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Summary:

Enexis Holding N.V.

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Table Of Contents

Summary:

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Corporate Credit Rating	A+/Positive/--

Profile Assessments

BUSINESS RISK	EXCELLENT	Vulnerable – Excellent
FINANCIAL RISK	INTERMEDIATE	Highly leveraged – Minimal

Likelihood Of Moderate Government Support

The 'A+' rating on Dutch electricity and gas distribution network company Enexis Holding N.V. and its subsidiary Enexis B.V. (jointly Enexis) is based on the company's stand-alone credit profile, which Standard & Poor's Ratings Services' 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 government-related entities, our view of a "moderate" likelihood of extraordinary support is based on our assessment of 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.

Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• 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, 2014.	• Predictable free cash flow generation from the regulated electricity and gas distribution networks during a regulatory period. • Risk of a significant reduction in cash flow generation at the start of a new regulatory period, due to the incentive-based regulatory framework in The Netherlands. • Sizable capital expenditure (capex) program and risk that investments could increase above our base-case projections due to acquisitions.

Outlook: Positive

The positive outlook reflects our view that Enexis will continue to report solid cash flow coverage of debt metrics through 2013, thanks to pre-approved regulatory tariffs and ongoing cost savings. In addition, we forecast that credit metrics could remain strong through the next regulatory period from Jan. 1, 2014.

Upside scenario

We would consider a one-notch upgrade to 'AA-' if we assess that the company's financial risk profile has strengthened on a sustainable basis, particularly if the company is able to sustain adjusted funds from operations (FFO) to debt of about 25%. This will largely depend on the tariff set for the next regulatory period from Jan. 1, 2014, and on the scope and timing of potential acquisitions.

Downside scenario

We would revise the outlook to stable if we believe that the company is likely to recapitalize its balance sheet to be in line with its publicly stated minimum requirement of FFO to debt of 20%. Such a recapitalization could, in our view, occur either through further sector consolidation in The Netherlands or an extraordinary dividend distribution. A tariff decision for the next regulatory period that is worse for Enexis than that indicated in the draft method decision that the Authority for Consumers & Markets (ACM) published on May 1, 2013, could also weaken the company's credit metrics.

Standard & Poor's Base-Case Scenario

Assumptions

- Revenues will increase by 5% in 2013, but decline from 2014 on account of the regulator's stricter efficiency requirements.
- The EBITDA margin will remain solid, at about 51%, because of approved regulated tariffs through 2013 and an ongoing cost-saving program. However, we foresee a slight dip in margins from 2014.
- Capex will amount to about €870 million through 2013-2014.

Key Metrics

	2012A	2013E	2014E
EBITDA margin*	50.3%	50%-51%	49%-51%
FFO/debt*	35.8%	33%-34%	24%-26%
Debt/EBITDA*	2.4x	2.4x-2.5x	2.8x-3.2x

*Fully Standard & Poor's-adjusted. The main adjustment is our netting of surplus cash from debt because Enexis has prefunded upcoming debt maturities. A--Actual. E--Estimated.

Business Risk: Excellent

Our assessment of Enexis' business risk profile as "excellent" reflects its natural monopoly status in its license areas, its low-risk regulated electricity and gas distribution network businesses, and its high-quality network assets. The majority of Enexis' activities, including its electricity and gas tariffs, are regulated by the Dutch Ministry of Economic Affairs and the Dutch regulator, ACM. These strengths are partly offset by regulatory tariff reset risk every third year (the next regulatory period starts on Jan. 1, 2014); exposure to incentive-based regulation that can impose challenging efficiency requirements; and the potential for further consolidation in the Dutch energy network sector, in which we anticipate Enexis will take an active part.

We believe that a positive tariff increase of about 2% in 2013 and Enexis' ongoing cost-saving program could strengthen EBITDA margins this year. However, the EBITDA margins could decrease from 2014, because we believe that the regulator will reduce the distribution tariffs in The Netherlands due to the high earnings that the network operators are generating in the current regulatory period. We understand from the ACM's draft method decision that the real pretax weighted average cost of capital could be lowered to 3.6% from 6.2%. We also believe that the efficiency savings are likely to be more stringent than in the current regulatory period.

Financial Risk: Intermediate

The "intermediate" financial risk profile continues to reflect Enexis' stable and predictable operating cash flow, our view that Enexis' credit metrics have strengthened thanks to tariff increases for the 2011-2013 regulatory period, and the company's well-spread debt maturity profile. It also takes into account a sizable capex program of about €870 million over 2013 and 2014, and the risk that investments could increase above our base-case projections due to acquisitions.

We believe that Enexis' credit metrics will fall only slightly in 2013 compared with 2012, when its Standard & Poor's-adjusted FFO-to-debt ratio was 35.8%. While debt has increased following the issuance of €800 million of bonds in 2012, we net off Enexis' accumulated cash after the redemption of a €450 million bond that fell due last year, such that the credit metrics are unchanged. Whether Enexis' credit metrics will remain at the same levels after 2013 depends to a large extent on the tariff set from Jan. 1, 2014. It also depends on the scope and timing of further acquisitions. In our opinion, Enexis' will spread its investments out over time, thereby limiting the near-term effect on its credit metrics. Therefore we believe that Enexis will be able to sustain adjusted FFO to debt of more than 20% over the next few years.

Liquidity: Strong

We assess Enexis' liquidity position as "strong" as defined in our criteria, supported by our view that Enexis' liquidity sources will exceed its funding needs by more than 1.5x in the next 12 months. We also consider that Enexis has the ability to absorb high-impact, low-probability events, with a limited need for financing. In addition, the company has a well-established and solid relationship with its core banks, a generally high standing in the credit markets, and prudent financial risk management.

Principal Liquidity Sources	Principal Liquidity Uses
• As of March 31, 2013, unrestricted cash and short-term marketable securities of more than €650 million. • Access to an undrawn €450 million committed credit facility expiring in 2015. We believe that Enexis will maintain substantial headroom under the financial covenants in its credit facility documentation. • Annual FFO of about €550 million under our base-case scenario.	• Working capital of about €20 million. • Capex exceeding €420 million. • Dividend payments of about €135 million. • A debt maturity of €500 million in September 2014, with an option to prepay a year earlier.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Management and Governance Credit Factors for Corporate Entities and Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 17, 2012
- Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers, May 15, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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