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# Summary:
# Enexis Holding N.V.

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## Table Of Contents







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**Summary:**

# Enexis Holding N.V.

**Credit Rating:** A/Stable/--

## Rationale

The ratings on Dutch electricity and gas distribution network company Enexis Holding N.V. and its subsidiary Enexis B.V. (jointly Enexis) reflect Standard & Poor's Ratings Services' view of low-risk regulated electricity and gas distribution network businesses, stable and predictable operating cash flow, high quality network assets, and stable operating performance.

The ratings are constrained by a sizable capital expenditures (capex) program in the medium term; and by the consolidation of the Dutch energy sector, which could entail further investments. Enexis is also exposed to the incentive-based regulatory framework in The Netherlands, although we note that the regulator, Energiekamer, recently announced that tariffs would likely increase from Jan. 1, 2011, thereby reducing near-term reset risk.

Enexis has a natural monopoly status in its license areas and the majority of its activities, including its electricity and gas tariffs, are regulated by the Dutch Ministry of Economic Affairs and Energiekamer. Other unregulated businesses include infrastructure installation and maintenance activities, and account for less than 10% of Enexis' revenues.

The 'A' rating on Enexis is based on the company's stand-alone credit profile, which we assess at 'a', and on our opinion that there is a "moderate" likelihood that its 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 its strategic importance to the province and municipality owners, as the monopoly provider of gas and electricity distribution services in its license areas; and
- "Limited" link to the 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 approximately 120 municipalities in the region.

### Key business and profitability developments

Enexis reported a 1% decrease in revenues in 2009, while operating profits (EBIT) fell 5% (excluding one-off items relating to the unbundling). This trend continued in the first half of 2010, with operating profits 3% lower than in the same period of 2009. From 2011, however, we estimate that Enexis will boost its revenues and earnings, thanks to an increase of tariffs and a higher regulated asset value. In combination with stable operating costs, we think that this should result in improved profitability.

### Key cash flow and capital-structure developments

Enexis' regulated electricity and gas networks generate relatively stable and predictable operating cash flows, comfortably covering annual capex of about €450 million, on average, in the next regulatory period through 2013.

Enexis' free operating cash flow increased in 2009, but we believe that its free operating cash flows after dividends are likely to decline in 2010 and remain low through 2013. We base this view on our expectations that capex will gradually increase through the regulatory period, and on our understanding that dividend payments are likely to increase from 2011. In addition, we note that the consolidation of the Dutch distribution network sector could entail investments on Enexis' part. However, our opinion is that these investments should be relatively small--due to the limited size of the networks--and that a larger acquisition would likely be supported by the shareholders, given their commitment to Enexis' financial policies. The regulatory framework entails substantial investments in smart meters, but the program has been postponed beyond 2013. However, this adds uncertainty because it is not yet known whether the costs will be recovered through regulatory tariffs.

We believe that Enexis' adjusted funds from operations (FFO)-to-debt ratio is likely to fall in 2010, from over 23% in 2009, but that it will remain at about 20% in the medium term, thanks to improved profitability.

**Liquidity**

Enexis' liquidity position is adequate, in our view. This is due to its stable generation of cash flows, which, in combination with substantial cash balances, will cover capex and dividends through the next two years, in our opinion. Enexis has access to a fully undrawn €450 million committed bank line expiring in 2015. Enexis has no short-term debt.

Enexis' municipality owners provided a €1.8 billion shareholder loan to Enexis in September 2009, which the company used to repay an intercompany loan it had with the previous owner Essent N.V. (A/Negative/A-1).

The €1.8 billion shareholder loan is divided into four tranches of different sizes and maturities (three, five, seven, and 10 years). The 10-year €350 million tranche contains an equity conversion element, triggered if Enexis risks breaching regulatory minimum credit metrics or covenants in its loan agreements. We understand that interest on the shareholder loans is nondeferrable, that the trigger levels are substantially below Enexis' expected credit metrics, and that Enexis intends to refinance the shareholder loans on the debt capital market when they fall due, and we view the loans as debt in our analysis.

## Outlook

The stable outlook reflects our opinion that Enexis will continue to generate solid free cash flows from its regulated business and will maintain an average ratio of FFO to debt of about 20%. A more aggressive financial policy than we anticipate (including a debt-financed acquisition or higher-than-expected dividends to the shareholders) or significant adverse regulatory changes, could put pressure on the ratings. The potential for a positive rating action is limited, in our view, owing to the sector consolidation that we expect Enexis to participate in, and given the company's sizable investment plan.

## Related Criteria And Research

- Methodology And Assumptions: Standard & Poor’s Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

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