(550)
Debt§	2,683.5	3,036.5	1,800-2,000	2,700-2,800	3,300-3,400
Debt to EBITDA (x)	4.3	4.1	2.6-3.0	4.6-5.0	4.3-4.7
FFO to debt (%)	20.3	20.7	30-33	17-20	17-20

*All figures adjusted by S&P Global Ratings. §2021 year-end debt consists of net financial debt of €3.3 billion with key adjustments being €250 million of shareholder loan debt content and €5 million in guarantees. a--Actual. e--Estimate. f--Forecast.

Company Description

Enexis 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 company's electricity grid covers 144,200 kilometers (km) with 2.9 million connection points cps), while its gas grid covers 46,200 km with 2.3 million cps, making it the second largest Dutch DSO after Alliander.

Through its network, the company provides electricity and gas in the Dutch provinces of Groningen, Drenthe, Overijssel, Noord-Brabant, and Limburg. After the Fudura sale, less than 5% of Enexis' revenue is derived from other utility services. These nonregulated businesses are complementary to the core activities. Enexis is owned by the Provinces of Noord-Brabant (30.8%), Overijssel (19.7%), Limburg (16.1%), and Groningen and Drenthe (9%), and the rest is owned by 88 smaller municipalities.

Peer Comparison

We see Alliander and Stedin as Enexis' closest peers since they all operate in the same industry. Enexis is the second-largest Dutch DSO, out of eight, with 5.1 million gas and electricity cps, only behind Alliander, with 5.7 million cps, and ahead of Stedin, with 4.6 million cps.

We see Enexis as closer to Alliander rather than Stedin, both because of its scale and healthier financial metrics. On average over 2022-2024, Enexis bears the lowest leverage of the three peers, notably thanks to its rapid deleveraging in 2022.

As opposed to Stedin, which operates in a denser territory, both Enexis' and Alliander's operating territories include large rural areas prone to the development of decentralized wind and solar generation, which means higher activity in terms of grid adaptation.

We also included TenneT and Gasunie, the Dutch power and gas transmission system operators respectively, as peers because they are exposed to the same operating environment as Enexis and generate revenue under the same regulatory framework, although the nature of their transmission activities is only partially comparable to distribution.

Enexis Holding N.V.--Peer Comparisons

	Enexis Holding N.V.	Alliander N.V.	Stedin Holding N.V.	TenneT Holding B.V.	N.V. Nederlandse Gasunie
Foreign currency issuer credit rating	A+/Stable/A-1	A+/Stable/A-1	A-/Stable/A-2	A-/Stable/A-2	AA-/Stable/A-1+
Local currency issuer credit rating	A+/Stable/A-1	A+/Stable/A-1	A-/Stable/A-2	A-/Stable/A-2	AA-/Stable/A-1+
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR	EUR

Enexis Holding N.V.--Peer Comparisons

Revenue	1,634	2,120	1,279	5,503	1,469
EBITDA	732	776	488	896	867
Funds from operations (FFO)	630	670	390	448	667
Interest	42	44	106	210	80
Cash interest paid	37	41	99	203	89
Operating cash flow (OCF)	614	660	365	5,535	667
Capital expenditure	763	865	682	3,711	289
Free operating cash flow (FOCF)	(149)	(205)	(317)	1,824	377
Discretionary cash flow (DCF)	(229)	(303)	(855)	1,612	115
Cash and short-term investments	107	623	133	2	65
Gross available cash	107	623	133	2	65
Debt	3,037	2,590	3,408	16,552	3,697
Equity	4,491	4,522	3,020	6,525	6,581
EBITDA margin (%)	44.8	36.6	38.2	16.3	59.0
Return on capital (%)	4.4	5.2	2.0	(1.2)	5.0
EBITDA interest coverage (x)	17.3	17.7	4.6	4.3	10.9
FFO cash interest coverage (x)	17.9	17.3	4.9	3.2	8.5
Debt/EBITDA (x)	4.1	3.3	7.0	18.5	4.3
FFO/debt (%)	20.7	25.9	11.4	2.7	18.0
OCF/debt (%)	20.2	25.5	10.7	33.4	18.0
FOCF/debt (%)	(4.9)	(7.9)	(9.3)	11.0	10.2
DCF/debt (%)	(7.5)	(11.7)	(25.1)	9.7	3.1

Business Risk

The Dutch regulatory framework is a key support to Enexis' business risk profile. The company's activities focus on high-quality infrastructure networks in the Dutch market with almost all its EBITDA regulated following the 2022 sale of Fudura's nonregulated activities, which were seen as riskier than the regulated part of the business (90% of EBITDA before the Fudura sale). The low-risk regulated operating environment for its electricity and gas network businesses represents a key strength with well-developed tariff-setting procedures, which have allowed regulated utilities in the Netherlands the timely recovery of their costs (except for exceptional energy costs) and to earn a fair return on their regulated asset bases. A stable and predictable operating environment results in low cash flow volatility, which we see as one of the main components of Enexis' low-risk business. Furthermore, despite decreasing remuneration, other supportive elements were introduced in the current regulatory period, such as a nominal WACC complemented by an accelerated depreciation for gas assets (1.3x, up from 1.0x in the previous regulatory period), on top of a hybrid real WACC for electricity grids incorporating an additional 50% of inflation expectations. The subsequent calculation of yearly remuneration rates enables Enexis to benefit from a material rise in revenue over 2024-2026, since it covers higher interest rates in cost of debt and higher risk-free rate for cost of equity, with a lag of two years. In addition, we view positively the recent regulatory decisions to anticipate the recovery of grid losses for 2022 and 2023 and compensate for congestion management costs. We assume that Enexis will continue to generate most of its EBITDA from regulated activities in the near term under our base-case scenario.

We believe that the energy transition provides stimulus for Enexis because it supports growth opportunities for the electricity business. The Dutch Climate Agreement stipulates that the Netherlands aims to generate 70% of its electricity through renewable sources by 2030. We believe that the role of DSOs will become increasingly relevant as thermal capacity is phased out, and power in the Netherlands migrates toward decentralized generation. Investments related to the energy transition, linked to increasing power demand and more decentralized production, will increase the Dutch electricity network asset base, yielding long-term cash flows. For Enexis, capex related to the Climate Agreement is €1.9 billion, deployed in electricity infrastructure until 2030, which translates into €190 million of additional capex per year.

The technically skilled workforce required to deal with the increasing workload remains an operating burden for the industry. We understand that decentralized capacity deployment is an increasing challenge for the sector. Government incentives for renewables currently allow for scattered projects inland, which are both difficult to reach for DSOs, and to connect to the network. This adds to the limited transmission capacity in such areas. Because all DSOs in the Netherlands have an 18-week mandate to connect a project, the resulting increase in work volume and lack of technically skilled labor are becoming issues. We understand that Enexis faced some delays in capex due to these factors in past years, particularly for high-volume customers. This remains one of the most relevant operating challenges for the industry and energy transition in the Netherlands.

We perceive uncertain long-term prospects for gas infrastructure. We expect investment in the gas grid to decline consistently, given energy policy incentives to reduce natural gas usage. The Netherlands has already banned new connection points in new houses and has a policy of phasing out gas by 2050. Although we expect most of the decrease in demand after 2030, residential fossil heating will be banned from 2026, with hybrid solutions (combined heat pump and gas boilers) remaining possible. We believe that this is already resulting in capex optimization within the sector and particularly in Enexis' gas grid, with gross investments in gas decreasing to represent about 25% of its total capex in first-half 2022 from 33% in 2016. We recognize that investment opportunities may arise in biogas and hydrogen but development of the latter is still in the experimental phase, and the future for these energy avenues remains uncertain. We understand that Enexis' gas grid is 100% compatible with gas, biogas, and hydrogen, which already provides some protection against stranded asset risks.

Enexis is leading its peer group in terms of grid operational performance. The company continues to outperform the sector in terms of average electricity outage time, at 17.6 minutes in 2021 and a record-low 13 minutes in 2020, which compares well to an industry average of 21-23 minutes. Under the Dutch methodology, DSOs with lower outage times receive higher remuneration. This means that Enexis is entitled to more remuneration than peers with higher outage times on this specific component.

Financial Risk

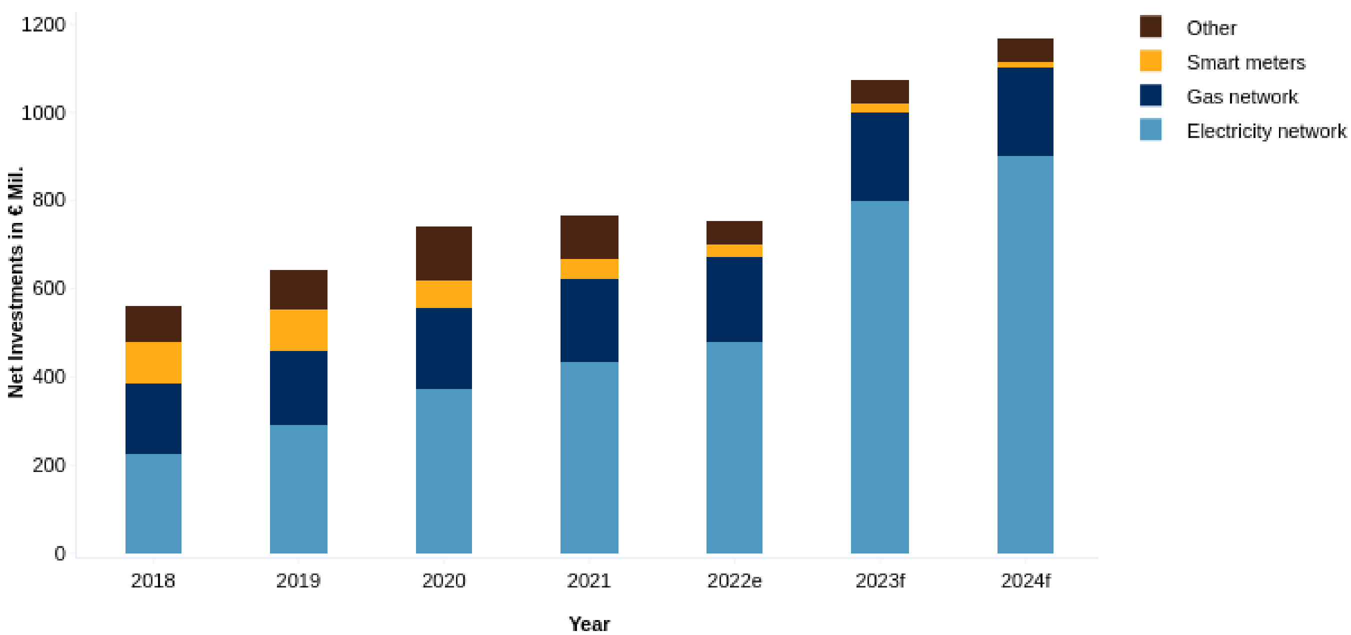
Enexis' regulated profit margin for the 2022-2026 regulatory period is supported by the partial indexation of tariffs to inflation. The 2022-2026 regulatory period initially showed a decline in the nominal pre-tax WACC to 2.78% by 2026 from 2.95% in 2022 for gas and power distribution. However, the subsequent calculation of yearly remuneration rates enables Enexis to benefit from a material rise in revenue over 2024-2026 because the WACC is fully adjusted for higher risk-free rates and cost of capital, updated with a lag of two years, and partially adjusted for CPI growth annually. The final nominal pre-tax WACC is rising to 4.7% from 2.9% in 2022. From 2023, and within a high inflationary context in Europe, the decline is largely mitigated by the nominal regulatory WACC for gas and the regulatory WACC for electricity being calculated as WACC plus 50% of inflation expectations. The Authority for Consumers and Markets has already discussed a significant increase in the regulated tariffs for 2023 and 2024, based on an expected CPI increase of 12.1% in 2022 in the Netherlands, which compares with S&P Global Ratings' expectation of 11.1% for the year. This will allow the company to recover its increased opex.

We expect the spike in energy costs to be recovered in anticipation of the next regulatory period. Higher energy costs will mainly affect Enexis' profit margins in 2023, because we reflect updated assumptions for gas and electricity market prices to which the company has long exposure to cover its network losses. Enexis has a prudent hedging policy, and 2022 network losses are relatively immune to market price volatility given that 100% of expected volumes have been hedged, as shown in first-half 2022 results. Only 60% of budgeted network losses are hedged in 2023 but the high cost increase expected from unhedged grid losses will be partly mitigated by the recovery of these costs in the next regulatory period, with expected annual 2023 EBITDA already comprising the recovery of 75% of the difference in 2022 grid losses and 50% of 2023. We forecast a contained deterioration in S&P Global Ratings-adjusted EBITDA to approximately €550 million-€580 million, from €420 million-€450 million in our August 2022 forecasts, which reflected those higher costs without compensation. Our current forecast incorporates the anticipated remuneration of commodity prices in the current regulatory period.

Increasing investment needs to support the Dutch energy transition will deepen the large negative free cash flows after capex over 2022-2024. Last year (2022) was the first of the new Dutch regulatory period to usher in lower returns, coupled with incremental capex, resulting in substantially negative free cash flow. Investment in 2023 and 2024 has risen by about €170 million-€270 million over our previous forecast because Enexis' investment needs for the upgrade of its network increased with cost inflation and accelerated development of renewable energy sources and their integration within the grid. We now forecast approximately €1.1 billion-€1.2 billion of capex annually from 2023 compared with €762 million in 2021. Workforce and raw material shortages will be key challenges for capex implementation. Over 2022-2024, we expect sustained dividends (yearly average of €100 million-€150 million) to result in average negative discretionary cash flows of €600 million-€700 million annually over the period.

Enexis' Net Investments Are Rising Materially From 2023

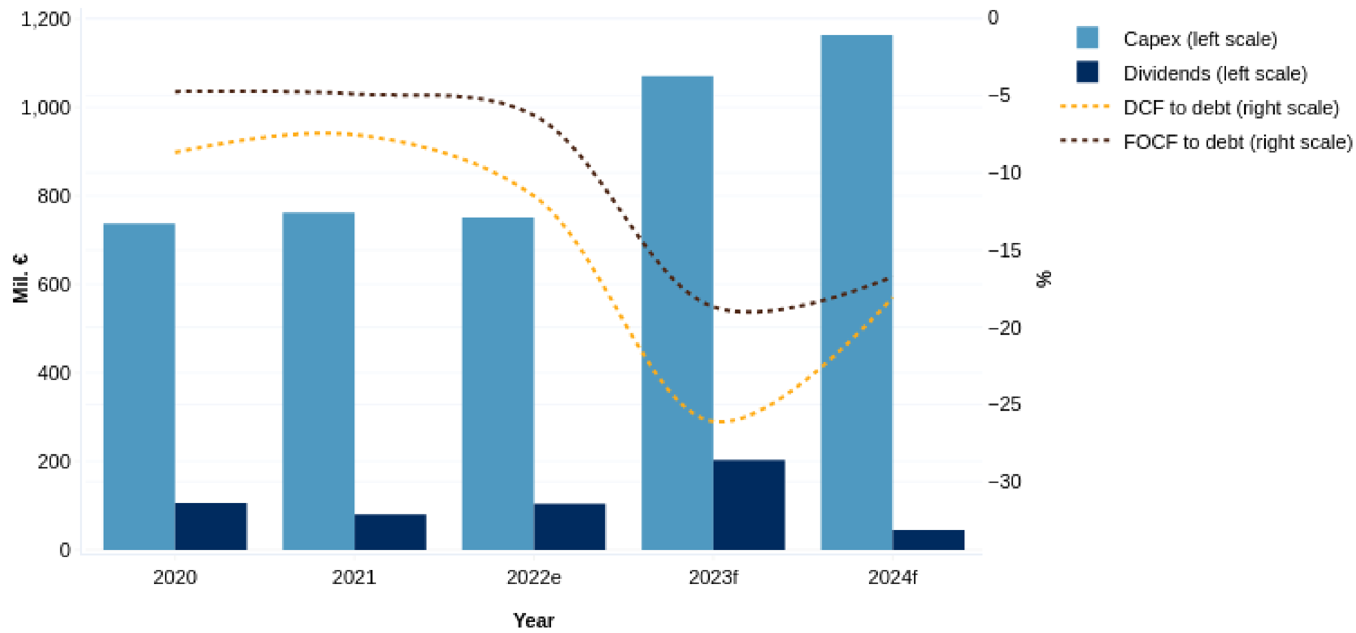
Capex growth is fueled by energy transition needs and cost inflation



Capex--Capital expenditure. e--estimate. f--forecast. Source: S&P Global Ratings

Enexis Will Generate Negative Free Cash Flows

Investments will be funded with additional net debt



f--Forecast. Capex--Capital expenditure. FOCF--Free Operating Cash Flow; DCF--Discretionary cash flow. Source: S&P Global ratings.

We forecast Enexis' leverage will remain consistent with our current rating over 2022-2024 thanks to a supportive financial policy. We expect rapid deleveraging following the disposal of Fudura's noncore energy services for €1.3 billion, with FFO to debt reaching close to 32% after 21% in 2021. Based on the company's track record of prudent financial policy, we assume most of the proceeds will be kept on the balance sheet. However, we expect FFO to debt to return to 18%-19% in 2023-2024, owing to a material acceleration of capex on the electricity grid. This leaves some headroom above our 18% trigger for the current category. We now expect Enexis to fund its capex needs over 2022-2024 thanks to the Fudura sale proceeds and €550 million-€650 million of annual operating cash flows. We do not forecast any Dutch government financial support, despite its publicly stated willingness to participate in grid companies' investment plans (see "Dutch Government's Willingness To Support Is Mildly Credit Positive For Energy Distributors," published July 25, 2022), or additional remedy measures from Enexis' shareholders. We benchmark Enexis' ratios against our low volatility table, because the company derives most of its revenue from its Netherlands-based regulated activities with a strong regulatory advantage. The company's fiscal year ends Dec. 31.

Debt maturities

- 2023 debt maturities: €500 million.
- Post-2025 debt maturities: €2 billion.

Enexis Holding N.V.--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,376	1,380	1,445	1,491	1,516	1,634
EBITDA	701	699	760	710	622	732
Funds from operations (FFO)	559	576	621	600	545	630
Interest expense	81	67	66	58	45	42
Cash interest paid	82	63	66	60	39	37
Operating cash flow (OCF)	551	583	616	539	610	614
Capital expenditure	521	514	558	638	738	763
Free operating cash flow (FOCF)	30	69	58	(99)	(127)	(149)
Discretionary cash flow (DCF)	(81)	(35)	(45)	(221)	(233)	(229)
Cash and short-term investments	198	286	31	62	47	107
Gross available cash	198	286	31	62	47	107
Debt	2,203	2,303	2,344	2,640	2,684	3,037
Common equity	3,704	3,808	4,024	4,112	4,366	4,491
Adjusted ratios						
EBITDA margin (%)	50.9	50.7	52.6	47.6	41.0	44.8
Return on capital (%)	6.0	5.7	6.6	5.4	3.6	4.4
EBITDA interest coverage (x)	8.6	10.4	11.5	12.3	13.9	17.3
FFO cash interest coverage (x)	7.8	10.1	10.4	11.1	15.1	17.9
Debt/EBITDA (x)	3.1	3.3	3.1	3.7	4.3	4.1
FFO/debt (%)	25.4	25.0	26.5	22.7	20.3	20.7
OCF/debt (%)	25.0	25.3	26.3	20.4	22.7	20.2
FOCF/debt (%)	1.3	3.0	2.5	(3.8)	(4.7)	(4.9)
DCF/debt (%)	(3.7)	(1.5)	(1.9)	(8.4)	(8.7)	(7.5)

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

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	3,283	4,241	1,634	751	322	44	732	732	75	886
Cash taxes paid	-	-	-	-	-	-	(65)	-	-	-
Cash interest paid	-	-	-	-	-	-	(39)	-	-	-
Lease liabilities	106	-	-	-	-	-	-	-	-	-

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

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Intermediate hybrids (debt)	(250)	250	-	-	-	(5)	5	5	5	-
Accessible cash and liquid investments	(107)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	3	(3)	(3)	-	(3)
Dividends from equity investments	-	-	-	8	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	1	-	-	-	-	-
Debt: Guarantees	5	-	-	-	-	-	-	-	-	-
EBITDA: other	-	-	-	(27)	(27)	-	-	-	-	-
D&A: other	-	-	-	-	27	-	-	-	-	-
OCF: other	-	-	-	-	-	-	-	(120)	-	-
Capex: customer contributions	-	-	-	-	-	-	-	-	-	(120)
Total adjustments	(247)	250	-	(19)	1	(2)	(102)	(118)	5	(123)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	3,037	4,491	1,634	732	323	42	630	614	80	763

Liquidity

Our 'A-1' short-term issuer credit rating on Enexis is based on our 'A+' long-term rating and adequate liquidity.

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 started Sept. 30, 2022, since the €1.3 billion proceeds from the Fudura sale will be mostly kept on the balance sheet to fund increasing capex needs. We also believe that the company could withstand the stress of a 10% drop in EBITDA. In addition, we believe that Enexis can absorb cash flow mismatches stemming from higher transportation fees and delayed capex realization. Our assessment captures qualitative factors such as Enexis' prudent risk management, reflected in the refinancing of its maturities well in advance, and its diverse sources of funding. However, we limit the liquidity assessment to adequate, despite the high cash level from the Fudura sale that might indicate a strong assessment, because we expect the €500 million bond, due October 2023, to be refinanced less than one year in advance. We also believe that Enexis has a high standing in the credit markets. For instance, in July 2019, the company achieved its lowest ever coupon at 0.75%, and longest tenor of 12 years, when it issued its €500 million bond.

Principal liquidity sources

- Unrestricted cash and short-term marketable securities of €930 million as of Sept. 30, 2022.
- Access to an undrawn committed revolving credit facility of €830 million, €164 million maturing December 2024, and €686 million maturing December 2025.
- Projected cash FFO of about €545 million.
- Working capital inflows of €25 million-€30 million.

Principal liquidity uses

- Debt maturities of about €1.5 million over the next 12 months and €500 million over the following 24 months.
- Capex of about €1 billion.
- Dividend distributions of about €170 million-€175 million, including an extraordinary dividend of up to €100 million following proceeds received from the Fudura sale.

Environmental, Social, And Governance

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have an overall neutral influence on our credit rating analysis of Enexis. The company is one of the most relevant stakeholders for the Dutch government to deliver on its energy transition objectives. Its pivotal role entails collaborating with Dutch local governments, industries, and communities to integrate new renewable capacity into its grid while managing congestion. We believe this will stimulate Enexis' electricity grid deployment by expanding its regulatory asset base over the next decade. In our opinion, the critical role of its electricity infrastructure more than compensates for the more uncertain long-term prospects of its gas grid, as the country strives to phase out gas by 2050 and embrace renewable gases.

Given the extreme rise in power and gas prices, political scrutiny on affordability remains high in Europe. Although we consider that there could be negative government intervention in the sector, we believe any potential negative impact is well covered by a supportive regulatory framework.

Group Influence

We base our ratings on Enexis Holding N.V. and its subsidiary Enexis Netbeheer B.V. on the consolidated group credit profile at Enexis Holding. Enexis Netbeheer B.V. is deemed to be a core entity that is integral to the Enexis Holding N.V. group and is therefore rated the same as Enexis Holding N.V. Enexis B.V. is integral to the overall group strategy given it contains the bulk of the operating assets.

Issue Ratings--Subordination Risk Analysis

Capital structure

At Dec. 31, 2021, Enexis reported total interest-bearing liabilities of €3.3 billion, of which €2.5 billion corresponded to euro medium-term notes and €500 million to a convertible shareholder loan. The remainder comprised short-term debt, lease liabilities, and debt issued under the company's euro commercial paper program.

Analytical conclusions

We rate Enexis' debt 'A+', the same level as the issuer credit rating, reflecting our view that subsidiary debt does not represent a subordination risk that could result in credit disadvantages to bondholders.

Rating Component Scores

Foreign currency issuer credit rating	A+/Stable/A-1
Local currency 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+
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)
Stand-alone credit profile	a+

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019

- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Dutch Energy Network Enexis Outlook Revised To Stable On Fudura Sale, Expected State Support; Affirmed At 'A+/A-1', Aug. 9, 2022
- Dutch Government's Willingness To Support Is Mildly Credit Positive For Energy Distributors, July 25, 2022
- Industry Top Trends Update: Utilities EMEA, July 14, 2022
- Enexis Holding Affirmed At 'A+/A-1' On Regulatory Decision; Outlook Negative On Constrained Metrics, Dec. 13, 2021
- Ratings On Dutch DSOs Alliander And Enexis Holding Put On CreditWatch Negative; Ratings On Stedin Holding Affirmed, June 4, 2021

Ratings Detail (as of January 04, 2023)*

Enexis Holding N.V.	
Issuer Credit Rating	A+/Stable/A-1
Senior Unsecured	A+
Issuer Credit Ratings History	
09-Aug-2022	A+/Stable/A-1
13-Dec-2021	A+/Negative/A-1
04-Jun-2021	A+/Watch Neg/A-1
Related Entities	
Enexis Netbeheer B.V.	
Issuer Credit Rating	A+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.